

The high level of financial responsibility of our member organizations, which has been outstanding on a worldwide basis for many years, was expanded in 1964 by the establishment of a special trust fund program totaling \$25 million. The Trustees of the special trust fund, with assets of over \$10 million, may, in their discretion, assist customers of any member organization who may be threatened with loss of their funds or securities because of the financial condition or insolvency of the member organization. The establishment of this program followed the remarkable action of the Exchange community in providing \$9.5 million to assist the customers of Ira Haupt & Co. following its failure. Another change arising from this experience was a tightening in several ways of our barriers against the possible influence of commodities losses on securities customers. The Board of Governors in late 1960 deposited approximately \$800,000 to assist the customers of du Pont, Homsey & Company when that firm went into receivership.

In January 1961, the Exchange adopted an expanded mandatory fidelity insurance program for member organizations. Probably the most significant aspect of this program is that it provides for coverage of general partners of member firms. Previously, fidelity insurance covering general partners had not been generally available. In March 1961, the Exchange itself took out "excess" fidelity bonds totaling \$10,000,000, which would come into play should the resources of a member organization and its general partners become exhausted as a result of a fraudulent or dishonest act.

Also significant was the enactment of a rule requiring member organizations to send at least a quarterly statement to all customers who have any money or security balance in the custody of the firm during the preceding period. Most firms voluntarily sent monthly statements before the rule was enacted, but the rule ensured that all customers would be furnished this information. Previously, member organizations were required to send such a statement only at the time of an annual audit.

Investors were further benefited recently when the Exchange permitted members brokers to offer life insurance on customers' debit balances in margin accounts.

The Exchange just enacted a rule requiring member organizations to show on customers' statements the rates and amount of interest charged on debit balances. This voluntary step provides the type of disclosure which would be required under the "truth in lending" legislation presently before the Congress.

There is one area, however, where progress has not been satisfactory, although we have tried to bring about reforms. I refer to the "unregulated lender" who can finance securities transactions unhampered by Regulations T and U of the Federal Reserve System. You will recall my testimony in 1961 indicated the concern with which we viewed the unhealthy effect on securities markets this unregulated lending can have. Regrettably, little has been accomplished as the Board of Governors of the Federal Reserve System seems to think the unregulated lender is not as significant a part of the securities credit system as we do. You may have noted recent press comment on the unregulated lender or "factor," who has become more active as current market levels attract persons desiring the high leverage this type of credit affords. As I am sure you know, the SEC Special Study also highlighted this practice, recommending that restraint be placed upon such lenders. As the enclosed circulars state, member organizations may not assist customers in arranging credit from these lenders contrary to Regulation T. However, this is an area where we believe further action at the Federal level is still required.

2. Advertising Department

This department regulates Exchange standards for member organization communications with the public and formulates the Exchange's own national advertising program.

In September 1963, we significantly strengthened and expanded our already substantial rules governing advertising, sales literature, market letters, research reports, writing and speaking activities. A copy of these rules is enclosed. In particular we expanded the regulation of research activities, of promotion of past recommendations, of the use of testimonials, disclosure, identification of sources and portfolio analysis. A system of spot-checking our disclosure requirements and the possibility of trading against recommendations was instituted. In 1962, for example, the Exchange staff reviewed 6,000 pages of member firm investment literature. In 1966, more than 25,000 pages of this material was reviewed.