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NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC., 888 17TH ST., N.W., WASHINGTON, D.C.

To NASD Members and Registered Representatives:

NASD IS GATHERING ECONOMIC DATA ON MUTUAL FUND SALES CHARGES AND RECIPROCAL INCOME

Although at this writing the SEC has not submitted to Congress its detailed legislative proposals relating to the Mutual Fund Report, the Association expects that hearings will probably start in the Senate Banking and Currency Committee sometime in April. NASD representatives will testify at these Senate hearings and subsequently at any House Interstate and Foreign Commerce Committee hearings. In order to present the most effective and economicly supportable data at these hearings, the Association has embarked upon a detailed study through a random sample of 198 firms which is representative of the securities industry. The firms in the sample do mutual fund business in varying degrees. This thorough study, which is being conducted with questionnaires, is designed to measure the impact on the investment business and the public of SEC proposals to cut in half the profits received from mutual fund sales and at the same time eliminate entirely the traditionally accepted industry practice of compensating firms for their additional or extra selling efforts through the sharing of brokerage commission charges on fund portfolio transactions.

The Association expects to have completed its questionnaire study and analysis by the time that the Congressional hearings start on the SEC Mutual Fund Report.

RESTRICTIONS ON USING THE ASSOCIATION'S NAME LIBERALIZED FOR MEMBERS

The NASD Board, at its January meeting, passed a Resolution lifting many of the previous limitations upon broker/dealer firms identifying themselves as Association members. Previously, members could use the NASD name only on doorways and entrances and within certain prescribed language on confirmation slips.

The new Resolution states that the Association's name can be used to indicate firm membership in the following manner:

(1) As a matter of record in recognized trade directories or similar types of business listings.

(2) In identifying the firm as a member on letterheads, booklet covers, sales literature headings, in the masthead of market letters and on other similar types of circular material as long as the name is apart from the regular text of the literature, is in smaller type and used with lesser emphasis than the firm's name.

(3) The name may be used in institutional or general print and/or electronic advertising media provided that it is used solely for the purpose of identifying the firm as a member of the Association, that the literature does not imply the Association's approval of any securities or services discussed in the advertisement and that the name is separate from the primary text material and is used in smaller type and with less emphasis than the firm's name.

Certain provisions of the previous Resolution concerning use of the Association's name are incorporated into the new guidelines including the following:

1. The name of the Association may be used on the door or entranceway of a member's principal office or any registered branch office.

2. The following language may be used on confirmation slips "This transaction (if over-the-counter) has been executed in conformity with the rules and regulations of the Uniform Practice Code of the National Association of Securities Dealers, Inc."

3. Every member is entitled to receive from the Association a certificate of membership which may be displayed in the principal office or any registered branch of the member.

NEW NASD MANUAL TO BE PUBLISHED IN SPRING

The Association has made arrangements with Commerce Clearing House, Inc., specialists in loose-leaf reporting, to publish early this spring a completely new and consolidated edition of the NASD Manual for single copy distribution free to each member and each registered branch office.

The new NASD Manual edition will be enclosed in a loose-leaf binder similar to the other Manuals and Guides now published by CCH for various exchanges. However, the new Manual format will incorporate into one volume all of the sections on organization, By-Laws, Rules of Fair Practice, Interpretations, important SEC Rules, list of members, in the present Manual, plus a completely new feature consisting of annotations of pertinent SEC decisions in NASD disciplinary cases which are appealed to or reviewed by the Commission. These descriptions and simple explanations of important business conduct decisions will be a definite aid in helping all members better understand the NASD rules and policies to which they apply. Clarifying interpretations and resolutions will also be incorporated with the rules to which they relate.

To keep the new Manual current, supplements showing all changes in membership, rules and certain disciplinary actions taken by the Association will be mailed once a month. This new procedure will not only streamline member communications activities but will also eliminate the necessity for frequent separate mailings to members of disciplinary actions and other procedural changes. In addition, it has determined that significant cost savings will be realized and the usefulness and stature of the NASD Manual will be improved at the same time. A consolidated list of members, heretofore published annually, will be furnished twice a year.

The Association will supply without charge one copy of the new loose-leaf Manual edition to every NASD member's main office and every branch office. Extra copies of the new Manual will be available, as before, to NASD members and their personnel through the Association at the special reduced price of $10 a copy per year, which includes all monthly up-dating supplements. Non-NASD member subscribers to the Manual will pay a much higher price. Paper-bound reprints of the Manual without the membership list or other supplementary changes may be obtained through the Association for $1 a copy.

BOARD PASSES NEW RESOLUTIONS AND AMENDMENTS

The Board of Governors has approved several new resolutions and amendments which will be included in the NASD Manual to be distributed this spring.

The Board has amended Schedule "C" of the By-Laws, to take effect March 1, 1967, concerning the designation of persons associated with members as "foreign associates." In order to qualify under this classification, an employee must meet the following conditions:

1. He must not be a citizen, national or resident of the United States or any of its territories or possessions.

2. He must conduct all of his securities activities in areas outside the jurisdiction of the United States and cannot engage in any securities activities with or for any citizen, national or resident of the United States.

A firm desiring to employ such an individual must file with the Association the form "Application for Classification as a Foreign Associate." In the application the member must certify that the individual meets the above criteria and that he is not subject to any bars to registration with the Association. In the event that a foreign associate is terminated by the member, the member must also promptly notify the NASD.

Effective April 1, 1967, broker/dealers in Puerto Rico, the Virgin Islands and the Panama Canal Zone who are registered with the Securities and Exchange Commission may apply for membership in the NASD. Heretofore, registered broker/dealers in these areas were not accepted for membership in the Association. Members and branch offices in these areas will be included in the Association's District No. 7.

This change also has the effect of prohibiting members of the Association from dealing with non-members located in these areas on a preferential basis or of participating with such non-members in underwriting distributions, including the sale of mutual fund shares.

The second resolution passed by the Board requires members to submit to other members statements of financial condition upon request when that member is a party to an open transaction or when he has money or securities on deposit. This resolution and the one following will become effective April 1, 1967.

The Board also approved an interpretation of Article V of the Rules of Fair Practice prohibiting a person associated with the member from remaining with the member in any capacity if that person's registration has been revoked by either the NASD or the SEC.

In the case of suspensions of individuals associated with a member by the NASD or SEC, the member is prohibited from remunerating in any way the suspended individual for income earned through securities transactions. In addition, the suspended individual cannot remain with the member or participate in any of its activities during his suspension.

ASSOCIATION COMMENTS ON NEW PROPOSED SEC RULES FOR NON-NASD MEMBERS

The NASD has passed along to the SEC detailed comments including certain specific objections to the Commission's first set of proposed rules governing the business practices and conduct of broker/dealers which are not members of the Association. These proposed SEC regulations cover suitability of recommendations, supervision, discretionary accounts and record keeping for non-NASD members.

The Association's deep interest in these new Commission proposals stems from the fact that the SEC was instructed by Congress in the 1964 Securities Acts Amendments to provide regulations comparable to those of the NASD for broker/dealers who did not choose to join a self-regulatory organization. In this regard the Board of Governors strongly believes that Congress did not in any way intend that the SEC's rule making powers should be used as a possible indirect method of forcing changes in long-established rules of self-regulatory organizations. This could easily occur if the Association neglected to comment or did not take exception to the Commission's proposed new rules that seem to go well beyond present NASD regulations for the investment community which the SEC itself previously deemed adequate.

Specifically, the Association strongly objected to the SEC's proposed rule on suitability of recommendations. NASD's President, Robert W. Haack, told the Commission in a four-page letter that the proposed suitability rule for non-NASD members, when read in conjunction with the accompanying record keeping requirements, makes it clear that if a recommendation is given, whether the recommendation is acted upon or not, a non-NASD broker/dealer's records must contain information concerning the customer's financial situation which are not now required under present NASD rules for its members. The Commission proposal would require that, if a recommendation is made, the firm's records must contain information concerning the customer's age, occupation, marital status, income, savings, insurance, investment objectives and other financial information. In the event the customer declined to furnish such information, a firm's records must contain a statement to that effect. Haack told the Commission that, as now drafted, its new rules would appear to prohibit the opening of an account by telephone as the customer must first sign the firm's record. Also, if a general mailing were deemed a recommendation, all such communications would be limited to existing customers. He said that both of these positions seem to be unrealistic and generally inhibitory to the business.

In the Association's letter, Haack also pointed out that several years ago Association representatives spent considerable time and effort working with Commission staff people to develop a detailed guideline entitled "Fair Dealing with Customers." The language of this guideline, which was eventually approved by the Commission, was designed to spell out certain unfair practices in making recommendations without imposing an affirmative obligation on broker/dealers to inquire into a customer's financial situation in every securities transaction.

Moreover, the Association's present suitability rule recognizes that in certain instances more information might well be necessary and a broker/dealer member of the NASD might be called upon to demonstrate that he had made reasonable inquiries to obtain this additional information.

In connection with other sections of the Commission's proposed rules, the NASD made the following comments:

1. The Commission proposes that every associated person shall be subject to the supervision of a supervisor. Since every individual within a firm is an associated person there appears to be an unnecessary duplication and a clearly unnecessary layer of supervision as it relates to partners and officers.

2. The SEC proposes to require approval of each discretionary order on the

same day, whereas Association requirements are that such approval must be prompt. Since no problems have been encountered nor are any expected with the present Association requirement, the SEC proposed rule would appear to be an unnecessary extension.

3. The SEC proposes that periodic inspections of each business office of a broker/dealer should be made no less than on a quarterly basis. The Association's present requirements put this on an annual basis, and it would seem that four inspections a year would constitute an undue hardship in many instances.

4. The SEC proposes that all persons opening discretionary accounts must give reasons for opening such accounts. Unless it is contemplated that discretionary authority be discouraged, it would seem that a statement of reasons for such authority is unnecessary.

AUTOMATION UNDER STUDY BY CONSULTING FIRM

Arthur D. Little, Inc. of Cambridge, Massachusetts, one of the Country's oldest and largest research-consulting organizations, has been retained by the NASD to conduct a comprehensive cost and feasibility study relating to the use of data processing equipment in the collection and dissemination of quotation information for the over-the-counter securities market.

The announcement was made jointly by NASD President Robert W. Haack and Board Chairman Robert M. Gardiner, who also heads up the Association's Automation Committee. Gardiner, managing partner of Reynolds and Company in New York, said that the Association's Committee had developed specific requirements for a contemplated automated quote system and had received detailed proposals from several system suppliers. "However," he emphasized, "this was about as far as we could go without expert advice in computer technology and in-depth field research that the Little firm will now provide." Gardiner said that the Association felt Arthur D. Little was uniquely qualified in computer application and research as well as having demonstrated in previous projects an intimate knowledge of the securities markets.

The Committee's criteria for the application of computer techniques to OTC market quotations have been developed with the basic premise that any system, rather than match orders, would first maintain and support the negotiated character of the OTC market and secondly, would provide safeguards to protect the important functions of market makers in OTC stocks. It is contemplated that dealers would retain their right to deal with the market maker of their choice, but under the automated system more information would be available.

Gardiner said that initially the automated system would probably involve a limited number of actively traded securities with the possibility for later expansion. The system could be used to gather OTC price and volume data on a daily basis for prompt dissemination to newspapers, according to Gardiner, and would be designed to accommodate retail dealers who wished to contact the market maker of their choice. "In this regard, it will be necessary for the NASD to establish standards that define qualified market makers allowed to participate in the automated quotations system," he stated.

Haack pointed out that the approach to be used by Arthur Little in assisting the Association with its automation project would include a detailed systems specification study followed by a careful evaluation of economic feasibility. He emphasized that the problems attendant to automating the OTC market were made far more complex by the differences in size of firms and nature of business within the NASD membership and that, in this regard, cost to subscribers would be a paramount factor so as to allow as many small firms as possible to participate and take advantage of such a system.

No definite timetable has been set for the completion of the Little firm's automation study, but, Haack concluded, that a "go" or "no go" decision would probably be reached by late 1967. "At this time," he said, "we would hope to choose a system supplier."

DERRICKSON NAMED GENERAL COUNSEL BURGESS BECOMES CHIEF ECONOMIST

Lloyd J. Derrickson, 39, has been named the NASD's General Counsel and Ralph E. Burgess has joined the Association's staff as Chief Economist.

Derrickson, formerly Secretary and Associate General Counsel, will remain as Secretary and has assumed responsibility for the Association's legal activities from Marc A. White, General Counsel and also a Vice President, who resigned to return to private law practice. White will practice in Washington, D. C. in association with Simpson, Thacher & Bartlett.

Derrickson, a graduate of Kenyon College and George Washington University Law School, served as a law clerk to a judge of the U. S. Court of Claims and was also in private law practice before joining the NASD in 1959.

Burgess, 58, comes to the Association from the SEC where he gained valuable experience in securities industry problems as a staff economist. Prior to his work with the Commission, Burgess headed his own management and financial consulting firm in Wilton, Connecticut and served seven years as chief economist for American Cyanamid Company in New York City. He also served with the National Association of Manufacturers as director of the Government Finance Department and spent thirteen years in senior economics posts with various Government agencies and departments dealing with monetary policy.

Burgess received his AB from Williams College and his Masters Degree from George Washington University. He is a member of the American Economic Association, American Financial Association, American Statistical Association and the National Association of Business Economists as well as having taught economics at the University of Bridgeport.

NASD MAKES SOME HEADWAY ON OPPOSING TAX ON FOREIGN SECURITIES

On February 27, the House Ways and Means Committee approved an increase in the *so-called* Interest Equalization Tax effecting purchases of foreign securities made after January 25, 1967. The higher tax voted by the Committee was only half the increase proposed by Treasury Secretary Henry Fowler and requested by the administration. Generally, the bill in its original form sought to amend the Interest Equalization Act of 1965 in the following three ways:

(1) The maximum tax would have been *doubled* as it applies to foreign equity securities from the present 15% to 30%. In the case of a foreign bond purchase, the new law would have imposed tax rates ranging from 2.1% to 30% depending on the maturity of the bond.

(2) The President would have the right to vary the tax between 30% and zero at any time.

(3) The tax, as amended, would be extended until July 31, 1969.

In mid-February, Henri L. Froy, Chairman of the Association's Foreign Committee, delivered before Congress the NASD's statement on the administration's bill. Mr. Froy stated that the Association was unalterably opposed to the suggested doubling of the tax rate and stressed that no economic data supporting such an increase had been adequately demonstrated. He pointed out that the bill would almost certainly have repercussions both here and abroad.

Mr. Froy suggested that since equity securities and debt securities are so different in nature, the Congress might consider reducing or even eliminating the tax on the former.

The revised Committee bill, which has passed the House, lowers the maximum tax on purchases of foreign stocks from the Administration's requested 30% to 22.5% and reduces the tax range on purchases of debt issues from the original 2.10%—30% to 1.58%—22.5%. Also, the new bill gives the President thirty-day discretion after passage of the Act to adjust the tax rate between 15% and 22.5%. After the thirty days the tax rates revert back to those in effect in the old bill unless the President has exercised his discretion to raise them.

NEW NASD OFFICERS, GOVERNORS, DISTRICT COMMITTEE CHAIRMEN CHOSEN

Four new Association officers officially assumed their duties during the NASD Board meeting, January 16-17.

Robert M. Gardiner was installed as Chairman of the Board. Mr. Gardiner, who has been an Association Governor since 1964 and served last year as Chairman of the Automation Committee, is Managing Partner of Reynolds & Co. He has been associated with Reynolds since 1951, is a graduate of Princeton University and served in the Army during World War II, attaining the rank of Captain.

Vice Chairmen of the Board are Clifford B. Barrus, Jr. and Richard B. Walbert. Mr. Barrus, a Partner in Barrett & Company, Providence, Rhode Island, attended Bryant College. Mr. Walbert is Vice President and Director of Blyth & Co., Inc., Chicago, Illinois. He has been with the firm since 1953.

Gordon S. Macklin, Jr. of McDonald & Company in Cleveland, Ohio, is Chairman of the Association's Finance Committee which is responsible for all financial and budgetary decisions. Mr. Macklin is a graduate of Brown University.

Seven new Governors were also installed to serve three-year terms on the Board. Kenneth H. Sayre, a Partner in Irving Lundborg & Co., San Francisco, has replaced Robert C. Hill of Bateman, Eichler, Hill Richards, Incorporated, Los Angeles, as Governor from District No. 2.

Edward J. Costigan, a Partner in Edward D. Jones & Co., St. Louis, has replaced Julian L. Gumbiner, Stern Brothers & Co., as Governor from District No. 4.

C. Rader McCulley, Vice President of First Southwest Company, Dallas, Texas, has replaced C. Pharr Duson, Rotan, Mosle & Co., as Governor from District No. 6.

Grant A. Feldmen, a Partner in Piper, Jaffray & Hopwood, Minneapolis, Minnesota, and A. Paul Ogilvie, a Partner in Hornblower & Weeks—Hemphill, Noyes, Chicago were elected Governors in District No. 8. They have replaced Julian A. Kiser, Kiser, Cohn & Shumaker, Inc., and Gordon Bent, Bacon, Whipple & Co., Inc.

R. S. Abernethy, Jr., President of Interstate Securities Corporation, Charlotte, North Carolina, has replaced W. James Price, Alex. Brown & Sons, Baltimore, as Governor from District No. 10.

W. Scott Cluett, Senior Vice President of Drexel Harriman Ripley, Inc., New York, New York, has replaced Allan C. Eustis, Jr., Spencer Trask & Co., New York, New York, as Governor for District No. 12.

In addition, the following men were installed on January 15 as District Committee Chairmen:

District No. 1	H. James Morford of Hughbanks Incorporated, Seattle
District No. 2	G. Willard Miller, Jr. of Dean Witter & Co., San Francisco, as Chairman and Maurice Schwarz, Jr. of Sutro & Co., Los Angeles, as Co-Chairman
District No. 3	John C. Clay of Bosworth, Sullivan & Company, Inc., Cheyenne
District No. 4	Russell K. Sparks of Barret, Fitch, North & Co., Inc., Kansas City, Missouri
District No. 5	Morrell F. Trimble of Merrill Lynch, Pierce, Fenner & Smith, Inc., New Orleans
District No. 6	Albert E. Magill, Jr. of Underwood Neuhaus & Co., Inc., Houston
District No. 7	Clinton T. McCreedy of Goodbody & Co., Miami
District No. 8	R. Ron Heiligenstein of Mid-America Bond & Share Co., Inc., Decatur
District No. 9	Donald G. Rundle of Ball, Burge & Kraus, Cleveland
District No. 10	James F. Clardy of Hornblower & Weeks—Hemphill, Noyes, Charlotte
District No. 11	John B. Richter of Butcher & Sherrerd, Philadelphia, and William G. Simpson of Simpson, Emery & Co., Inc., Pittsburgh, as Co-Chairman
District No. 12	J. Howard Carlson of Loeb, Rhoades & Co., New York New York
District No. 13	Francis R. Cogghill of White, Weld & Co., Boston

SEC ISSUES GUIDE ON ITS NET CAPITAL RULE

In response to a recommendation by the NASD, the SEC has published a broker/dealer guide to its net capital requirements.

This interpretative statement on the net capital requirements for broker/dealers is divided into two parts: Part I explains the operation and clarifies its application to many items where questions of interpretation have frequently arisen in the past; and Part II consists of the net capital computation of a hypothetical broker/dealer firm including a detailed trial balance with explanatory notes.

The Release was circulated in conjunction with the Commission's recent announcement of adoption of amendments to Rules 17 a-3 and 17 a-4, record-keeping rules of the Securities Exchange Act of 1934. Under the new amendments, all broker/dealers will be required to prepare and preserve a record of monthly computations of their "net capital" and "aggregate indebtedness." These amendments became effective March 1, 1967.

The NASD strongly urges all members to review closely both releases, particularly the Net Capital Interpretation and Guide, which should be very helpful in maintaining continuous compliance with the SEC net capital rule.