

Certificate of Incorporation and By-Laws
Rules of Fair Practice

AND

Code of Procedure for Handling
Trade Practice Complaints

OF

National Association of Securities Dealers
Inc.

CERTIFICATE OF INCORPORATION
OF
NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

First. The name of the Corporation is National Association of Securities Dealers, Inc.

Second. Its principal office in the State of Delaware is located at No. 100 West 10th Street, in the City of Wilmington, County of New Castle. The name and address of its resident agent is the Corporation Trust Company, No. 100 West 10th Street, Wilmington, Delaware.

Third. The nature of the business or objects or purposes to be transacted, promoted or carried on are:

(1) To promote through cooperative effort the investment banking and securities business, to standardize its principles and practices, to promote therein high standards of commercial honor, and to encourage and promote among members observance of Federal and State securities laws;

(2) To provide a medium through which its membership may be enabled to confer, consult, and cooperate with governmental and other agencies in the solution of problems affecting investors, the public, and the investment banking and securities business;

(3) To adopt, administer and enforce rules of fair practice and rules to prevent fraudulent and manipulative acts and practices, and in general to promote just and equitable principles of trade for the protection of investors;

(4) To promote self-discipline among members, and to investigate and adjust grievances between the public and members and between members;

(5) To establish, and to register with the Securities and Exchange Commission as, a national securities association pursuant to Section 15A of the Securities Exchange Act of 1934, as amended, and thereby to provide a medium for effectuating the purposes of said section;

(6) To transact business and to purchase, hold, own, lease, mortgage, sell and convey any and all property, real and personal, necessary, convenient, or useful for the purposes of the Corporation in any part of the United States of America;

(7) In general, to carry on any other operation or business in connection with the foregoing and to have and exercise all the powers conferred by the laws of Delaware upon corporations formed under the act hereinafter referred to, and to do any and all of the things hereinbefore set forth to the same extent as natural persons might or could do.

The objects and purposes specified in the foregoing clauses shall, except where otherwise expressed, be in nowise limited or restricted by reference to, or inference from, the terms of any other clause in this certificate of incorporation, but the objects and purposes specified in each of the foregoing clauses of this article shall be regarded as independent objects and purposes.

Fourth. This Corporation shall be a membership corporation and shall have no capital stock. The Corporation is not organized and shall not be conducted for profit, and no part of its net revenues or earnings shall inure to the benefit of any individual, subscriber, contributor, or member.

The conditions, method of admission, qualifications and classifications of membership, the limitations, rights, powers and duties of members, the dues, assessments, and contributions of members, the method of expulsion from and termination of membership, limitations upon or qualifications of voting power, and all other matters pertaining to the membership and the conduct, management and control of the business, property and affairs of the Corporation shall be as provided from time to time in the by-laws of the Corporation.

Fifth. The names and places of residence of each of the incorporators are as follows:

Name	Residence
Alfred Jervis	Wilmington, Del.
C. S. Peabbles	Wilmington, Del.
W. T. Hobson	Wilmington, Del.

Sixth. The Corporation shall have perpetual existence.

Seventh. The private property of the members shall not be subject to the payment of corporate debts to any extent whatever.

Eighth. The Corporation shall be managed by a Board of Governors of such number and having such qualifications, powers and duties as shall be provided from time to time in the by-laws of the Corporation. The Board of Governors shall be the governing body of the Corporation. The by-laws may also provide for such assistants to them, and such officers, agents and employees as may be deemed necessary to administer the affairs of the Corporation.

The Board of Governors shall be nominated from among the members of the Corporation and elected in such manner as shall be set forth in the by-laws.

In furtherance and not in limitation of the powers granted by statute, the Board of Governors is expressly authorized unless the by-laws otherwise provide:

To make, alter or repeal the by-laws of the Corporation;

To authorize and cause to be executed mortgages and liens upon the real and personal property of the Corporation;

By resolution or resolutions, passed by a majority of the Board of Governors, to designate one or more standing committees, each committee to consist of such membership and to have such powers and duties and have such name or names as may be provided in the by-laws or the resolution or resolutions. The by-laws may provide for an executive committee and for such other committees as may be from time to time deemed advisable and such committees shall be appointed or elected in such manner and shall have such membership powers and duties as shall be from time to time provided by resolution of the Board of Governors or in the by-laws of the Corporation.

The Corporation may, in its by-laws, confer powers upon its Board of Governors in addition to the foregoing and in addition to the powers and authorities expressly conferred upon them by the statute.

Ninth. Both members and the Board of Governors shall have power, if the by-laws so provide, to hold their meetings and to have one or more offices within or without the State of Delaware and to keep the books of the Corporation (subject to the provisions of the statutes), outside the State of Delaware at such places as may be from time to time designated by the Board of Governors.

Tenth. The Corporation reserves the right to amend, alter, change, or repeal any provision contained in this certificate of in-

corporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon members herein are granted subject to this reservation.

We, The Undersigned, being each of the original incorporators hereinbefore named for the purpose of forming a corporation to operate both within and without the State of Delaware, and in pursuance of the General Corporation Law of the State of Delaware, being Chapter 65 of the Revised Code of Delaware, and the acts amendatory thereof and supplemental thereto, do make and file this certificate, hereby declaring and certifying that the facts herein stated are true, and accordingly have hereunto set our hands and seals this first day of September, 1936.

In the presence of

HERBERT E. LATTER.

ALFRED JERVIS (SEAL)

C. S. PEABBLES (SEAL)

W. T. HOBSON (SEAL)

Incorporators.

**BY-LAWS
OF
NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.**

ARTICLE I

Membership

Section 1. Any broker or dealer authorized to transact and whose regular course of business consists in actually transacting any branch of the investment banking or securities business in the United States, under the laws of any State and/or the laws of the United States, shall be eligible to membership in the Corporation, except such brokers or dealers as are excluded pursuant to Section 2 of this Article.

Section 2. No broker or dealer, except with the approval or at the direction of the Securities and Exchange Commission (hereinafter referred to as the Commission), in cases in which the Commission finds it appropriate in the public interest so to approve or direct pursuant to Section 15A(b) (4) of the Securities Exchange Act of 1934, as amended, (hereinafter referred to as the Act), shall be admitted to or continued in membership in the Corporation if (1) such broker or dealer, whether prior or subsequent to becoming such, or (2) any partner, officer, director, or branch manager of such broker or dealer (or any person occupying a similar status or performing similar functions), or any person directly or indirectly controlling or controlled by such broker or dealer, whether prior or subsequent to becoming such, (A) has been and is suspended or expelled from a securities association (whether national or affiliated) registered pursuant to Section 15A of the Act, or from a national securities exchange, registered pursuant to Section 6 of the Act, for violation of any rule of such association or exchange which prohibits any act or transaction constituting conduct inconsistent with just and equitable principles of trade, or requires any act the omission of which constitutes conduct inconsistent with just and equitable principles of trade, or (B) is subject to an order of the Commission denying or revoking his registration pursuant to Section 15 of the Act, or

expelling or suspending him from membership in a registered securities association or a national securities exchange, or (C) by his conduct while employed by, acting for, or directly or indirectly controlling or controlled by, a broker or dealer, was a cause of any suspension, expulsion, or order of the character described in Clauses (A) or (B), which is in effect with respect to such broker or dealer.

Section 3. When used in these by-laws, unless the context otherwise requires:

(a) The term "broker" means any individual, corporation, partnership, association, joint stock company, business trust, unincorporated organization or other legal entity engaged in the business of effecting transactions in securities for the account of others, but does not include a bank.

(b) The term "dealer" means any individual, corporation, partnership, association, joint stock company, business trust, unincorporated organization or other legal entity engaged in the business of buying and selling securities for his own account, through a broker or otherwise, but does not include a bank, or any person insofar as he buys or sells securities for his own account, either individually or in some fiduciary capacity, but not as a part of a regular business.

(c) The term "investment banking or securities business" means the business, carried on by a broker or dealer, of underwriting or distributing issues of securities, or of purchasing securities and offering the same for sale as a dealer therein, or of purchasing and selling securities upon the order and for the account of others; provided, however, that the term "investment banking or securities business" shall not include transactions on regularly organized exchanges, but such term shall include all business relating to such transactions to the extent that such business is not conducted by a member of such exchange, or by any person or organization having the privilege of any such exchange for itself or any of its partners or executive officers.

(d) The term "member" means either any broker or dealer admitted to membership in the Corporation or any officer or partner of such a member or, as provided in Section 5 of this Article, the executive representative of such a member or the substitute for such a representative.

Section 4. (a) Application for membership in the Corporation, properly signed by the applicant, shall be made to the Board of

Governors, on the form to be prescribed by the Board, and shall contain:

(1) An acceptance of and an agreement to abide by, comply with, and adhere to, all the provisions, conditions, and covenants of the certificate of incorporation, the by-laws, the rules and regulations of the Corporation as they are or may from time to time be adopted, changed or amended, and all rulings, orders, directions and decisions of, and penalties imposed by, the Board of Governors or any duly authorized committee; provided however, that such an agreement shall not be construed as a waiver by the applicant of any right to appeal as provided in the Act;

(2) An agreement to pay such dues, assessments, and other charges in the manner and amount as shall from time to time be fixed by the Board of Governors pursuant to these by-laws;

(3) An agreement that neither the Corporation, nor any officer or employee thereof, nor any member of the Board of Governors or of any District or other Committee, shall be liable, except for wilful malfeasance, to the applicant or to any member of the Corporation or to any other person, for any action taken by such officer or member of the Board of Governors or of any District or other Committee in his official capacity, or by any employee of the Corporation while acting within the scope of his employment or under instruction of any officer, board, or committee of the Corporation, in connection with the administration or enforcement of any of the provisions of the by-laws, any of the rules and regulations as they are or may from time to time be adopted, changed or amended, or any ruling, order, direction, decision of, or penalty imposed by, the Board of Governors or any duly authorized committee.

(4) Such other reasonable information with respect to the applicant as the Board of Governors may require.

(b) Any application received by the Board of Governors shall be referred to the District Committee of the district in which the applicant has his principal place of business, and if a majority of the members of such District Committee are satisfied that the applicant is qualified for membership pursuant to the provisions of this Article, it shall approve the applicant's admission to membership and promptly notify the Secretary of the Corporation.

(c) If a majority of the members of such District Committee

are not satisfied that the applicant is qualified for membership under any provision of this Article, the applicant shall, as promptly as possible, be notified of and be given an opportunity to be heard upon the specific grounds of disqualification which are under consideration. If a hearing is had, a record shall be kept, and if a majority of the members of such District Committee, after hearing, determine that the applicant is not qualified for membership, they shall make a recommendation accordingly, setting forth the specific grounds upon which such recommendation is based, and shall forthwith forward such recommendation and the record to the Board of Governors.

(d) If the Board of Governors, after appropriate notice and opportunity for hearing, and upon consideration of the recommendation and record of the District Committee and such other evidence as it may develop, determines that the applicant is not qualified for membership, it shall render a written decision disapproving his admission to membership, and shall set forth therein the specific grounds upon which such disapproval is based; otherwise, the Board of Governors shall approve the applicant's admission to membership. The Board of Governors shall promptly notify the District Committee of any action taken, and the District Committee in turn shall promptly notify the applicant.

(e) Any applicant for membership in the Corporation whose application is disapproved by the Board of Governors as hereinabove provided may make application for review of such action to the Commission in accordance with the provisions of Section 15A of the Act.

(f) Every applicant whose admission to membership is approved by any District Committee or the Board of Governors shall sign the by-laws of the Corporation, provided that the signature of any such applicant may be affixed to an instrument incorporating by-laws by reference, and upon paying the dues, assessments and other charges provided for, shall become a member of the Corporation.

Section 5. Each member shall appoint and certify to the Secretary of the Corporation an "executive representative" who shall represent, vote and act for the member in all the affairs of the Corporation, except that other executives of a member may hold office in the Corporation, serve on the Board of Governors or Committees of the Corporation, or otherwise take part in the affairs of the Corporation. A member may change its executive representative at will upon giving written notice thereof to the Secretary, or may, when necessary, appoint by written notice to the Secre-

tary, a substitute for its executive representative. An executive representative of a member or a substitute shall preferably be an executive officer of the member, if a corporation, a partner in case of a partnership, and the member himself if an individual, but he may be an employee of the member, if given authority to act for the member in the course of the Corporation's activities.

Section 6. The Secretary of the Corporation shall keep a currently accurate and complete membership roll, containing the name and address of each member and the name and address of the executive representative of each member. In any case where a membership has been terminated, such fact shall be recorded, together with the date on which the membership ceased. The membership roll of the Corporation shall at all times be available to all members of the Corporation, to all governmental authorities, and to the general public.

Section 7. Resignations of members must be in writing and addressed to the Board of Governors, which shall immediately notify the appropriate District Committee. Any member may resign from the Corporation at any time. Such resignation shall not take effect until fifteen days after receipt thereof by the Board of Governors and until all indebtedness due the Corporation from such member shall have been paid in full and so long as any complaint or action is pending against the member. The Board of Governors, however, may in its discretion declare a resignation effective at any time.

Section 8. No member of the Corporation may transfer his membership or any right arising therefrom; except that the consolidation, merger, change of name, or reorganization of any corporation which is a member of the Corporation, or any change in the name or membership of a partnership which is a member of the Corporation, shall not be deemed to constitute a transfer, except as otherwise herein provided. All rights of a member in the Corporation or in its property shall cease upon the termination of his membership. In the case of an individual member, his membership shall forthwith cease upon his death. In the case of the liquidation or winding up of a corporation or partnership which is a member of the Corporation, its membership shall forthwith cease unless the Board of Governors consents to an extension of such membership to a successor organization. The membership of any partnership shall not terminate by reason of the death or withdrawal of any partner, the addition of any new partner, or any change of name; provided, however, that the new partnership

formed thereby shall continue in the investment banking or securities business and shall possess the qualifications required for membership in the Corporation. The consolidation or reorganization or merger or change of name of any corporate member shall not terminate the membership of such corporate member; provided, however, that the new corporation formed thereby shall continue in the investment banking or securities business and shall possess the qualifications required for membership in the Corporation. The Board of Governors, however, shall have the right to require any successor firm or firms, whether corporations or partnerships, to sign or execute the by-laws, or otherwise confirm their membership in the Corporation, pursuant to such rules and regulations as it may from time to time prescribe.

Section 9. Withdrawal from the investment banking or securities business for any cause shall terminate the membership of any member. Such termination of membership, however, shall not take effect until fifteen days after the date of such withdrawal and until all indebtedness due the Corporation from such member shall have been paid in full and so long as any complaint or action is pending against the member. The Board of Governors, however, may declare such termination effective at any time.

Section 10. Each branch office of a member of the Corporation shall register with, and be listed upon the membership roll of, the Corporation, and shall pay such dues, assessments and other charges as shall be fixed from time to time by the Board of Governors pursuant to Article III hereof.

Section 11. A registered branch office of a member of the Corporation shall entitle such member to one vote on all matters pertaining solely to the district in which such registered branch office is located (including the election of members to the Board of Governors from such district); provided, however, that if any member of the Corporation shall have more than one registered branch office in a district, or its principal office and one or more registered branch offices in a district, such member shall be entitled to only one vote in such district.

Section 12. The term "branch office" as used in Section 10 of this Article, is defined to be an office which is located in the United States but in some city other than that in which the member has its principal place of business, which occupies quarters entirely separate from, and not jointly with, an office conducting any other business, which is owned or controlled by the member, which does a business substantially similar to that of the member,

and which is managed by a resident executive or partner of the member. The term "branch office," as used in Section 10 of this Article, shall also include a corporate subsidiary of a member which is located in the United States, but has its principal place of business in some city other than that in which the parent member has its principal place of business, which occupies quarters entirely separate from, and not jointly with, an office conducting any other business, which is owned or controlled by the member, and which does a business substantially similar to that of the member.

Section 13. A District Committee may classify any branch or corporate subsidiary of a member not meeting the requirements of Section 12 of this Article as a "branch office" if such Committee is satisfied that the requirements of Section 12 of this Article are substantially met, and that the business of said branch or subsidiary in the district is of sufficient importance to justify such a classification.

ARTICLE II

Affiliates

Section 1. Any association of brokers or dealers, registered with the Commission as an affiliated securities association under the provisions of Section 15A of the Act, may become an affiliate of the Corporation as hereinafter provided in this Article.

Section 2. Application for admission as an affiliate shall be made to the Board of Governors in writing, in such form as the Board of Governors may prescribe, and shall contain a certified copy of the application to the Commission for registration as an affiliated securities association, a certified copy of the order of the Commission granting such registration, and such other reasonable information as the Board of Governors may require.

Section 3. No applicant may become an affiliate of the Corporation unless it agrees:

(a) That it will classify its members, for purposes of levying dues and assessments, on the same basis as that applicable to members of the Corporation and that the amount of dues or assessments payable by each of its members for any given period, based on such classification, shall not be lower than that payable by a member of the Corporation in the same class for the comparable period; provided, however, that if by reason of the special type of business conducted by members of an applicant, the foregoing agreement is impracticable of application to such applicant, such applicant shall agree that it will fix and levy dues or assessments

payable by its members on some other basis, to be agreed upon by the applicant and the Board of Governors of the Corporation, which shall be fair and equitable in view of the dues and assessments payable by members of the Corporation.

(b) That it will pay the Corporation annually, in the form of dues or otherwise, for services to be rendered by the Corporation to the applicant, the amount to be agreed upon by the applicant and the Board of Governors of the Corporation annually in advance, and that should the applicant and the Corporation be unable to reach an agreement as to an appropriate amount, the applicant will consent to the submission of the controversy to the Commission for arbitration, and that if submitted, it will abide by the Commission's decision thereon;

(c) That, after affiliation, it will at all times keep its charter, by-laws, rules of fair practice and code of procedure so integrated with the corresponding charter, by-laws, rules of fair practice and code of procedure of the Corporation as not to conflict in any way therewith; and

(d) That the Board of Governors, in accordance with the provisions of Section 6 of this Article, may at any time suspend or cancel its affiliation with the Corporation.

Section 4. No applicant may become an affiliate of the Corporation unless it appears to the Board of Governors:

(a) That such applicant is so organized and is of such a character as to be able to comply with and carry out its purposes, and those of the Corporation and of Section 15A of the Act; and

(b) That the charter, by-laws, rules of fair practice and code of procedure of the applicant are so integrated with the corresponding charter, by-laws, rules of fair practice and code of procedure of the Corporation as not to conflict in any way therewith.

Section 5. If it appears to the Board of Governors that the foregoing requirements of this Article are met by the applicant, it shall approve such applicant's admission as an affiliate; otherwise, after appropriate notice and opportunity for hearing, it shall disapprove such application in writing and shall set forth therein the specific grounds upon which such disapproval is based.

Section 6. The Board of Governors may at any time suspend or cancel the affiliation of an affiliate with the Corporation if the Board of Governors finds that the affiliate has ceased to be of such a character as to be able to or has failed to carry out its purposes or the purposes of Section 15A of the Act, or has failed to carry out any of the conditions of affiliation. In any proceeding, how-

ever, under this Section to determine whether the affiliation of an affiliate should be suspended or canceled, specific charges shall be brought; such affiliate shall be notified of, and be given an opportunity to defend against, such charges; a record shall be kept; and any determination that the affiliation of an affiliate shall be suspended or canceled shall be in writing and shall set forth therein the specific grounds upon which such determination is based. Such suspension or expulsion shall take effect upon the 60th day after the filing with the Commission of notice thereof and a copy of the record of the proceedings before the Board of Governors, unless within thirty days after such filing such suspension or cancellation is disapproved by the Commission.

Section 7. The Board of Governors shall, if it deems such action to be in the interest of efficient and economical administration and desirable in carrying out the purposes of Section 15A of the Act, recommend appropriate changes in the by-laws to exclude the territory covered by an affiliated association from the geographical area covered by the Corporation.

ARTICLE III

Dues, Assessments and Other Charges

Section 1. The Board of Governors annually, shall prepare an estimate of the funds necessary to defray reasonable expenses of administration in carrying on the work of the Corporation for the ensuing fiscal year, and on the basis of such estimate, and not less than thirty days prior to the beginning of such fiscal year, shall fix and levy the amount of admission fees, dues, assessments and other charges to be paid by members of the Corporation for such fiscal year, which said fees, dues, assessments and other charges shall be called and payable as determined by the Board of Governors from time to time; provided, however, that such admission fees, dues, assessments and other charges shall be equitably allocated among members. For the purpose of fixing the amount of such admission fees, dues, assessments and other charges equitably, membership in the Corporation is hereby divided into classes in accordance with Schedule A appended hereto. The Board of Governors may from time to time make such changes in Schedule A as it deems necessary or appropriate to assure equitable allocation of dues among members. No such change in Schedule A need be submitted to the membership for approval to become effective, as would otherwise be required by Article IX

hereof, but a copy of any such proposed change shall be filed with the Commission in accordance with Section 15A of the Act and unless it is disapproved by the Commission as therein provided, it shall become effective as at such time as the Board of Governors may prescribe. No member of the Corporation shall be or become liable to pay any fees, dues, assessments or other charges in any fiscal year in an amount greater than that so fixed by the Board of Governors in advance for that year, or in an amount greater than that levied against members of the same class for that year.

Section 2. The Board of Governors may suspend or cancel the membership of any member in arrears in the payment of any dues, assessments or other charges. Any member whose membership shall be suspended or canceled by reason of such non-payment of dues, assessments or other charges, shall cease to have any rights as a member of the Corporation and shall not be entitled to recover back any admission fee or dues theretofore paid and shall forfeit all rights in and to any properties of the Corporation and all rights as a member thereof.

Section 3. Any membership suspended or canceled under this Article may be reinstated by the Board of Governors upon such terms and conditions as it shall deem just; provided, however, that any applicant for reinstatement shall possess the qualifications required for membership in the Corporation.

Section 4. As soon as practicable after the annual levy provided for in Section 1 of this Article, the Secretary of the Corporation shall prepare and send to each District Chairman a list of the members of the Corporation, which list shall disclose the dues-paying classification of each member, and such lists shall be available to inspection by any member of the Corporation during business hours at the office of any such Chairman or at the main office of the Corporation.

ARTICLE IV

Organization and Administration

Section 1. For the purpose of administration, the several states of the United States are hereby divided into fourteen districts, the boundaries of which are set forth in Schedule B, appended hereto.

Section 2. The management and administration of the affairs of the Corporation shall be vested in a Board of Governors, which shall be composed of twenty-one members, to be elected as herein-after provided. The Board of Governors shall be the governing

body and, except as provided by the by-laws, shall be vested with the powers necessary for the management and administration of the affairs of the Corporation, and for the promotion of the Corporation's welfare, objects and purposes. In the exercise of such powers, the Board of Governors may adopt for submission to the membership, as hereinafter provided, such by-laws, rules and regulations, make such interpretations, issue such orders and directions, and make such decisions as it deems necessary or appropriate; and it may prescribe maximum penalties for violations of the provisions of the by-laws, the rules and regulations of the Corporation, for neglect or refusal to comply with orders, directions and decisions of the Board of Governors or of any District or other Committee, or for violation of any rule or regulation adopted by any District Committee, as provided in Section 2 of Article VII hereof.

Section 3. The several districts shall be represented on the Board of Governors as follows:

(a) Two members of the Board of Governors shall be elected from and by the members of the Corporation having places of business in District No. 2;

(b) Three members of the Board of Governors shall be elected from and by the members of the Corporation having places of business in District No. 8;

(c) Five members of the Board of Governors shall be elected from and by the members of the Corporation having places of business in District No. 13;

(d) One member of the Board of Governors shall be elected from and by the members of the Corporation having places of business in each of the remaining districts not referred to in paragraphs (a), (b), and (c) of this Section.

(e) The Board of Governors shall, from time to time, consider the fairness of the representation of the various districts on the Board of Governors, and whenever it finds any unfairness in such representation to exist, it shall recommend appropriate changes in the by-laws to assure fair representation of all districts.

Section 4. Each regularly elected member of the Board of Governors, except as otherwise herein provided, shall hold office for a term of three years, and until his successor is elected and qualified, or until his death, resignation or removal.

Section 5. The office of a retiring member of the Board of Governors shall be filled by the election of a member from the same district as that of the retiring member.

Section 6. Members of the Board of Governors shall be elected as follows:

(a) At least sixty days prior to the expiration of the term of office of any member of the Board of Governors, the Secretary of the Corporation shall cause notice thereof to be given to the chairman of the appropriate District Committee as provided in Section 5 of this Article. Said chairman shall thereupon notify the nominating committee appointed for or elected by such district pursuant to the provisions of Sections 12(a) and 13 of this Article and such nominating committee shall proceed at once to nominate a candidate from such district for the office of each such member of the Board of Governors whose term is to expire. Nominating committees in nominating candidates for the office of member of the Board of Governors shall endeavor, as nearly as practicable, to secure appropriate and fair representation on the Board of Governors of all classes and types of firms engaged in the investment banking and securities business; and, except in the case of the first elections to be held under these by-laws as hereby amended, no nominating committee shall nominate an incumbent member of the Board of Governors to succeed himself unless it first takes appropriate action (by a written ballot of the entire membership within the district) to ascertain that such nomination is acceptable to a majority of the members in the district. Each candidate nominated by the nominating committee shall be certified to the District Committee within fifteen days from the date of appointment of the nominating committee, and within five days thereafter a copy of such certification shall be sent by the District Committee to each member of the Corporation having a place of business in the district. Such candidate shall be designated the "regular candidate."

(b) Ten per cent or more of the members of the Corporation having places of business in the district may nominate an additional candidate for the office of any member whose term is to expire, if notice thereof in writing, signed by the required number of members, is filed with the District Committee within twenty days from the date of the notice of the action taken by the nominating committee. If no additional candidate or candidates are nominated within such twenty-day period, the candidate or candidates nominated by the nominating committee shall be considered duly elected, and the District Committee shall certify the election to the Board of Governors.

(c) If any additional candidate or candidates are nominated, as provided in paragraph (b) of this Section, the District Committee shall forthwith cause the names of the regular candidate for any contested office and of all other candidates for such office to be placed upon a ballot, which shall be sent to all members of the Corporation having places of business in the district. Each member of the Corporation having its principal place of business in the district shall be entitled to one vote, and each member having one or more registered branch offices in the district shall be entitled to vote as provided in Section 11 of Article I. The District Committee may fix the date before which ballots must be returned to be counted, provided such date is prior to that upon which the retiring member's term of office expires. All ballots shall be opened by such officer or employee of the District Committee as its chairman may designate, and in the presence of a representative of each of the candidates if such representation is requested in writing by any candidate voted upon. The candidate for each office to be filled receiving the largest number of votes cast shall be declared elected to membership on the Board of Governors, and certification thereof shall be made forthwith to the Board of Governors. In the event of a tie, there shall be a run-off election. In all elections held under this Section, voting shall be by secret mail ballot, the procedure for which shall be prescribed by the Board of Governors.

Section 7. (a) All vacancies in the Board of Governors other than those caused by the expiration of a Governor's term of office, shall be filled as follows:

(1) If the unexpired term of the Governor causing the vacancy is for less than six months, such vacancy shall be filled by appointment, by the District Committee of the district represented by the Governor causing such vacancy, of some member of the Corporation having a place of business in the same district.

(2) If the unexpired term of the Governor causing the vacancy is for six months or more, such vacancy shall be filled by election which shall be conducted as nearly as practicable in accordance with the provisions of Section 6 of this Article.

(b) Notwithstanding the foregoing provisions of this Section, all vacancies caused by resignations of Governors to take effect within four months after registration of the Corporation as a national securities association under Section 15A of the Act, shall be filled by elections which shall be conducted as nearly as practicable in accordance with the provisions of Section 6 of this Article.

Section 8. Meetings of the Board of Governors shall be held at such times and places, upon such notice, and in accordance with such procedure as the Board of Governors in its discretion may determine. A quorum of the Board of Governors shall consist of eleven members, and any action taken by a majority at any meeting at which a quorum is present, except as herein otherwise provided, shall constitute the action of the Board. Action of the Board of Governors may be taken by mail or telegraphic vote, in which case any action taken by a majority of the Board of Governors shall constitute the action of the Board.

Section 9. The Corporation shall maintain such offices as the Board of Governors may from time to time deem necessary or appropriate.

Section 10. For the purpose of effectuating a maximum degree of local administration of the affairs of the Corporation, each of the fourteen districts created under Section 1 of this Article shall elect a District Committee, as hereinafter provided. Each such District Committee shall determine the number of its members so to be elected, but in no event shall any District Committee consist of more than twelve members.

Section 11. Each regularly elected member of a District Committee shall hold office for a term of three years, and until his successor is elected and qualified, or until his death, resignation or removal; provided, however, that members of the first District Committees elected under these by-laws, as hereby amended, shall hold office, for the following terms: Immediately upon the members of each such District Committee taking office, they shall classify themselves by lot or otherwise, and as near one-third thereof as possible shall hold office until January 16, 1941, as near one-third thereof as possible shall hold office until January 16, 1942, and the remaining members thereof shall hold office until January 16, 1943. Members of District Committees regularly elected thereafter shall be elected for a full term of three years.

Section 12. Members of the District Committees shall be elected as follows:

(a) At least sixty days prior to the expiration of the term of office of any member of any District Committee, the Secretary of the Corporation shall cause notice thereof to be given to the Chairman of the appropriate District Committee. Said Chairman, with the approval of a majority of the members of such District Committee, shall appoint a nominating committee of five members (who shall be members of the Corporation having places of business in the dis-

trict, but not members of the District Committee), which shall proceed at once to nominate a candidate from their district for the office of each member of the District Committee whose term is to expire or for each new office created by the District Committee pursuant to Section 10 of this Article. In the case, however, of the first general election to be held under these by-laws, as hereby amended, the nominating committee shall be chosen as provided in Section 13 of this Article. Nominating committees in nominating candidates for the office of member of the District Committee shall endeavor, as nearly as practicable, to secure appropriate and fair representation on the District Committee of the various sections of the district and of all classes and types of firms engaged in the investment banking or securities business within such district; and, except in the case of the first elections to be held under these by-laws, as hereby amended, no nominating committee shall nominate an incumbent member of the District Committee to succeed himself unless it first takes appropriate action (by a written ballot of the entire membership within the district) to ascertain that such nomination is acceptable to a majority of the members in the district. Each candidate nominated by the nominating committee shall be certified to the District Committee within fifteen days from the date of appointment of the nominating committee, and within five days thereafter a copy of such certification shall be sent by the District Committee to each member of the Corporation having a place of business in the district. Such candidate shall be designated the "regular candidate."

(b) Ten per cent or more of the members of the Corporation having places of business in the district may nominate an additional candidate for the office of any member whose term is to expire or for any new office created by the District Committee pursuant to Section 10 of this Article, if notice thereof in writing, signed by the required number of members, is filed with the District Committee within twenty days from the date of the notice of the action taken by the nominating committee. If no additional candidate or candidates are nominated within such twenty-day period, then the candidate or candidates nominated by the nominating committee shall be considered duly elected and the District Committee shall certify the election to the Board of Governors.

(c) If any additional candidate or candidates are nominated, as provided in paragraph (b) of this Section, the District Committee shall forthwith cause the names of the regular candidate for any contested office and of all other candidates for such office

to be placed upon a ballot, which shall be sent to all members of the Corporation having places of business in the district. Each member of the Corporation having its principal place of business in the district shall be entitled to one vote, and each member having one or more registered branch offices in the district shall be entitled to vote as provided in Section 11 of Article I. The District Committee may fix the date before which ballots must be returned to be counted, provided such date is prior to that upon which the retiring member's term of office expires. All ballots shall be opened by such officer or employee of the District Committee as its chairman may designate, and in the presence of a representative of each of the candidates if such representation is requested in writing by any candidate voted upon. The candidate for each office to be filled receiving the largest number of votes cast shall be declared elected to membership on the District Committee, and certification thereof shall be made forthwith to the Board of Governors. In the event of a tie, there shall be a run-off election. In all elections held under this Section, voting shall be by secret mail ballot, the procedure for which shall be prescribed by the Board of Governors.

Section 13. The nominating committees for the first general election to be held under these by-laws, as hereby amended, shall be elected as follows.

(a) At least ninety days prior to the expiration of the term of office of any member of any District Committee, the Secretary of the Corporation shall cause notice thereof to be given to the Chairman of the appropriate District Committee. Said Chairman, with the approval of a majority of the members of such District Committee, shall nominate five members of the Corporation having places of business in the district, other than members of the District Committee, as candidates for membership on the nominating committee. District Chairmen, in so nominating candidates for membership on such nominating committees shall endeavor, as nearly as practicable, to secure appropriate and fair representation on such nominating committees of the various sections of the district and of all classes and types of firms engaged in the investment banking and securities business within such district. Notice of the candidates so nominated shall be sent forthwith by the District Committee to each member of the Corporation having a place of business within the district. Such candidates shall be designated the "regular candidates."

(b) Five per cent or more of the members of the Corporation

having places of business in the district may nominate an additional candidate for membership on such nominating committee, if notice thereof in writing, signed by the required number of members, is filed with the District Committee within fifteen days from the date of the notice of the nomination of the regular candidates. If no additional candidate or candidates are nominated within such fifteen-day period, the candidates nominated by the District Committee shall be considered duly elected.

(c) If any additional candidate or candidates are nominated, as provided in paragraph (b) of this Section, the District Committee shall forthwith cause the names of the five regular candidates and all other candidates to be placed upon a ballot, which shall be sent to all members of the Corporation having places of business in the district. Each member of the Corporation having its principal place of business in the district shall be entitled to vote for five of such candidates, and each member having a registered branch office in the district shall be entitled to vote for five of such candidates; provided, however, that if any member of the Corporation shall have more than one registered branch office in the district or its principal office and one or more registered branch offices in the district, such member shall be entitled to vote for only five of such candidates in such district. The District Committee may fix the date before which ballots must be returned to be counted, provided such date is prior to sixty days before the retiring member's term of office expires. All ballots shall be opened by such officer or employee of the District Committee as its Chairman may designate and in the presence of a representative of each of the candidates if such representation is requested in writing by any candidate voted upon. The five candidates receiving the highest number of votes cast shall be declared elected and shall constitute the members of the initial nominating committee. The District Committee, by a majority vote, may cast the deciding vote in the event of a tie. In all elections held under this Section, voting shall be by secret mail ballot, the procedure for which shall be prescribed by the Board of Governors.

Section 14. All vacancies in any District Committee other than those caused by the expiration of a member's term of office, shall be filled as follows:

(a) If the unexpired term of the member causing the vacancy is for less than six months, such vacancy shall be filled by appointment by the remaining members of the District Committee

of some member of the Corporation having a place of business in the same district.

(b) If the unexpired term of the member causing the vacancy is for six months or more, such vacancy shall be filled by election, which shall be conducted as nearly as practicable in accordance with the provisions of Section 12 of this Article.

Section 15. Meetings of each District Committee shall be held at such times and places, upon such notice, and in accordance with such procedure as each District Committee in its discretion may determine. A quorum of a District Committee shall consist of a majority of its members, and any action taken by a majority at any meeting at which a quorum is present, except as otherwise provided in the by-laws, shall constitute the action of the Committee. Action by a District Committee may be taken by mail or telegraphic vote, in which case any action taken by a majority of the Committee shall constitute the action of the Committee.

Section 16. Following the annual election of members of the District Committees pursuant to Section 12 of this article, each District Committee shall elect from its members a chairman and such other officers as it deems necessary for the proper performance of its duties under these by-laws, and shall prescribe their powers and duties.

Section 17. The chairmen of the several District Committees, elected pursuant to Section 16 of this Article, shall constitute an Advisory Council to the Board of Governors, and as such shall be advised of and entitled to attend all meetings of the Board of Governors but shall not there be entitled to vote.

Section 18. Funds to meet the regular expenses of each District Committee, elected pursuant to Section 12 of this Article, shall be provided by the Board of Governors out of funds collected by it under the provisions of Article III hereof, and all such expenses shall be subject to the approval of the Board of Governors.

Section 19. The fourteen District Committees shall act as the agencies of the Corporation for the administration of its affairs in their respective districts and as such shall have such powers and duties as are provided in the by-laws or from time to time delegated by the Board of Governors.

Section 20. District Committees shall endeavor, in such manner or through such media as they deem appropriate, to educate members and other dealers in their respective districts as to the objects, purposes and work of the Corporation in order to foster their

interest and friendly cooperation. District Committees shall consider the practical operation of all provisions of the certificate of incorporation, by-laws, rules of fair practice and code of procedure of the Corporation and shall report to the Secretary any which do not work satisfactorily in their respective districts.

ARTICLE V

Officers and Employees

Section 1. As soon as practicable after the election of the members to the initial Board of Governors elected under these by-laws, as hereby amended, and thereafter annually following the election of members to the Board of Governors, the Board of Governors shall elect from its members a Chairman, one or more Vice Chairmen, a Treasurer, and such other officers as it shall deem necessary or advisable, to serve until the next annual election and until their successors are chosen and qualify. The officers so elected shall have such powers and duties as may be determined from time to time by the Board of Governors. The Board of Governors, by affirmative vote of eleven members, may remove any such officer at any time.

Section 2. As soon as practicable after the election of the members to the initial Board of Governors elected under these by-laws, as hereby amended, and thereafter whenever the term of any such officer is about to expire, or in the event of a vacancy, the Board of Governors may elect a chief executive officer and such other executive or administrative officers as it shall deem necessary or advisable, whose terms of office shall be at the pleasure of the Board of Governors, and of the officers so elected, one shall perform the usual duties of a secretary of a corporation. All such officers shall have such titles, such powers and duties, and shall be entitled to such compensation as shall be determined from time to time by the Board of Governors, and in addition shall perform the usual duties of such officers of a corporation. The Board of Governors, by affirmative vote of eleven members, may remove any such officer at any time.

Section 3. In case of the absence or inability to act of the chief executive officer, or in case of a vacancy in such office, or pending the appointment of the first such officer as provided in Section 2 of this Article, the Board of Governors may appoint its Chairman or such other person as it may designate to act as such

officer *pro tem*, who shall assume all the functions and discharge all the duties of such chief executive officer. The Board of Governors may fix the compensation of such officer *pro tem*.

Section 4. The Board of Governors may retain or authorize the employment of counsel, with such powers, titles, duties and authority as it shall deem necessary or advisable.

Section 5. The Board of Governors may employ or authorize the employment and prescribe the powers and duties of such an administrative staff as it deems necessary or advisable. The employment and compensation of such administrative staff of the Corporation shall be at the pleasure of the Board of Governors.

Section 6. Each District Committee, subject to the approval of the Board of Governors, may employ a district secretary and such other employees as it deems necessary or advisable for the proper administration of the affairs of the Corporation within its district. The compensation of such secretary and other employees shall be subject to the approval of the Board of Governors. District Committees shall fix the powers and duties of such employees. District Committees may dismiss such employees at pleasure.

Section 7. No member of the Board of Governors, except when acting as the chief executive officer *pro tem* as provided in Section 3 of this Article, or of any District or of any other Committee shall be entitled to receive any compensation from the Corporation, but all members of the Board of Governors, of the Advisory Council, of the District Committees, and of all other committees appointed either by the Board of Governors or by any District Committee, shall be entitled to reimbursement for reasonable out-of-pocket expenses incurred in connection with the business of the Corporation.

ARTICLE VI

Committees

Section 1. The Board of Governors may appoint such standing and other committees as it deems necessary or desirable, and it shall fix their powers, duties and terms of office.

Section 2. Each District Committee, in the exercise of its powers and performance of its duties as provided in the by-laws, may, except as otherwise herein provided, appoint such standing or other committees as it deems necessary or desirable, and shall fix their powers, duties and terms of office.

Section 3. Each District Committee annually shall appoint from

among its members or members of the Corporation having places of business within the district, a District Business Conduct Committee of not more than twelve members, at least one member of which shall be a member of the District Committee. Each such committee shall function as the Business Conduct Committee of the Corporation in such district in accordance with the by-laws, rules of fair practice, and code of procedure for handling trade practice complaints. Each District Committee may also annually appoint such Local Business Conduct Committees as it deems necessary or appropriate and, wherever possible, at least one member of each such Local Business Conduct Committee shall be a member of the District Business Conduct Committee. Each such Local Business Conduct Committee shall function as a sub-committee of the District Business Conduct Committee in accordance with the by-laws, the rules of fair practice, and the code of procedure for handling trade practice complaints.

Section 4. Any member of any committee appointed pursuant to Section 2 or Section 3 of this Article may be removed from office, after appropriate notice and opportunity for hearing, by the District Committee appointing such member or by the Board of Governors for failure to enforce the rules of the Corporation, for wilful abuse of his authority, or for failure in the performance of his duties as prescribed by the District Committee or the Board of Governors.

Section 5. By resolution passed by a majority of the Board of Governors, there may be created an Executive Committee, consisting of five or more members of the Board, which Committee shall have and may exercise such of the powers of the Board in the management of the business and affairs of the Corporation in the interim between meetings of the Board of Governors as may be delegated to it from time to time by the Board; provided, however, that any action of a disciplinary nature by an Executive Committee created hereunder, which affects the business or standing of any member of the Corporation, shall become binding only after approval by the Board of Governors. Each Executive Committee created hereunder shall keep minutes of its meetings and shall report its proceedings to the Board of Governors at each meeting thereof.

ARTICLE VII

Rules of Fair Practice

Section 1. To promote and enforce just and equitable principles of trade and business, to maintain high standards of commercial honor and integrity among members of the Corporation, to collaborate with governmental and other agencies in the promotion of fair practices and the elimination of fraud, and in general to carry out the purposes of the Corporation and of Section 15A of the Act, the Board of Governors is hereby authorized to adopt for submission to the members of the Corporation such rules of fair practice and such amendments thereto as it may, from time to time, deem necessary or appropriate. The Board of Governors, upon the adoption of any such rules of fair practice or amendments thereto, shall forthwith cause copies thereof to be sent to each member of the Corporation to be voted upon. If any such rules of fair practice or amendments thereto are approved by a majority of the members voting, provided, however, that a majority of all members of the Corporation have voted, within thirty days after the date of submission to the membership, and are not disapproved by the Commission as provided in Section 15A of the Act, they shall become effective rules of fair practice of the Corporation as at such date as the Board of Governors may prescribe. In any case, however, where the Board of Governors finds an emergency to exist, such rules of fair practice or amendments thereto, if adopted by a two-thirds vote of the Board of Governors and not disapproved by the Commission pursuant to Section 15A of the Act, may become effective as at such time as the Board of Governors may prescribe, without submission to the members for a vote as hereinabove required; provided, however, that no such rule of fair practice or amendment shall be effective for more than sixty days or the duration of the emergency as declared by the Board of Governors, whichever is the less. The Board of Governors is hereby authorized, subject to the provisions of the by-laws and of Section 15A of the Act, to administer, enforce, suspend, or cancel any rules of fair practice adopted hereunder.

Section 2. Subject to the approval of the Board of Governors and the provisions of Section 15A of the Act, each District Committee may adopt such supplemental local rules of fair practice and such amendments thereto as it may from time to time deem necessary or appropriate; provided, however, that such rules of

fair practice and amendments thereto shall be designed to effect the same purposes and shall be subject to the same provisions with respect to approval by members having places of business within the district as are provided in Section 1 of this Article, with respect to rules of fair practice applicable to all members. The Board of Governors, subject to the provisions of Section 15A of the Act, may at any time suspend or cancel any such local rules of fair practice or any portion of any such local rules so adopted and approved. Any District Committee, subject to the approval of the Board of Governors and the provisions of Section 15A of the Act, may at any time suspend or cancel any local rules of fair practice or any portion of any such local rules adopted by it pursuant to this Section.

Section 3. The Board of Governors, in the administration and enforcement of any rules of fair practice adopted under Sections 1 and 2 of this Article, shall have power:

(a) To make and issue interpretations of all rules of fair practice adopted thereunder;

(b) To prescribe such procedure for the presentation, hearing and adjudication of complaints between or against members of the Corporation as it deems necessary or appropriate; provided, however, that in any such procedure District Business Conduct Committees shall have original jurisdiction in the hearing of all complaints, whether filed by a District Business Conduct Committee or other person, and that the Board of Governors shall act as an appellate body;

(c) To prescribe maximum penalties, including censure, fines, suspension or expulsion from membership, for breach, by a member, of any covenant with the Corporation or its members; for violation by a member of any of the terms, conditions, covenants, and provisions of the by-laws, or of the rules of fair practice of the Corporation; for failure by a member to adhere to any ruling, order, direction or decision of, or to pay any penalty imposed by, the Board of Governors or any District Business Conduct Committee, or for violation of any local rule of fair practice adopted by any District Committee; provided, however, that no member shall be disciplined unless and until the requirements of Section 4 of this Article are met.

(d) To prescribe such procedure for the arbitration of controversies between members and between members and customers or others as it shall deem necessary or appropriate.

Section 4. In any proceeding under this Article, any accused member shall be given the opportunity to have a hearing, at which hearing such member shall be entitled to be heard in person and/or by counsel, and to submit any matter which he may desire to present, and a record shall be kept of the proceedings. In any such proceeding to determine whether any member shall be disciplined, specific charges shall be brought; such member shall be notified of and be given an opportunity to defend against such charges; a record shall be kept; and any determination shall include (A) a statement setting forth any act or practice in which such member may be found to have engaged or which such member may be found to have omitted; (B) a statement setting forth the specific rule or rules of the Corporation of which any such act or practice, or omission to act, is deemed to be in violation; (C) a statement whether the act or practices prohibited by such rule or rules, or the omission of any act required thereby, are deemed to constitute conduct inconsistent with just and equitable principles of trade, and (D) a statement setting forth the penalty imposed.

Section 5. No member of the Board of Governors or of any District Business Conduct Committee or of any Local Business Conduct Committee shall in any manner, directly or indirectly, participate in the determination of any complaint affecting his interest or the interests of any person in whom he is directly or indirectly interested. In any case where such an interest is involved, the particular member shall disqualify himself, or shall be disqualified by the Chairman of any such Board or Committee.

ARTICLE VIII

Limitation of Powers

Section 1. Under no circumstances shall the Board of Governors or any officer, employee or member of the Corporation have power:

(a) To make any donation or contribution from the funds of the Corporation or to commit the Corporation for the payment of any donations or contributions for political, or charitable purposes;

(b) To use the name or facilities of the Corporation in aid of any political party or candidate for any public office.

Section 2. No member shall use the name of the Corporation on

letterheads, circulars or other advertising matter or literature except to the extent that may be authorized by the Board of Governors.

Section 3. No officer, employee, member of the Board of Governors or of any District or other Committee, shall have any power to incur or contract any liability in excess of the specific authorization or appropriation made by the Board of Governors.

ARTICLE IX

Amendments

Any member of the Board of Governors by resolution, any District Committee by resolution, or any twenty-five members of the Corporation by petition signed by such members, may propose additions, alterations, or amendments to the by-laws. Every proposed addition, alteration or amendment shall be presented in writing to the Board of Governors and a record kept thereof. The Board of Governors shall first pass on all proposed additions, alterations or amendments to the by-laws, and may adopt any proposed addition, alteration or amendment by a majority vote of all of its members. The Board of Governors, upon adoption of any such addition, alteration or amendment to the by-laws, except as provided in Section 1 of Article III hereof, shall forthwith cause a copy thereof to be sent to each member of the Corporation to be voted upon. If such addition, alteration or amendment to the by-laws is approved by a majority of the members voting, provided, however, that a majority of all of the members have voted, within thirty days after the date of submission to the membership, and are not disapproved by the Commission as provided in Section 15A of the Act, it shall become effective as at such date as the Board of Governors may prescribe.

ARTICLE X

Seal

The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the words "Corporate Seal, Delaware." Said seal may be used by causing it or a facsimile thereof to be imposed or affixed or reproduced or otherwise.

ARTICLE XI

Checks

All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Governors may from time to time designate.

ARTICLE XII

Fiscal Year

The fiscal year shall begin the first day of October in each year.

ARTICLE XIII

Annual Financial Statement

As soon as practicable after the end of each fiscal year, the Board of Governors shall send to each member of the Corporation a reasonably itemized statement of receipts and expenditures of the Corporation for such preceding fiscal year.

SCHEDULE "A"

Classification of membership as provided in Section 1 of Article III of the by-laws:

Class	Personnel***	Assessment Unit*
1	1 to 3	2
2	4 to 6	3
3	7 to 10	4
4	11 to 15	5
5	16 to 25	6
6	26 to 35	7
7	36 to 50	8
8	51 to 75	9
9	76 to 100	10
10	101 to 125	11
11	Over 125	20
**12 (d)	Occasional Underwriters	30
(c)	Substantial Underwriters	50
(b)	Major Underwriters	100
(a)	Originators	

Branch office dues shall be assessed annually on the basis of \$10.00 per district for each district in which a member maintains one or more branch offices other than the district in which such member's principal office is located.

*The basic unit of assessment to be determined annually in advance by the Board of Governors in accordance with the by-laws.

Class 1 pays the basic unit of assessment. Classes 2 to 12 pay the multiple of the unit assessment as indicated.

**The Board of Governors shall designate the members to be placed in the four subdivisions of Class 12. In making such designation, the Board of Governors shall take into consideration the total amount of underwriting of all members for the last 12-month period for which such data is conveniently available, the relative amount of underwriting or participations in underwriting of each member for such period, the personnel of such member, and such member's general standing in the business. In the light of such considerations, such designation shall be fair and equitable to all members, and the membership shall be informed of the general standards or formula applied by the Board in making such designation on or before the date of levying any assessment upon the basis of such designation. The general standards or formula referred to above shall include the minimum amount of underwriting or participations in underwriting which, without taking into consideration any of the other factors referred to above, will automatically place a member in Class 12(d).

***Definition of Personnel: Each individual in an organization normally devoting half or more of his business hours to such organization's "investment banking or securities business" as defined in Article I, Section 3(c) of the by-laws, shall be counted as 1; each individual in the organization normally devoting part but less than half of his business hours to such organization's "investment banking or securities business" as defined in Article I, Section 3(c) of the by-laws, shall be counted as 1/2. For the purpose of this definition, the term "individual" includes a partner, corporate officer, or individual proprietor.

SCHEDULE "B"

Territorial boundaries of the several districts established as provided in Section 1 of Article IV, are as follows:

- District #1. States of Idaho, Oregon and Washington.
- District #2. States of California and Nevada.
- District #3. States of Arizona, Colorado, New Mexico, Utah and Wyoming.
- District #4. States of Minnesota, Montana, North Dakota and South Dakota.
- District #5. States of Kansas, Oklahoma, and the counties of Putnam, Sullivan, Linn, Chariton, Howard, Cooper, Moniteau, Miller, Pulaski, Texas and Howell in the State of Missouri and the remainder of said state lying west of such counties.
- District #6. State of Texas.
- District #7. State of Arkansas, the counties of Schuyler, Adair, Macon, Randolph, Boone, Cole, Osage, Maries, Phelps, Dent, Shannon and Oregon in the state of Missouri and the remainder of said state lying east of such counties; and the counties of Meade, Breckenridge, Grayson, Edmonson, Warren, and Allen in the state of Kentucky and the remainder of said state lying west of such counties.
- District #8. States of Illinois, Indiana, Iowa, Michigan, Nebraska and Wisconsin.
- District #9. States of Alabama, Florida, Georgia, Louisiana, Mississippi, South Carolina, and Tennessee.
- District #10. State of Ohio, the counties of Jefferson, Bullitt, Hardin, Hart, Barren, and Monroe in the state of Kentucky and the remainder of said state lying east of such counties.
- District #11. The District of Columbia, and the states of Maryland, North Carolina, Virginia and West Virginia.
- District #12. States of Delaware and Pennsylvania.
- District #13. States of Connecticut, New Jersey and New York.
- District #14. States of Maine, Massachusetts, New Hampshire, Rhode Island and Vermont.

RULES OF FAIR PRACTICE

OF

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

ARTICLE I

Adoption and Interpretation

Section 1. The following provisions are adopted pursuant to Article VII of the By-Laws of the Corporation and the provisions of Article III hereof are adopted as the Rules of Fair Practice of the Corporation, pursuant to Section 1 of said Article VII.

Section 2. The Rules shall become effective as provided in Section 1 of Article VII of the By-Laws; provided, however, that the provisions of Sections 23, 24 and 25 of Article III hereof shall not become effective until thirty days after registration of the Corporation with the Commission as a national securities association.

Section 3. The Rules shall be interpreted in such manner as will aid in effectuating the purposes and business of the Corporation, and so as to require that all practices in connection with the investment banking and securities business shall be just, reasonable and not unfairly discriminatory.

Section 4. The Rules shall not be construed to apply to contracts made prior to the effective date of the Rules or to transactions in exempted securities (as defined in Section 3(a) (12, of the Act).

ARTICLE II

Definitions

Section 1. When used in the Rules and provisions hereby adopted, unless the context otherwise requires—

(a) The term "Corporation" means National Association of Securities Dealers, Inc., a nonprofit membership corporation organized under the laws of the State of Delaware.

(b) The term "By-Laws" means the By-Laws of the Corporation.

(c) The term "member" means any individual, partnership,

corporation or other legal entity admitted to membership in the Corporation under the provisions of Article I of the By-Laws.

(d) The term "Rules" means the Rules of Fair Practice as adopted and approved pursuant to Article VII of the By-Laws, or as the same may be hereafter amended or supplemented, as provided in the By-Laws.

(e) The term "Code of Procedure" means the Code of Procedure for Handling Trade Practice Complaints prescribed by the Board of Governors pursuant to Article VII of the By-Laws.

(f) The term "customer" shall not include a broker or dealer.

(g) The term "selling syndicate" means any syndicate formed in connection with a public offering, to distribute all or part of an issue of securities by sales made directly to the public by or through participants in such syndicate under an agreement which imposes a financial commitment upon participants in such syndicate to purchase any such securities.

(h) The term "selling group" means any group formed in connection with a public offering, to distribute all or part of an issue of securities by sales made directly to the public by or through members of such selling group, under an agreement which imposes no financial commitment on the members of such group to purchase any such securities except as they may elect to do so.

(i) The term "person" shall include any natural person, partnership, corporation, association, or other legal entity.

(j) The term "the completion of the transaction" means:

(1) In the case of a customer who purchases a security through or from a member, except as provided in paragraph (2), the time when such customer pays the member any part of the purchase price, or, if payment is effected by a bookkeeping entry, the time when such bookkeeping entry is made by the member for any part of the purchase price;

(2) In the case of a customer who purchases a security through or from a member and who makes payment therefor prior to the time when payment is requested or notification is given that payment is due, the time when such member delivers the security to or into the account of such customer;

(3) In the case of a customer who sells a security through or to a member, except as provided in paragraph (4), if the security is not in the custody of the member at the time of sale, the time when the security is delivered to the member,

and if the security is in the custody of the member at the time of sale, the time when the member transfers the security from the account of such customer;

(4) In the case of a customer who sells a security through or to a member and who delivers such security to such member prior to the time when delivery is requested or notification is given that delivery is due, the time when such member makes payment to or into the account of such customer.

(k) The term "Commission" means the Securities and Exchange Commission, established pursuant to The Securities Exchange Act of 1934, as amended.

(l) The term "Act" means The Securities Exchange Act of 1934, as amended.

Section 2. Unless the context otherwise requires, or unless defined in this Article, terms used in the Rules and provisions hereby adopted, if defined in the By-Laws, shall have the meaning as defined in the By-Laws.

ARTICLE III

Rules of Fair Practice

1. A member, in the conduct of his business, shall observe high standards of commercial honor and just and equitable principles of trade.

2. In recommending to a customer the purchase, sale or exchange of any security, a member shall have reasonable grounds for believing that the recommendation is suitable for such customer upon the basis of the facts, if any, disclosed by such customer as to his other security holdings and as to his financial situation and needs.

3. Charges, if any, for services performed, including miscellaneous services such as collection of moneys due for principal, dividends, or interest; exchange or transfer of securities; appraisals, safe-keeping or custody of securities, and other services, shall be reasonable and not unfairly discriminatory between customers.

4. In "over-the-counter" transactions, whether in "listed" or "unlisted" securities, if a member buys for his own account from his customer, or sells for his own account to his customer, he shall buy or sell at a price which is fair, taking into consideration all relevant circumstances, including market conditions with respect to such security at the time of the transaction, the ex-

pense involved, and the fact that he is entitled to a profit; and if he acts as agent for his customer in any such transaction, he shall not charge his customer more than a fair commission or service charge, taking into consideration all relevant circumstances including market conditions with respect to such security at the time of the transaction, the expense of executing the order and the value of any service he may have rendered by reason of his experience in and knowledge of such security and the market therefor.

5. No member shall publish or circulate, or cause to be published or circulated, any notice, circular, advertisement, newspaper article, investment service, or communication of any kind which purports to report any transaction as a purchase or sale of any security unless such member believes that such transaction was a bona fide purchase or sale of such security; or which purports to quote the bid price or asked price for any security, unless such member believes that such quotation represents a bona fide bid for, or offer of, such security. If nominal quotations are used or given, they shall be clearly stated or indicated to be only nominal quotations.

6. No member shall make an offer to buy from or sell to any person any security at a stated price unless such member is prepared to purchase or sell, as the case may be, at such price and under such conditions as are stated at the time of such offer to buy or sell.

7. Selling syndicate agreements or selling group agreements shall set forth the price at which the securities are to be sold to the public or the formula by which such price can be ascertained, and shall state clearly to whom and under what circumstances concessions, if any, may be allowed.

8. A member, when a member of a selling syndicate or a selling group, shall purchase securities taken in trade at a fair market price at the time of purchase, or shall act as agent in the sale of such securities.

9. A member who in the capacity of paying agent, transfer agent, trustee, or in any other similar capacity, has received information as to the ownership of securities, shall under no circumstances make use of such information for the purpose of soliciting purchases, sales or exchanges except at the request and on behalf of the issuer.

10. No member shall, directly, or indirectly, give, permit to be

given, or offer to give, anything of value to any employee, agent or representative of another person, for the purpose of influencing or rewarding the act of such employee, agent, or representative in relation to the business of the employer of such employee, principal of such agent, or the represented party, without the prior knowledge and consent of such employer, principal, or represented party.

11. No member shall, directly or indirectly, give, permit to be given, or offer to give, anything of value to any person for the purpose of influencing or rewarding the action of such person in connection with the publication or circulation in any newspaper, investment service, or similar publication, of any matter which has, or is intended to have, an effect upon the market price of any security, provided that this rule shall not be construed to apply to matter which is clearly distinguishable as paid advertising.

12. A member at or before the completion of each transaction with a customer shall give or send to such customer written notification disclosing (1) whether such member is acting as a broker for such customer, as a dealer for his own account, as a broker for some other person, or as a broker for both such customer and some other person; and (2) in any case in which such member is acting as a broker for such customer or for both such customer and some other person, either the name of the person from whom the security was purchased or to whom it was sold for such customer and the date and time when such transaction took place or the fact that such information will be furnished upon the request of such customer, and the source and amount of any commission or other remuneration received or to be received by such member in connection with the transaction.

13. A member controlled by, controlling, or under common control with, the issuer of any security, shall, before entering into any contract with or for a customer for the purchase or sale of such security, disclose to such customer the existence of such control, and if such disclosure is not made in writing, it shall be supplemented by the giving or sending of written disclosure at or before the completion of the transaction.

14. A member who is acting as a broker for a customer or for both such customer and some other person, or a member who is acting as a dealer and who receives or has promise of receiving a fee from a customer for advising such customer with respect

to securities, shall, at or before the completion of any transaction for or with such customer in any security in the primary or secondary distribution of which such member is participating or is otherwise financially interested, give such customer written notification of the existence of such participation or interest.

15. (a) No member shall effect with or for any customer's account in respect to which such member or his agent or employee is vested with any discretionary power any transactions of purchase or sale which are excessive in size or frequency in view of the financial resources and character of such account.

(b) No member shall effect with or for any customer's account in respect to which such member or his agent or employee is vested with any discretionary power any transaction of purchase or sale unless immediately after effecting such transaction such member makes a record of such transaction which record includes the name of such customer, the name, amount and price of the security, and the date and time when such transaction took place.

(c) Each member shall keep or preserve for at least two years such records as such member may be required to make pursuant to the provisions of paragraph (b) of this rule.

16. A member who is participating or who is otherwise financially interested in the primary or secondary distribution of any security which is not admitted to trading on a national securities exchange, shall make no representation that such security is being offered to a customer "at the market" or at a price related to the market price unless such member knows or has reasonable grounds to believe that a market for such security exists other than that made, created, or controlled by such member, or by any person for whom he is acting or with whom he is associated in such distribution, or by any person controlled by, controlling or under common control with such member.

17. (a) No member, participating or otherwise financially interested in the primary or secondary distribution of any security of any issuer, shall,

(1) pay or offer or agree to pay, directly or indirectly, to any person any compensation for soliciting another to purchase any security of the same issuer on a national securities exchange, or for purchasing any security of the same issuer on any such exchange for any account other than the account of the member who pays or is to pay such compensation; or

(2) sell, offer to sell or induce an offer to buy such security, or deliver such security after sale, if, in connection with such distribution, such member has paid, or has offered or agreed to pay, directly or indirectly, to any person, any compensation for soliciting another to purchase any security of the same issuer on any national securities exchange, or for purchasing any security of the same issuer on any such exchange for any account other than the account of the member who has paid or is to pay such compensation.

(b) No member, participating or otherwise financially interested in the primary or secondary distribution of any security of any issuer, shall cause a purchase or sale of any security of the same issuer on a national securities exchange by paying or offering or agreeing to pay, directly or indirectly, to any person any compensation for soliciting another to purchase such security on any such exchange, or for purchasing such security on any such exchange for any account other than the account of the member who pays or is to pay such compensation.

(c) The provisions of this rule shall not apply in respect to any salary paid by a member to any person regularly employed by him whose ordinary duties include the solicitation or execution of brokerage orders on a national securities exchange, if such salary represents only ordinary compensation for the discharge by such person of such duties in the regular course of his employment, and is not paid, in whole or in part, directly or indirectly, for the inducement by such person of the purchase or sale on a national securities exchange of any security of the issuer of the security in the primary or secondary distribution of which such member is participating or otherwise financially interested.

18. No member shall effect any transaction in, or induce the purchase or sale of, any security by means of any manipulative, deceptive or other fraudulent device or contrivance.

19. (a) No member shall make improper use of a customer's securities or funds.

(b) No member shall lend, either to himself or to others, securities of any customer unless such member shall first have obtained a separate written authorization from such customer permitting the lending of securities held for his account by such member.

(c) No agreement between a member and a customer authorizing the member to pledge securities carried for the account of

the customer either alone or with other securities, either for the amount due thereon or for a greater amount, shall justify the member in pledging more of such securities than is fair and reasonable in view of the indebtedness of said customer to said member.

20. (a) No member shall take or carry any account, or make a transaction for any customer under any arrangement which contemplates or provides for the purchase of any security for the account of the customer or for the sale of any security to the customer, where payment for the security is to be made to the member by the customer over a period of time in installments or by a series of partial payments, unless:

(1) in the event such member acts as an agent or broker in such transaction he shall, immediately, in the regular course of business, make an actual purchase of the security for the account of the customer, and shall immediately, in the regular course of business, take possession or control of such security and shall maintain possession or control thereof so long as he remains under obligation to deliver the security to the customer;

(2) in the event such member acts as a principal in such transaction, he shall, at the time of such transaction own such security and shall maintain possession or control thereof so long as he remains under obligation to deliver the security to the customer;

(3) the provisions of Regulation T of the Federal Reserve Board, if applicable to such member, are satisfied.

(b) No member, whether acting as principal or agent, shall, in connection with any transaction referred to in this rule, make any agreement with his customer under which such member shall be allowed to pledge or hypothecate any security involved in such transaction for any amount in excess of the indebtedness of the customer to such member.

21. A member shall keep and preserve all books, accounts, records and correspondence with customers, made with respect to and in the regular course of his business, for a period of at least two years.

22. (a) A member shall make available to inspection by any bona fide regular customer, upon request, the information relative to such member's financial condition as disclosed in its most recent balance sheet prepared either in accordance with such member's

usual practice or as required by any State or Federal securities laws, or any rule or regulation thereunder.

(b) As used in paragraph (a) of this rule, the term "customer" means any person who, in the regular course of such member's business, has cash or securities in the possession of such member.

23. No member shall offer any security or confirm any purchase or sale of any security, from or to any person not actually engaged in the investment banking or securities business at any price which shows a concession, discount, or other allowance, but shall offer such security and confirm such purchase or sale at a net dollar or basis price.

24. Selling concessions, discounts, or other allowances, as such, shall be allowed only as consideration for services rendered in distribution and in no event shall be allowed to anyone other than a broker or dealer actually engaged in the investment banking or securities business; provided, however, that nothing in this rule shall prevent any member from selling any security owned by him to any person at any net price which may be fixed by him unless prevented therefrom by agreement.

25. (a) No member shall deal with any non-member broker or dealer except at the same prices, for the same commissions or fees, and on the same terms and conditions as are by such member accorded to the general public.

(b) Without limiting the generality of the foregoing, no member shall

(1) in any transaction with any non-member broker or dealer, allow or grant to such non-member broker or dealer any selling concession, discount or other allowance allowed by such member to a member of a registered securities association and not allowed to a member of the general public;

(2) join with any non-member broker or dealer in any syndicate or group contemplating the distribution to the public of any issue of securities or any part thereof; or

(3) sell any security to or buy any security from any non-member broker or dealer except at the same price at which at the time of such transaction such member would buy or sell such security, as the case may be, from or to a person who is a member of the general public not engaged in the investment banking or securities business.

(c) The provisions of paragraphs (a) and (b) of this rule shall not apply to any non-member broker or dealer in a foreign coun-

try who is not eligible for membership in a registered securities association, but in any transaction with any such foreign non-member broker or dealer, where a selling concession, discount, or other allowance is allowed, a member shall as a condition of such transaction secure from such foreign broker or dealer an agreement that, in making any sales to purchasers within the United States of securities acquired as a result of such transaction, he will conform to the provisions of paragraphs (a) and (b) of this rule to the same extent as though he were a member of the Corporation.

(d) For the purpose of this rule, the term "non-member broker or dealer" shall include any broker or dealer who makes use of the mails or of any means or instrumentality of interstate commerce to effect any transaction in, or to induce the purchase or sale of, any security, otherwise than on a national securities exchange, who is not a member of any securities association, registered with the Commission pursuant to Section 15A of the Act, except a broker or dealer who deals exclusively in commercial paper, bankers' acceptances or commercial bills.

(e) Nothing in this rule shall be so construed or applied as to prevent any member of the Corporation from granting to any other member of any registered securities association any dealer's discount, allowance, commission, or special terms.

ARTICLE IV

Complaints

Section 1. Every member of the Corporation shall keep in each office maintained by him, in the form to be supplied by the Board of Governors, a copy of the Certificate of Incorporation, By-Laws, Rules of Fair Practice, and Code of Procedure of the Corporation, and of all additions and amendments from time to time made thereto, and of all interpretative rulings made by the Board of Governors, all of which shall be available for the examination of any customer who makes request therefor.

Section 2. Any person feeling aggrieved by any act, practice or omission of any member of the Corporation, which such person believes to be in violation of any of the Rules of Fair Practice of the Corporation, may, on the form to be supplied by the Board of Governors, file a complaint against such member in regard thereto with any District Business Conduct Committee of the Corporation, and any such complaint shall be handled in accordance with the Code of Procedure of the Corporation.

Section 3. Any District Business Conduct Committee which, on information and belief, is of the opinion that any act, practice, or omission of any member of the Corporation is in violation of any of the Rules of Fair Practice of the Corporation, may, on the form to be supplied by the Board of Governors, file a complaint against such member in regard thereto with itself or with any other District Business Conduct Committee of the Corporation, as the necessities of the complaint may require, and any such complaint shall be handled in accordance with the Code of Procedure and in the same manner as if it had been filed by an individual or member.

Section 4. For the purpose of any investigation or any hearing of any complaint against any member of the Corporation, made or held in accordance with the Code of Procedure, any local Business Conduct Committee, any District Business Conduct Committee, or the Board of Governors, or any duly authorized member or members of any such Committees or Board, or any duly authorized agent or agents of any such Committees or Board shall have the right (1) to require such member of the Corporation to submit a report in writing with regard to any matter involved in any such investigation or hearing, and (2) to investigate the books, records and accounts of any such member of the Corporation with relation to any matter involved in any such investigation or hearing. Any refusal on the part of any such member of the Corporation to make any report as required in this Section, or to permit any inspection of books, records and accounts as may be validly called for under this Section, shall be sufficient cause for suspending or canceling the membership of such member in the Corporation.

Section 5. For the purpose of determining whether it should file a complaint against any member of the Corporation pursuant to Section 3 of this Article, any District Business Conduct Committee, or any duly authorized Local Business Conduct Committee, or any duly authorized member or members of any such Committees, or any duly authorized agent or agents of any such Committees, shall have the right (1) to require such member of the Corporation to submit a report in writing with regard to any matter involved in any such investigation, and (2) to inspect the books, records and accounts of any such member of the Corporation with relation to any matter involved in any such investigation. Any refusal on the part of such member of the Corporation to make any report as required in this Section, or to permit any inspection of books, records and accounts as may be validly called for under this

Section, shall be sufficient cause for suspending or canceling the membership of such member in the Corporation.

ARTICLE V

Penalties

Section 1. Any District Business Conduct Committee, or the Board of Governors, in the administration and enforcement of the Rules, and after compliance with the Code of Procedure, may (1) censure any member, (2) impose a fine not in excess of Five Hundred Dollars (\$500.00) upon any member, (3) suspend the membership of any member for a definite period, and/or (4) cancel the membership of any member, for any violation of any of the Rules, or for any neglect or refusal to comply with any orders, directions or decisions issued by any District Business Conduct Committee or by the Board of Governors in the enforcement of the Rules, including any interpretative ruling made by the Board of Governors, as any such Committee or Board, in its discretion, may deem to be just; provided, however, that no such penalty imposed by any District Business Conduct Committee shall take effect for sixty days after the date of the notice thereof sent to the Complainant and the Respondent, as required by the Code of Procedure; and provided, further, that both parties to any proceeding resulting in a penalty shall be deemed to have assented to or to acquiesce in the imposition of such penalty unless any party aggrieved thereby shall have made application to the Board of Governors for review, pursuant to the Code of Procedure, within thirty days after the date of such notice.

Section 2. All fines imposed pursuant to Section 1 of this Article shall be paid to the Treasurer of the Corporation and shall be used for general corporate purposes.

ARTICLE VI

The List

The Secretary of the Corporation shall furnish every office of every member of the Corporation a list of all members of the Corporation, and shall currently keep every office of every member advised, by amendments to the list, of all new members and of all suspensions and cancellations of membership. For the purpose of complying with Rule 25, a member shall be entitled to rely on such list as last amended.

CODE OF PROCEDURE FOR HANDLING TRADE PRACTICE COMPLAINTS

OF

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

Section 1. This Code of Procedure is prescribed for handling trade practice complaints in regard to violations of the rules of fair practice and the supplemental local rules of fair practice (hereinafter sometimes referred to as the "rules") or any amendment, modification, interpretation, or explanation thereof, adopted pursuant to Article VII of the By-Laws of the Corporation.

Section 2. The fourteen District Business Conduct Committees of the Corporation and the Board of Governors shall constitute the bodies empowered to hear and pass upon all complaints in regard to violations of the Rules. The District Business Conduct Committees shall have original jurisdiction in handling such complaints and the Board of Governors shall act as an appellate and review body, all functioning in accordance with the procedure hereinafter set forth.

Section 3. In the ordinary course, complaints shall be heard by the District Business Conduct Committee of the district in which is located the principal office of the Respondent, unless such Respondent, in writing, consents to the complaint being heard by some other District Business Conduct Committee; provided, however, that if the act, practice, transaction, or omission to act, which constitutes the basis of such complaint, was effected by or through any branch office of such Respondent, such complaint shall be heard by the District Business Conduct Committee of the district in which such branch office of the Respondent is located.

For the purpose of proceedings hereunder, the principal office of the Respondent shall be the principal office of such Respondent designated in his application for membership.

Section 4. All complaints shall be made in writing, on the form to be supplied by the Board of Governors, and shall specify in reasonable detail the nature of the charges and the rule or rules, or any amendment, modification, interpretation or explanation

thereof, allegedly violated. The party making the complaint shall be termed the "Complainant," and the party against whom the complaint is made shall be termed the "Respondent." If the complaint consists of several matters or items, each matter or item shall be stated separately. All complaints must be signed by the Complainant and may be directed to any District Business Conduct Committee.

Section 5. If the complaint is filed with a District Business Conduct Committee of a district other than the district where the complaint is to be heard, as provided in Section 3, such Committee shall first make such preliminary investigation with regard to such complaint as it may deem practicable and necessary, and shall then forward the complaint, together with a report of its investigation, if any, to the District Business Conduct Committee entitled to hear such complaint as provided in Section 3.

Section 6. If the complaint is filed with the District Business Conduct Committee entitled to hear such complaint, as provided in Section 3, or if a complaint is forwarded to such Committee by another District Business Conduct Committee, as provided in Section 5, such Committee shall, on the form to be supplied by the Board of Governors, forthwith send notice in writing of the receipt of such complaint, together with a copy of such complaint, to the Respondent, and shall require the Respondent to answer thereto.

Section 7. (a) All answers to complaints shall be in writing, on the form to be supplied by the Board of Governors, and shall be submitted to the District Business Conduct Committee within ten business days from the date of the notice sent to the Respondent pursuant to Section 6, unless such District Business Conduct Committee, in its discretion, shall extend such ten-day period. Such Committee, upon the receipt of the answer of the Respondent, shall forthwith, on the form to be supplied by the Board of Governors, send notice in writing of the receipt of such answer, together with a copy of such answer, to the Complainant.

(b) If no answer shall be received by such Committee within the time required, such Committee shall send a second notice, on the form to be supplied by the Board of Governors, to such Respondent by registered mail, with return receipt requested, requiring an answer within five business days from the date of such second notice, or within such longer period as the Committee in its discretion may determine, and stating that failure of the Respondent to reply thereto within the period specified in such second notice, may

be treated by such Committee as an admission of the allegations of the complaint. If no answer is received by such Committee within the time required by such second notice, then the Committee may consider the allegations of the complaint as admitted by the Respondent.

Section 8. Upon the filing of an answer and due notice thereof to the Complainant, as provided in Section 7 (a), either the Complainant or the Respondent may request a hearing before the Committee entitled to hear the complaint, and in case such request is made, a hearing shall be granted, after reasonable notice to both Complainant and Respondent. In the absence of any such request for a hearing, however, such Committee may, in its discretion, have any complaint set down for hearing, after reasonable notice to both Complainant and Respondent, if it deems such action necessary or appropriate.

Section 9. If a hearing is had pursuant to Section 8, both the Complainant and the Respondent shall be entitled to be heard in person and by counsel and to submit any relevant matter which they may desire to present. In any such proceeding a record shall be kept.

Section 10. If an investigation or hearing is necessary at any place other than in the district of the Committee receiving the complaint or in the district of the Committee entitled to hear the complaint, as provided in Section 3, the Board of Governors, upon the request of any District Business Conduct Committee, may require such investigation or hearing to be made or held by such other District Business Conduct Committee in such other district as the necessities of the particular complaint may require. Any such hearings shall be conducted as nearly as possible in accordance with the procedure herein set forth for regular hearings by District Business Conduct Committees. Any District Business Conduct Committee making such an investigation or holding such a hearing, shall prepare a report in writing of the facts adduced, of findings based upon such facts, and of its recommendation, but in any case where the facts or findings are such as not to justify a recommendation, the report may omit such recommendation.

Section 11. If any District Business Conduct Committee, after hearing, or opportunity for hearing, or failure of the Respondent to file an answer, as hereinabove provided, shall be of the opinion that a violation as charged in the complaint has occurred, it may impose any penalty against the member provided for in Section 1

of Article V of the Rules, which such Committee may, in its discretion, deem to be just. Any such determination by such Committee that a member shall be disciplined shall be in writing and shall include (A) a statement setting forth any act or practice in which such member may be found to have engaged, or which such member may be found to have omitted, (B) a statement setting forth the specific rule or rules of the Corporation of which any such act of practice, or omission to act, is deemed to be in violation, (C) a statement whether the acts or practices prohibited by such rule or rules, or the omission of any act required thereby, are deemed to constitute conduct inconsistent with just and equitable principles of trade, and (D) a statement setting forth the penalty imposed. If such Committee, however, shall be of the opinion that no violation, as charged in the complaint, has occurred, it shall in writing dismiss the complaint. Both the Complainant and the Respondent shall be promptly notified of, and be sent a copy of, any written decision rendered hereunder.

Section 12. If the Respondent in his answer, or upon hearing held as hereinabove provided, admits the violation as charged, and if the District Business Conduct Committee handling such complaint shall be of the opinion that the case may properly be disposed of as provided herein, such Committee may, in its discretion, with the consent of the Complainant, and upon such other terms and conditions as it may deem appropriate, accept a statement in writing from the Respondent pledging future observance and compliance, and acceptance of such a statement by such Committee and compliance with such terms and conditions, if any, by such Respondent, shall terminate the proceedings with respect to the complaint, subject, however, to the right of review by the Board of Governors as hereinafter provided.

Section 13. Each District Business Conduct Committee shall promptly notify the Secretary of the Corporation, on the form to be supplied by the Board of Governors, of all complaints received, and such officer shall docket all complaints so reported to him in a docket book, which shall be known as the Complaint Docket. District Business Conduct Committees, on the form to be supplied by the Board of Governors, shall also promptly notify the Secretary of the Corporation of the disposition of every complaint filed, which notification shall also be entered in the Complaint Docket.

Section 14. If a District Business Conduct Committee shall take any disciplinary action against any member, or shall dismiss any

complaint, or shall accept a statement pledging future observance and compliance, as hereinabove provided, such action or dismissal or acceptance of such statement shall be subject to review by the Board of Governors on its own motion within sixty days after the date of the notice required by Section 11 hereof or within sixty days after the date of the acceptance of a statement under Section 12 hereof. Any such action or dismissal shall also be subject to review upon application by any person aggrieved thereby, filed within thirty days after the date of the notice required by Section 11 hereof. Application to the Board of Governors for review, or the institution of review by the Board of Governors on its own motion, shall operate as a stay of any such action or dismissal or acceptance of a statement, until a decision is rendered by the Board of Governors upon such review as hereinafter provided.

Section 15. (a) In any proceeding to review any disciplinary action taken by a District Business Conduct Committee against any member, if the Board of Governors after appropriate notice and opportunity for hearing, upon consideration of the record before such District Business Conduct Committee, and of such other evidence as it may deem relevant, shall (A) find that such member has engaged in such acts or practices, or has omitted such act, as the District Business Conduct Committee has found him to have engaged in or omitted, and (B) shall determine that such acts or practices or omission to act, are in violation of such rules of the Corporation as have been designated in the determination of the District Business Conduct Committee, the Board of Governors, shall, in writing, affirm the determination of such District Business Conduct Committee, unless it appears to the Board of Governors that such determination should be modified in accordance with clause (b) of this section. If it appears to the Board of Governors that the evidence does not warrant the finding required in clause (A) or if the Board of Governors shall determine that such acts or practices as are found to have been engaged in are not prohibited by the designated rule or rules of the Corporation, or that such act as is found to have been omitted is not required by such designated rule or rules, the Board of Governors shall, in writing, reverse the action taken by such District Business Conduct Committee.

(b) In any proceeding to review any disciplinary action taken by a District Business Conduct Committee against any member, if the Board of Governors, after appropriate notice and opportunity for hearing, upon consideration of the record before such

District Business Conduct Committee, and of such other evidence as it may deem relevant, finds that any disciplinary action taken by such District Business Conduct Committee against any member is inadequate, excessive or oppressive, the Board of Governors shall, in writing, increase, reduce, modify or cancel such disciplinary action.

Section 16. In any proceeding to review the action of a District Business Conduct Committee in dismissing any complaint against a member, or in accepting any statement pledging future observance and compliance, if the Board of Governors, after appropriate notice and opportunity for hearing, upon consideration of the record before the District Business Conduct Committee and of such other evidence as it may deem relevant, shall determine that the member should have been disciplined, it may set aside the action taken by the District Business Conduct Committee and may impose any penalty upon the member provided for in Section 1 of Article V of the Rules of Fair Practice, which the Board of Governors may, in its discretion, deem to be just; provided, however, that any such determination shall include (A) a statement setting forth any act or practice in which such member may be found to have engaged, or which such member may be found to have omitted, (B) a statement setting forth the specific rule or rules of the Corporation of which any such act or practice, or omission to act, is deemed to be in violation, (C) a statement whether the acts or practices prohibited by such rule or rules, or the omission of any act required thereby, are deemed to constitute conduct inconsistent with just and equitable principles of trade, and (D) a statement setting forth the penalty imposed. If the Board of Governors, after appropriate notice and opportunity for hearing, and upon consideration of the record before the District Business Conduct Committee and of such other evidence as it may deem relevant, shall be of the opinion that the member should not have been disciplined, it shall in writing affirm the action taken by the District Business Conduct Committee.

Section 17. In any proceeding to review any disciplinary action taken by a District Business Conduct Committee against any member, or in any proceeding to review any dismissal of a complaint or any acceptance of a statement pledging future observance and compliance, by any District Business Conduct Committee, if the Board of Governors, upon consideration of the record before any such District Business Conduct Committee, and of such other evi-

dence as it may deem relevant shall be of the opinion that such action is necessary or appropriate, it may, in writing, remand any such case to the appropriate District Business Conduct Committee for further proceedings in accordance with its order.

Section 18. Both the Complainant and the Respondent shall be promptly notified of, and be sent a copy of, any written decision rendered by the Board of Governors under Sections 15, 16 or 17 hereof.

Section 19. In any case where either the Complainant or the Respondent feels aggrieved by any disciplinary action taken or approved by the Board of Governors against any Respondent, either the Complainant or the Respondent may make application for review to the Securities and Exchange Commission in accordance with Section 15A of the Securities Exchange Act of 1934, as amended.

Section 20. In all cases where a District Business Conduct Committee accepts a statement pledging future observance and compliance, it shall be the duty of such District Business Conduct Committee to investigate later and determine whether all terms and conditions have been satisfied and whether compliance has been actually effected.

Section 21. (a) In conducting any investigation regarding any complaint or in holding any hearing in regard thereto, the Board of Governors or any District Business Conduct Committee may act, by one or more of its members designated for the purpose by its Chairman, but in any such event any determination shall be submitted to the full Board or Committee for final action.

(b) Any District Business Conduct Committee may also refer any complaint which it is entitled to hear under Section 3, to a Local Business Conduct Committee in its district for investigation or hearing if the District Business Conduct Committee, in its discretion, is of the opinion that such reference is appropriate in view of the nature of the complaint, the location of the office of the Respondent complained of, and the location of the members of such Local Business Conduct Committee. In conducting any investigation or hearing on any such complaint, a Local Business Conduct Committee shall conform as nearly as practicable to the procedure provided herein for District Business Conduct Committees; provided, however, that any determination of any such Local Business Conduct Committee shall be submitted to the District Business Conduct Committee for final action.

(c) In conducting any investigation or in holding any hearing in regard to any complaint referred to it pursuant to sub-section (b) of this Section, a Local Business Conduct Committee may act by one or more of its members designated for the purpose by the Chairman of such Committee, but in any such event any determination shall be submitted to the full Committee for final action.

(d) District Business Conduct Committees and the Board of Governors may take final action on a complaint only on a majority vote of any such Committee or Board.

Section 22. No member of the Board of Governors or of any District Business Conduct Committee or of any Local Business Conduct Committee shall in any manner, directly or indirectly, participate in the determination of any complaint affecting his interest or the interests of any person in whom he is directly or indirectly interested. In any case where such an interest is involved, the particular member shall disqualify himself, or shall be disqualified by the Chairman of any such Board or Committee.

Section 23. No communication from any person or any member addressed to any District Business Conduct Committee with respect to or involving any grievance against any member, shall be deemed to be a privileged communication and any such communication may be dealt with by said Committee as it may deem just and proper under the circumstances.

Section 24. All records of Local Business Conduct Committees, of District Business Conduct Committees and of the Board of Governors, having to do with complaints, shall be opened to inspection by any duly authorized agent of the Securities and Exchange Commission.

Section 25. Nothing contained in this Code of Procedure nor in any amendment hereto shall be construed as limiting any rule of fair practice of the Corporation.

Section 26. This Code of Procedure may be altered, amended, modified, or canceled by a majority vote of the Board of Governors, unless such alteration, amendment, modification, or cancellation is disapproved by the Securities and Exchange Commission as provided in Section 15A of the Securities Exchange Act of 1934, as amended.