

Hearings

May 3, 1962

Mr. Wallace H. Fulton
The Homestead
Hot Springs, Virginia

Dear Mr. Fulton:

In response to your telephone request to Mr. Cohen yesterday, I am sending herewith an outline of the topics which we would propose to discuss with Mr. Rockefeller and you when you testify at the public hearings on qualifications, training, supervision and sales practices in the securities industry.

While I believe this outline fairly comprehensive, additional subjects may occur to us in the course of the testimony of prior witnesses about which we will wish to ask questions of Mr. Rockefeller and yourself. As such subjects do arise, we will hope to let you know so that you can be prepared to answer the questions.

If you have any questions, or if you wish to discuss any of the subjects contained in the outline, I suggest that you give me a call or come to see me. I will, of course, be engaged in the hearings most of every day, but could see you late in the afternoon.

Sincerely yours,

Richard H. Paul
Chief Counsel

Enclosure

RHPaul/rsp

OUTLINE OF TOPICS TO BE DISCUSSED

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

A. The NASD Testing Program:

- i. The inadequacies of the old testing program and the extent to which the new program has remedied such inadequacies.
- ii. Whether different standards and tests should be imposed, and licenses granted, for: (1) different segments of the securities industry, e.g., mutual fund salesmen, underwriters, investment advisers; and (2) different categories of personnel, e.g., officers, partners and sole proprietors, branch office managers, back office personnel.
- iii. Whether the NASD has the power to or should prescribe qualifications relating to competency in addition to its examination, such as training or experience requirements.

B. The NASD investigatory program:

- i. The extent to which the NASD independently investigates applicants for admission to membership; the extent to which information is available to it from (and made available by it to) the Commission, the state securities administrators, the exchanges and members.
- ii. The extent to which the NASD relies upon members' certifications with respect to registration of registered representatives; NASD supervision and discipline for improper certification.
- iii. The adequacy of the present restrictions on admission to membership and registration of registered representatives; the desirability or undesirability of a general "good character" requirement.
- iv. The desirability of expanded statutory bars.

C. Minimum Capital Requirements:

- i. NASD views on the desirability of minimum capital requirements; the desirability of differing requirements for different segments of the industry, such as mutual fund broker-dealers or underwriters; the impact of such requirements on the small but honest broker-dealer; the efficacy of such requirements in excluding undesirable elements from the industry; the desirability of a bonding requirement.

D. NASD Control of Retail Selling Practices:

- i. The adequacy, for the protection of investors, of the Statement of Policy; its non-application to non-NASD broker-dealers engaged in the sale of mutual funds and other securities; the desirability of requiring all distributors of investment fund shares to be members of the NASD or of another registered association of securities dealers.
- ii. The extent to which the suitability rule requires an investigation into the circumstances of a customer; the extent to which and manner in which the NASD enforces the suitability rule.
- iii. Problems of part-time salesmen and part-time supervisors.
- iv. NASD views on and powers with respect to such selling practices as telephone solicitations, sales of mutual funds in discount houses and supermarkets.