

1923

## Work of the cashier's cage

Association of American Portland Cement Manufacturers

Portland Cement Association

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# THE WORK OF THE CASHIER'S CAGE

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CASHIER'S CAGE

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## PREFACE

### THE WORK OF THE CASHIER'S CAGE

THE constantly increasing activity in the Bond business during the last year has witnessed a commensurate augmentation in the membership of this Association.

The stress of business imposed internal difficulties upon new firms, among them being the regulation of their Accounting and Cashiers' Departments.

It is for that group of associates, rather than for the older members, that this monograph on the "Work of the Cashier's Cage" has been prepared. It is hoped, also, that the suggestions contained in this booklet may assist the older cashiers in expediting their accounting work.

The description of accounting procedure given in this book is taken, by permission of the publishers, from the author's book on WALL STREET ACCOUNTING, published by The Ronald Press Company, New York, to which the reader is referred for a fuller treatment of this part of the subject.

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THE WORK OF THE  
CASHIER'S CAGE

## CHAPTER I

### Qualifications of a Cashier

A GRADUATE of a commercial college applied to a Bond house for the position of cashier left vacant during the war. His previous experience in commercial work, coupled with a knowledge of general bookkeeping, led him to believe that he was eminently qualified for the Cashiership. A few practical questions on the technique of the bond business found the aspirant totally at sea concerning routine matters, and the advertisement had to appear for a second time.

Just what is it that a cashier needs to possess in knowledge to qualify as an efficient employee of a bond house?

First, he must command a knowledge of the classification of securities; better, he must have handled them in the successive steps of his clerkship. It is necessary that he know how to arrange the firm's finances; what securities in the parlance of the "Street" are "good" or "bad" deliveries; how to handle bank loans and substitutions; how and when to transfer securities; how to prepare the proper ownership certificates

incidental to the collection of coupons, and he need know a myriad of other matters of the technic of the business that only years of experience and close application of the work can teach. Above all, the highest degree of integrity is demanded.

## CHAPTER II

### **The Scope of the Bond Business**

It is only necessary to read Mr. Lawrence Chamberlain's volume on "The Principles of Bond Investments" or his book known as the "Work of the Bond House" or the works of Lagerquist or Jordan on investments to obtain an idea as to the importance and scope of the bond business.

Wholesaling and retailing bonds would be merely one of many highly developed forms of merchandising, were it not for the other functions performed by the modern bond dealer. In every purchase and sale of securities, there might arise incidental exchange of one type of bond for another, or the sale of some old holdings of shares, the proceeds of which are being used for the acquisition of securities offered by bond salesman.

The bond dealer to-day must not only command a knowledge of his own wares, but must be in a position to advise clients as to the profitableness of holding previously acquired stocks and bonds. This naturally leads him into the

business of buying and selling, or exchanging stocks, as well as buying and selling bonds.

Every transaction into which he enters on behalf of his customer must be properly recorded. Thus, his Accounting Department must have such records as will properly record all transactions resulting from his retailing activities. Hence, the first phase of this booklet will discuss briefly the records required by the accounting division.

## CHAPTER III

### Accounting Records

CUSTOMERS are wont to give orders for the purchase and sale of securities in various ways. The first book which suggests itself therefore, comprehends the proper entry of such orders which are placed with the bond dealer.

#### KINDS OF ORDERS.

1. A customer may order a purchase or sale of securities to be executed at the market. This means that the broker is to fill the order immediately regardless of the price he is compelled to pay, or the price he is able to obtain, since it is the customer's intention that the purchase or sale be completed at the best possible offer.
2. The order may be entered at a specified or limited price. This means that the broker is compelled to follow the instructions of his client, and, if the transaction is a sale, obtain for him the price the customer has specified, or a better price if conditions permit at that particular moment.

In the event of a purchase, the broker may pay only the price indicated in the order, and if he is able to buy more cheaply, the customer receives the benefit of the better price.

3. Another form of order placed by the customer is known as the "stop-loss" order. This has reference to the policy pursued by some speculators of limiting their possible losses. After the purchase of certain shares, the tendency of the market may turn downward. To prevent a total loss of margin the customer gives his broker a stop-loss order to sell at a price which is invariably lower than the current market price. Such an order is not fulfilled until this lower price is reached, in which case its immediate execution becomes necessary. Similarly a stop-loss buying order, which is usually employed to protect a short position becomes a market order whenever a sale takes place at the price specified or any higher price.

#### ACCOUNTING FOR ORDERS.

For accounting purposes, the clerk in charge of the order book keeps a record of the date upon which the order is received; the time it is entered; the name of the customer and the duration of the order; the number of shares to be bought or sold; the name of the securities; the price at which they are to be bought or sold; the date of cancellation, if the order is canceled



before its execution, or in the event of execution, the price at which the purchase or sale is made.

The entries in the order book are taken from the original slips filed by the salesmen or by the manager of the Selling Department. Upon the date the order is received, a confirmation thereof is sent to the customer, reading somewhat as follows:—

*New York.....192*

FRED SMITH, Esq.,  
Brooklyn, N. Y.

Dear Sir:—

We beg to confirm having this day received your order to:

BUY  
SELL

\$50,000 third liberty  $4\frac{1}{4}\%$  bonds at par  
and  $\frac{5}{8}$

which order we are considering  
good until canceled  
good until March 28, 1922.

Please advise us by wire AT ONCE  
of any discrepancies in the above.

JOHN JONES & Co.

#### CUSTOMERS' NOTICES.

Following the execution of an order, the customer is advised that there were purchased, or sold, for his account the securities listed below. Usually, the cost thereof, in the case of a purchase, or the proceeds, in the case of a sale, are indicated on the customer's notice.

## PURCHASE AND SALES RECORDS.

The purchase and sale are simultaneously entered in a Purchase and Sales Book, the arrangement of which is as follows:—

PURCHASE SIDE	SALES SIDE
From whom bought, quantity, description, price and name of customer.	To whom sold, quantity, description price and name of customer.

Where the sale was made to the customer by the bond dealer, there would be no necessity of entering the name of the broker from whom purchased. To give the double entry aspect to the transaction, the Sales Side would indicate that an equivalent number of bonds were sold for the bond dealer's account. The illustration below will clarify the above exposition:—

Fred Smith bought \$10,000. Atlanta Terminal 6% Bonds, due June, 1953, at 101; the seller, being John Jones & Co.

The entry in the Purchase and Sales Book would recite the facts as follows:—

PURCHASE SIDE	SALES SIDE
Bought \$10,000. Atlanta Terminal 6's of 1953 at 101 for the account of Fred Smith.	\$10,000. Atlanta Terminal 6's of 1953 sold at 101 for the account of Firm Investment Account Atlanta Terminal 6's

## BLOTTER OR CASH BOOK.

As a matter of expediency, Wall Street has discarded the old fashioned cash book commonly

found in the mercantile business. Due to the fact that two clerks could not use the one book at the same time, there has been adopted a combination of Journal and Cash Book known as the "Blotter."

The Purchase and Sales Book is a record book of closed transactions; the Blotter gives financial expression to the purchase and sales made in the course of business.

As an example, the purchase and sale of the Atlanta Terminal 6% bonds would appear on the Blotter as follows, assuming that the date of purchase was on February 22d:—

RECEIVE (DEBIT SIDE)

\$10,000. Atlanta Terminal 6's of 1953 at 101 . . . . .	\$10,100.00
Interest. . . . .	163.33
Total Amount . . . . .	<u>\$10,263.33</u>
Account to be charged Fred Smith.	

DELIVER (CREDIT SIDE)

\$10,000. Atlanta Terminal 6's of 1953 at 101 . . . . .	\$10,100.00
Interest. . . . .	163.33
Total Amount . . . . .	<u>\$10,263.33</u>
for the account of Firm Investment, Account Atlanta Terminal 6's.	

Suppose we take another case for example:

John Jones & Co. bought on the exchange 10M Atlanta Terminal 6s 1953 at 101; the other broker (seller) being R. Brown & Co. R. Brown & Co. should deliver to John Jones & Co. the next day 10M Atlanta Terminal 6s 1953

against receiving a check for \$10,263.33. The entry would appear on John Jones & Co.'s Blotter as follows:—

RECEIVED SIDE

\$10,263.33—\$15.00 Com. Charge acct. of  
Fred Smith \$10,278.33

on the Delivered Side the bonds would be shown as going out to Fred Smith, or to the firm's safe-keeping box if they were paid for, or to loans if he had not paid in full. The \$15.00 would be posted to commission  $\frac{1}{2}\%$  credit.

This Blotter or Cash Book is used not only for the financial recording of Receipts and Deliveries of securities, but also for the receipt and disbursement of any cash that might pass in the course of business. The cash receipts appear on the Credit or Deliveries page of the Blotter while the cash disbursements appear on the Debit or Receive page.

It might be stated that it is not imperative to adopt the Blotter system for recording values. The Cash Book could be used to the same good advantage, although it might be somewhat more cumbersome in the matter of recording securities received from, or delivered to customers.

The Blotter will be touched upon in greater detail as we progress with the work of the Cashier's Cage.

LEDGERS.

The ruling of the Ledger is unlike ordinary ruling in a ledger, in that sufficient space should

be provided for showing the net debit and credit daily balances in the account. Also columns for showing the accrued interest to be charged or credited to the account.

It is also helpful to have the amounts of bonds or shares of stock shown in separate columns, debit to show bonds or stock bought or long, credit showing bonds or stocks sold or short.

#### CUSTOMERS' STATEMENTS.

When it is necessary to carry open accounts for customers over a period of time, the practice is to send monthly statements showing the debit balance and the securities carried for the account of the customers. It is also usual in this business to charge interest on advances made for, and on behalf of the customer. Such interest charges appear on the monthly statement, and are invariably added to the previously stated indebtedness, giving the interest element the complexion of compounding from month to month.

## CHAPTER IV

### Cashier's Department

#### CASHIER'S DUTIES.

THE head of the Cage begins his activities on the day following the purchase or sale of securities.

His duty to account for every share of stock and for every bond is by no means a simple one. Of necessity, his "Cage" must be an orderly counterpart of the office, while his records must recite clearly the facts concerning the income, outgo and present location of securities.

#### HIS RECORDS.

Since a general exposition on the accounting media employed by the cashier would not be sufficiently enlightening to the reader, reference to typical transactions will be made in the interest of greater clarification.

#### *The Blotter:*

The cashier receives the Blotter sheets recording purchases and sales made on the previous day, with all money values, namely, the total

cost or net proceeds of transactions, stated in the respective monetary columns.

If all purchases and sales contracted for were to be received from, or delivered to, the brokers with whom deals were closed, no great amount of detailed work would follow. He would have on hand all securities purchased, against the receipt of which he would have made payments to the delivering brokers; or he would have drawn on the securities within his control to supply the wherewithal to make delivery against sales for which he will have received payment from receiving brokers. But practical experience teaches that the cashier's problems are much more involved than the hypothetical case above cited.

The following incidental issues might accompany the purchase or sale of bonds:—

- I. Outright purchase made by a customer who might direct
  - (a) That the securities so purchased be shipped to him.
  - (b) That they be kept in the custody of the dealer for safekeeping.
  - (c) That the bonds be registered as to interest or principal, or as to both interest and principal; that registered bonds be converted into coupon bonds, or vice versa.
  - (d) That the securities so purchased be shipped him draft attached.
  - (e) That the securities so purchased be shipped to a correspondent or to the customer's bank for his account.

- II. Sale of securities previously acquired, the proceeds of which to be applied against a more recently made purchase. In this case, the securities received for sale may be in
- (a) The dealer's possession
  - (b) The customer's possession
  - (c) In bank loans
- III. If the securities to be sold be shares of stock, then
- (a) The question of transfer might arise to make the stocks "good" deliveries, i. e. acceptable by the brokers to whom they were sold.
  - (b) The question of proper endorsement by the customer and the guarantee of his signature by the dealer.
- IV. If the sale be on account of an estate, then the question of obtaining proper testamentary papers arises, in order to render the shares "good" transfers, i. e. acceptable by the Transfer Office for re-registration into the name of a living person or of the broker who purchased the shares.
- V. Failure to Receive Securities:  
The broker from whom the bonds were purchased might be unable to deliver within contract time—usually upon the next following business day, excepting Saturdays. In that case a proper record must be made of such "Failures."
- VI. Failure to Deliver Securities:  
Where a sale, effected by the dealer for



the account of his customer, be not closed by delivery of the securities in question, owing to the inability to obtain such securities from

- (a) The customer who sold them
- (b) From the transfer offices
- (c) From bank loans.

Then proper record must also be made to evidence such "Failures."

- VII. Where securities are bought or sold for "deferred delivery," which by the terms of the contract are not deliverable before the time set by the agreement, proper book entry must be made of such facts.
- VIII. Where securities are due from abroad, necessitating a delay of several days, or sometimes weeks, before they arrive, suitable accounting expression must be given to such contracts.
- IX. Where definitive bonds are not ready, or where bonds are deposited for reorganization or protective committee purposes, entry must be made to evidence these special items.
- X. Making bank loans to arrange for additional working capital with which to conduct business.
- XI. Arranging with banks from whom money was borrowed for substitutions of securities, releasing such as are wanted against subsequent sale and depositing others of like acceptability and approximate market value.

- XII. Keeping proper records to reflect all of the foregoing transactions incidental to the buying and selling of shares and bonds.
- XIII. Failures might also arise when customers deliver bonds without the proper coupons attached.

## CHAPTER V

### Records of the Cashier's Department

THE books most frequently found in the Cashier's Department are the following:—

1. Blotter.
2. Depot Book.
3. Box Book.
4. Transfer Book.
5. Loan Book or Money Borrowed Book.
6. Substitution Book.
7. Security Guide or Record.
8. Transfer Tax Registers.
9. Fail to Receive and Deliver.

The ruling and arrangement of the books above enumerated follow in order of importance.

#### I. BLOTTER.

##### *Construction of the Blotter:*

The old fashioned and quite obsolete Blotter might be compared to the Day Book used in old-time commercial bookkeeping. The Blotter, like the Day Book, records every fact of importance, and not only serves as a basis for compiling information for posting purposes, but also

contains certain historical facts which are to be regarded solely as business memoranda. The modern Blotter, through its columnarization, fulfills the growing need of classified data, making it unnecessary to compile financial facts as to the kind of business done, as was in practice under the older system.

The construction of this book depends largely on the accounting system in vogue. Where there are no underlying or additional books of original entry, the Blotter may be used as a combined Cash and General Journal and through the columnarization, cash items can be distinguished from journal entries, affecting merely the transfer of debits and credits from one account to another. As, however, the modern tendency is away from, rather than toward the concentration of all entries in a common book, all cash items or transactions involving the exchange of cash are classified in a record known as a "Cash Blotter," whereas transactions involving merely charges and credits, not relating to cash, are entered in a supplementary or general journal. The purposes of segregating these two classes of entries, are, first, to expedite the handling of items by bookkeepers, and second, to separate cash transactions from every other kind.

The division of the books should be kept in mind when studying the system employed. As there is no hard bound rule compelling the separation of simple journal entries from cash entries, it might be well to expound the principles un-

derlying the operation of that Blotter which contains both transfer items and cash items.

*The Journalizing Feature:*

Another salient feature which distinguishes one system from the other requires brief explanation. Instead of the debit and credit journal columns adjoining each other, as in the two column journal, or appearing on the same page, the debit entries affecting the accounts in the Blotter are entered upon the "Receive" page, and the credit items on the adjoining, or "Deliver" page. As to cash entries, the method of recording them would be confusing to the commercial bookkeeper unless he understood the technique underlying the receipt and delivery of securities. Under the general principles of the Cash Book, the receipt of cash is recorded on the left side and the corresponding credit is given to the account who has deposited the cash. In the case of the Blotter, however, the receipt of cash, as has been stated before, is shown on the Deliver page. Again, the disbursements of cash in the commercial cash book appear on the right side to evidence a credit to the cash account and a debit to that account for which cash has been paid; whereas in the Blotter, all disbursements are shown on the Receive page. This method is an outgrowth of the idea that a purchase and the consequent charge to a customer, or a sale and credit to a customer, are always paramount to the cash receipts or disbursements which are

considered only as incidental to the passing of securities. Such purchases and sales involve cash payments, and it is therefore presupposed that cash will be received when bonds are delivered and paid when bonds are received. On that account the entries in the Blotter are made as follows:—

RECEIVE PAGE: Debit customer and Credit cash

DELIVER PAGE: Debit cash and Credit customer

While it requires constant watchfulness on the part of a commercial bookkeeper to post debit and credit items correctly from the ordinary cash book, and while he must keep the principle constantly before him, that an item on the disbursement page of his cash book is to be read "Debit Account and Credit Cash," the arrangement of the Blotter is such that when an item appears on the right hand or Deliver page, it is to be interpreted at once as a credit to the account, thus occasioning little mental exertion in order to post the entries correctly.

Since the Blotter serves as a cash book, it is necessary for the cashier to adopt some means whereby the cash balances in bank at the close of a given day can be carried forward to the Blotter of the succeeding day. The Cash Blotter is to be looked upon as a cash book complete in itself at the close of the daily business. The balance of cash, which under this arrangement is obtained by deducting the amounts on the Receive page from the amounts on the Deliver

page, is carried to a fresh sheet and used as the opening entry for the ensuing business day.

*Ruling and Arrangement of Blotter:*

The Blotter may be bound or loose-leaf in form. The latter form is preferable, as it affords greater facility, both in posting and in dividing the work among the clerks in charge.

It is to be remembered that the purpose of the Blotter is to give financial expression to the purchases and sales and other incidental items that occur in the course of business.

*Alternating Blotters:*

If the bound Blotter is adopted and the volume of business large, the bookkeepers have little opportunity to post the daily items. This is due to the fact that the balancing of cash by the cashier occurs late in the afternoon and that immediately afterwards the book is commandeered by the clerk whose duty it is to enter the purchases and sales charges and credits, for posting on the ensuing day, i. e. those purchases and sales which are to be cleared to-morrow.

To avoid the disadvantages of the bound book, many dealers who still use the system have adopted the method of alternating day Blotters. Under this method, the use of two books is necessary; one recording the transactions to be cleared on Monday, Wednesday, and Friday, the second in which to enter those transactions to be settled on Tuesdays and Thursdays.

Any cash receipts or disbursements other than

those incidental to the purchase or sale of securities are entered in one of the two books, depending on which is in use. The Blotter should record numbers of bonds and stock certificates; also the name of the registered owner of same, both received and delivered.

## II. DEPOT BOOK.

Among the securities in the possession of the dealer there are those which belong to his clients and on which he has no lien by virtue of advances made by him,—that is to say where the customer is not indebted to the dealer. Under these circumstances the house is compelled by law to keep separate and distinct all stocks and bonds which are held free and clear for the benefit of clients. The dealer becomes a depositary, and as such he must use reasonable care in the matter of safeguarding the valuables entrusted to him. The status of a customer's account as evidenced by the Ledger, determines whether or not the securities in question should be passed to a safe-keeping envelope, i. e., kept apart from other shares or bonds in which the broker has an interest because of open debit balances that might have arisen from the customer's purchases.

The term "in depot" is used to refer to securities that have either been paid for or deposited for safe keeping by customers. Hence for the purpose of recording the contents of the depot box, a book is kept by the cashier showing the date of deposit, the quantity and description of



the securities, the serial number of the shares or bonds, and the name of the customer to whom they belong. When the securities are delivered to their rightful owner, such disposition is evidenced by a counter entry giving the date of surrender, or possibly referring to the number of the receipt signed in satisfaction of the release of the bonds or shares to the client.

While on the subject of customers' securities, it might be well to state the Penal Law concerning the use of stocks and bonds lodged with brokers:—

Section 956 of this law, added by chapter 500 of the laws of 1913, provides in substance that a stock broker is guilty of a felony, who, (1) Having in his possession, for safe-keeping or otherwise, securities of a customer on which he has no lien, pledges or disposes of the same without the customer's consent, or, (2) having in his possession securities of a customer on which he has a lien for indebtedness due to him by the customer, pledges the same for more than the amount due to him thereon or otherwise disposes thereof for his own benefit, without the customer's consent, and without having in his possession or subject to his control securities of the kind and amount to which the customer is then entitled, for delivery to him upon his demand therefor and tender of the amount due thereon, and thereby causes the customer to lose, in whole or in part, such securities or the value thereof.

### III. Box Book.

As differentiated from the securities contained in the depot box, all bonds and stocks against which there is a debit balance due by the customer are carried in a so called "Active Box," unless pledged for the purpose of borrowing funds.

In the course of business it is to be expected that securities will be received and delivered, and this turnover will perforce affect the list of those securities which are in the Active Box at the beginning of the day. All changes from day to day must be recorded, which entails a daily revision of the Active Box sheets. All bonds to be received and paid for by the dealer or those delivered by him against sale are recorded by listing the changes in the Active Box Book, provided the securities coming in and going out are those received or delivered for the accounts of customers indebted to the dealer.

A physical count of securities is made at the end of business each day, and the check on the accuracy of bonds and stocks is obtained by comparing the physical items with the listed ones found in the Box Book. All discrepancies are noted, so that proper investigation and correction might be made immediately.

The final verification of the Box Book is obtained through checking this record against the security guide to which subsequent reference will be made.

#### IV. TRANSFER BOOK.

In the course of the bond business it becomes incumbent on the broker to deal in shares of stock as well as bonds. Because of the frequent handling of stocks it is necessary that his office be equipped with some records invariably found in the stock brokerage business. The Transfer Book is one of these records.

When corporations declare dividends on their securities, the payments are made to those whose names appear as stock holders of record as at certain dates. It is therefore essential that all dividend paying shares on which the dealer has a lien be transferred into his name immediately on their receipt. This is not only customary but useful since, through the collection of the dividends by the dealer, his customers' indebtedness is reduced and the dealer's measure of protection increased commensurately.

The customers retain, of course, legal title to the physical property, although the indicia of title appear in the name of the dealer. It is understood that the securities are owned by the customers, but that they cannot secure possession of them until payment of their respective debit balances have been made. Thus, when dividends are paid and the checks received, credit for the amount is given to those customers who own the shares in time to receive dividend credit.

Transfers are effected in bonds also, when it is desired to change their form from coupon to registered or vice versa.

It might be well to dwell a bit on the subject of transfers.

After an order is received from a customer for the purchase of stock, the order is executed in the usual way on the exchange. The following day, the selling broker delivers the shares and collects at the office of the purchasing broker the amount due for the stock. If it is an odd

lot (under 100 shares) the stock may be delivered "by transfer." This means that the selling broker will have the "odd lot" transferred into any name which the purchasing broker directs. The rule of the Stock Exchange is that all stocks of 100 shares, or multiples thereof, must be delivered by certificates. Where transactions are less than 100 shares they may be delivered by transfer.

If the customer has paid for stock in full and so instructs, his broker will cause the stock to be transferred to the customer's name, giving a written order to the Transfer Office, stating customer's name and address. If the customer has not paid for the stock, or intends that the broker carry it, the latter will usually order said stock transferred to his own name.

The selling broker who receives transfer instructions from the buying broker is entitled to payment for his stock only after the transfer details have been attended to. Thus he will effect an assignment by filling out the back of the certificate, indicating thereon the names and quantities in which the new certificates shall appear, delivering to the Transfer Office the certificate so filled out.

#### *Securities "In":*

All securities that are deposited for re-registration must be properly recorded by the cashier so that he may have complete record of all items outstanding in transfer, and for which he is responsible. For this purpose the

stock transfer register is called into use. It is arranged to contain information concerning the nature of the transaction incidental to the transference or the deposit of securities. Columns are provided for entering the date of deposit, the quantity and description of the issue, the serial number of the stock or bond, and in the case of shares, the name in which the old certificate was registered.

*Securities "Out":*

Shortly after deposit with the Transfer Office, the new securities will be ready for delivery to the broker. Upon presentation of an authentic receipt issued by the Transfer Office, the newly written certificates or bonds are delivered to the broker, whereupon he records in the stock transfer register the date on which the new securities are received, the quantity and description of the stocks or bonds, and the serial number of the new issue, and perhaps, in the case of shares or registered bonds, the name in which the new certificate or indenture is written.

The financial needs of the broker make it necessary for him to resort to his bank for the purpose of borrowing money. Usually the loans obtained are collateralized by bonds or stocks belonging to the dealer or those which he has a legal right to hypothecate by virtue of his customers' indebtedness.

Borrowing money from a bank upon collateral security, gives rise to the need of a Loan Book. This record shows the date of borrowing, the

amount involved in the transaction, the name of the bank from whom borrowed, a list of the collateral hypothecated, the rate of interest, and the terms of payment, whether on "call" or for a stated period of time. The Loan Book should also record the amounts of interest payments to the bank. This helps to show the amount of accrued interest due at any time.

Loans secured by bonds are invariably made on a time basis, that is to say a specified period of time for the running of the loan and at a specified rate of interest, which is not subject to variation.

"Call" or "demand" loans are also resorted to, which loans, by the terms of the contract, are payable on demand of the bank, or which can be liquidated at the will of the borrower. On such loans the rate of interest may fluctuate from day to day, so that it becomes necessary to provide a suitable record for the purpose of reflecting the changes in interest rates. It is customary among brokers to renew the lending rate from day to day, the one who is favored by the change in interest rates being duty bound to notify the other of any contemplated change. As an example: if a loan is made at 5% and the renewal rate on the succeeding day be  $5\frac{1}{2}\%$ , it is incumbent upon the bank to notify of the increase. Conversely, if the succeeding day's rate be reduced to  $4\frac{1}{2}\%$ , the duty would devolve upon the broker to notify of the change. Unless notice is given by either party, the last rate obtains.

## VI. SUBSTITUTION BOOK.

The constantly changing status of securities in the dealer's office necessitates the continuation of the rule among banks permitting borrowers to substitute securities of like acceptability and market value for those which have been previously pledged in bank loans.

If in the course of business there should have been pledged \$50,000 Baltimore & Ohio Prior Lien  $3\frac{1}{2}\%$  bonds of 1925 with the Chase National Bank, and subsequently these securities should have been sold either for the dealer's or customer's accounts, the bank would permit a substitution of, let us say, \$50,000 of Cleveland and Pittsburgh  $4\frac{1}{2}\%$  bonds of 1942, releasing the Baltimore & Ohio bonds upon delivery to the bank of the substituted securities.

For the purpose of recording substitutions, it is found useful to enter changes in bank loans in the Substitution Book.

The information called for by this record covers such salient facts as the date of substitution, the name of the bank, the loan number, the securities substituted and those withdrawn, —giving in each case the serial numbers of bonds or shares released and deposited. The market value of securities withdrawn and deposited might be shown in this record.

## VII. SECURITY GUIDE OR RECORD.

The Securities Record, Guide or Ledger, as the book is interchangeably called, is used to

list securities and to show their places of deposit, or the disposition made of them from time to time.

Many forms of this book are in use, but its one underlying purpose remains the same despite the numerous elaborations found in practice. The most common form is the loose-leaf arrangement since that is best adapted to the increasing or decreasing volume of securities recorded. The security holdings are of such a diversified nature that one folio sheet is allotted to each type of stock or bond.

As far as possible the sheets containing the individual listings of a certain issue of securities should be alphabetically arranged. The advantages are self evident: the left hand side of the ledger sheet records customers' and firms' holdings as well as items concerning the dealer's failure to deliver securities to brokers in the "Street," the right hand page provides suitable columns for recording information concerning the present position of the securities appearing on the left hand page. This arrangement would reveal, for instance, the securities that have been pledged as collateral in bank loans, bonds or stocks which are lodged with the Transfer Office awaiting re-registration, valuables which are on hand in the brokers' office (a record of which would be found in the Box Book), those securities which are held for safe keeping for the account of customers, and failure-to-receive items evidencing the failure of other brokers to deliver stocks or bonds against contract.



### *The Ruling of the Record:*

Each page of this record is divided into two sections. The left side of the page is devoted to information concerning the holdings of securities, and the right side, to information concerning the outgo or place of deposit.

*Left-hand Side*—The explanation column used for the purpose of entering the name of the customer who is long of securities; name of brokers from whom securities were borrowed, or the names of such brokers to whom securities are due, as in the case of Failure to Deliver items. The explanation column is followed by 31 day columns used for the purpose of recording daily changes, if any, in the quantities of securities.

*Right-hand Side*—The explanation column is used for the purpose of recording information concerning the position of securities which appear on the left hand side. Stocks and bonds could either be in the Strong Box; in the Customers' Safe-keeping Box; in the Transfer Office; in Bank Loans; Loaned out to brokers, or Due from brokers, as in the case of the Failure-to-Receive items. In addition thereto, short sales made by customers would appear on this side.

The explanation column is followed by a 31 day columnar arrangement used for the purpose of recording daily changes, if any, in the position of securities.

The Securities Record is a very important adjunct to the Cashier's Department. It virtually operates as a check on all securities

handled in the course of the day. It classifies securities as to descriptions, while the underlying records such as the Depot Book, the Box Book, and the Loan Book group securities for expediency.

*Method of Keeping the Record:*

At any given time it should be possible to balance the securities by adding the quantity of shares or bonds appearing on the left side of the sheet and comparing this total with the quantities entered on the right side. The total footings should agree. As an illustration, if John Brown is "long" of \$10,000. of U. S. Steel Sinking Fund 5's of 1963 it would be reasonable to expect that these bonds have either been pledged in a bank loan if Brown is indebted to the dealer, or that they have been placed in safe keeping, or that they have been sent to the transfer office for re-registration, or that the broker from whom these bonds are due has failed on delivery. In the last case the information recorded would disclose the name of the broker from whom the bonds are due, the inference being that such broker is considered the custodian of these bonds, or that he is responsible to the purchaser for their eventual delivery. In any case, there would appear on the left side of the page the total of \$10,000. and on the right side an equal quantity.

*Auditing the Securities Record:*

Since the Securities Ledger is a permanent

record, it should offer the possibilities of providing a basis against which all subsidiary records might be checked. Moreover, daily change in the position of every security carried by the dealer should be evidenced by the security guide.

## VII. TRANSFER TAX REGISTER.

Again, owing to the fact that the dealer in bonds is compelled to engage in the purchase and sale or exchange of shares, he is requested by law to maintain a Transfer Register prescribed by the Comptroller, provided his business is conducted in New York State.

By the terms of the law which became effective in 1905, all shares of stock sold or transferred were made subject to a tax of 2c. per share regardless of par value. This law was subsequently amended so that the levy is now 2c. on each \$100. par value of stock transferred. For some time the transfer offices seldom requested the production of the cancelled stamps before accepting securities for transfer, and the law was frequently evaded by using stamps to cover more than one transaction. An Act was therefore passed which makes it compulsory for those who engage in the purchase and sale of securities for others, to record all transfers, either through sale or re-registration. The face value of the stamps used in such transfers must also be stated. The book in which these entries are made is called "The Transfer Tax Register."

By the arrangement of this book space is provided for the date of either sale or transfer

of stock, the name of the stock, the number of shares, face value (par value) of the shares, and the name of the purchaser or transferee. The latter calls for the name of the purchasing broker or the person to whose name the certificates are to be transferred. Special columns on the right are provided for information concerning the quantity and the face value of the stamps affixed, and are designed to prevent the double use of Revenue Stamps.

As stamps are used, the consumption thereof is recorded in this register. If to the total so used there should be added the stamps on hand, the grand total should equal the total amount of stamps purchased by the dealer.

The Federal Law, under its excise provisions also demands information from brokers who have memberships on stock exchanges and who have occasion to buy and sell securities on an exchange for the account of customers. Since this booklet is intended primarily for those who are not members of an exchange, no further comment on the Federal provisions is necessary since it is presumed that all purchases and sales of shares listed on an exchange are sent to member brokers for execution. It is they who are compelled to file returns with the Federal Government concerning the purchase and sales of stocks made on an exchange.

#### VIII. FAILED TO RECEIVE AND DELIVER.

Reference has heretofore been made to contracts for the purchase or sale of securities which

have not been fulfilled by delivery thereof on the next following business day, or upon maturity of the contract.

Many of the principles governing the rules of delivery have been borrowed from the regulations prescribed by the New York Stock Exchange. By the rules of that institution all regular transactions are deliverable upon the next following business day, Saturdays excepted. It is always the prerogative of the buyer to enforce delivery by making formal demand on the seller. Failure to deliver thereafter gives the injured broker the right to "buy in under the rule," an operation which necessitates the re-purchase by him of those securities which the seller has failed to deliver. According to the rule also, any loss resulting from such re-purchase is chargeable to the defaulting broker.

As an example, assume that "A" fails to deliver to broker "B" \$5000 Union Pacific Refunding 4's of 2008 which broker "B" purchased at 90. The bonds were purchased in the regular way which meant that following the day of purchase the bonds should have been delivered between the hours of 10 A. M. and 2.15 P. M. On that following day "A" fails to deliver. On the day next following, notice is served upon "A" demanding delivery by not later than 2:15 P. M. If the default continues, "B" merely serves notice on him and proceeds to buy in under the rule \$5000 Union Pacific 4's of 2008. If the price that "B" is compelled to pay is higher than the original purchase price, the difference between

the latter price and the purchase price is a loss that "A" suffers.

In the general run of business, the privilege of buying in under the rule is seldom exercised, as a comity exists among brokers under which failed-to-deliver items are carried for a reasonable time until delivery can be effected. Of course, any abuse of the custom results in the closing above referred to.

*Bookkeeping Treatment:*

The incomplete transactions resulting from failure to deliver items require bookkeeping entries.

Let it be supposed that the \$5000 Union Pacific Refunding 4's of 2008 were purchased for the account of John Jones. On the day succeeding the purchase, excepting Saturdays and Holidays, the customer's account in the ledger would be charged with \$4500 plus commission and interest accrued to the date of purchase. Such charge, however, presupposes that the broker has made advances for the account of the customer. To recall the journal entry, the customer's account would be charged with, let us say, \$4500 and cash would be credited through the Blotter. In the case of a failure, however, there is no evidence on the Blotter of any cash having been paid out, so that there is substituted in lieu of the cash entry the following one:

Credit—Fail-to-Receive Account with \$4500. This would indicate that the dealer is liable to the extent of \$4500 against the purchase of the

bonds, and that the seller of the bonds is liable to the dealer for \$5000 Union Pacific Refunding 4's.

When the seller finally delivers the bonds they are received in the Blotter on the day of receipt, charging Failed-to-Receive account with \$4500 and crediting cash.

The record is not complete even after the foregoing Blotter entries have been made. It is necessary to record chronologically all items which have not been received or delivered in the regular manner. Such items are listed in a failure book until such time as the contracts are completed. This book records on its right hand or Failed-to-Receive page the date of the failure, the name of the brokers from whom due, the quantity of shares or bonds, the description thereof, the prices at which the contracts were made, and the dollar amounts involved, as well as the dates when the contracts are finally fulfilled. The left hand, or Failed-to-Deliver page, contains similar information except that it gives the names of those to whom deliveries are due against sales.

In the manner above described, the cashier is able to keep proper account of all past due contracts and if deemed advisable, serves notice upon the failing broker as a matter of protection to the business.

## CHAPTER VI

### **Incidental Activities of the Cashier's Department**

BESIDES his immediate duties arising in connection with the purchase and sales, receipts and deliveries of securities, the cashier is occupied for the remainder of the day with incidental items that are of sufficient importance to merit passing comment in these pages.

#### SHIPMENT OF SECURITIES.

Where customers direct that bonds be shipped to them (assuming of course that their accounts have been settled in full) it is always wise to obtain sufficient insurance coverage to protect the broker against loss. For a very small premium this insurance can be effected.

Opinion is divided as to whether an unendorsed stock certificate about to be shipped need carry insurance approximating the full market value as in the case of bonds. In the case of unendorsed shares, resort to forgery may place the stock certificate in a position to be negotiated, and the attending difficulties in ob-



taining a duplicate certificate from the Transfer Office are rather severe.

#### SECURITIES KEPT IN DEPOT FOR CUSTOMERS.

Sufficient stress cannot be placed on the duty of the broker to segregate all bonds and shares that have been paid for from those on which he has a lien. A good, strong envelope should be used to enclose the securities to be placed in safe keeping, and on the face of it there should appear the name of the customer, the date of deposit, the quantity and description of securities contained in the envelope, and the serial numbers thereof. After enclosure, the envelope should be sealed and deposited in a strong box kept expressly for customers' securities.

#### TRANSFERRING STOCKS OR BONDS.

It is the rule that whenever certificates of stock are placed in transfer a receipt be obtained from the transfer agent which must be properly filled in and surrendered before the new shares will be released to the broker. The same rule applies in the matter of depositing bonds for reorganization or protective committee purposes, or when effecting a change in the form from coupon to registered or from registered to coupon. These receipts should be treated by the cashier as substitutes for the securities themselves and should be properly safeguarded. On the day succeeding that of transfer (unless the shares or bonds are transferable out of town),

the receipts are presented to the agent and the new securities released to the broker.

#### DELIVERING SECURITIES AGAINST SALE.

It is part of the bond business to cater to that class of customers whose practice is to carry their accounts either on a so called marginal or installment basis. Bonds might be purchased and only part of the cost remitted to the dealer. From time to time payments are made to reduce the indebtedness until the account is fully paid. At that point it is necessary for the bookkeeper to inform the Cashier's Department that John Smith's securities are free and should be placed in "depot."

Where, however, John Smith should sell either at a profit or loss, securities previously acquired through purchase, it is a question whether they are in the dealer's possession; in the customer's possession, or in bank loans. If in the dealer's possession (presupposing that the customer's account still shows a debit balance), the cashier merely turns to his bond box and extracts therefrom the securities needed for delivery against the sale, and the physical outgo of the shares or bonds is attended to in the course of the day following the date of sale.

If the securities be in the customer's possession, or what is tantamount, in safe keeping for the customer's account, then written instructions should be awaited from the customer authorizing the broker to extract from the depot envelope the shares or bonds needed for

delivery against the sale. Out of town customers to whom securities were shipped, need transmit the stocks or bonds to the broker, which occasions a delay, or failure to deliver on the dates specified in the contract.

It is not to be supposed that the dealer has sufficient capital at his disposal to make advances covering all securities purchased on the part payment, marginal, or installment plan. It is necessary for the cashier to arrange for bank loans, the collateral for which consists of bonds or shares that he carries on open accounts either for his customers or Firm investments. In arranging for a loan, the cashier either goes to his own bank or enters the money market through his official money broker. The market value of the collateral hypothecated is usually 20% in excess of the principal sought to be borrowed. On railroad bonds and government securities the margin demanded by the banks is usually less than 20%. The margin required on stocks is very often in excess of 25%, depending on whether the shares are railroad or industrial issues, and whether they are listed or unlisted securities.

No hard and fast rule can be laid down in reference to making loans, except that it is not wise to crowd all of the best collateral in one loan; it is far more advisable to effect a mixed loan containing some gilt edge and ordinary stocks and bonds. Sometimes the original lending terms will govern entirely the type of securities that are to be deposited as collateral.

Sales of securities made at a subsequent date might create the necessity of resorting to substitution previously discussed. Under such circumstances, a short memorandum is sent to the bank reading somewhat as follows:—

Feb. 2, 1922.

CHASE NATIONAL BANK,  
61 Broadway,  
New York, N. Y.

We desire to withdraw \$50,000 Baltimore & Ohio Prior Lien 3½'s of 1925 from our loan of Jan. 30th for \$200,000 and substitute in place thereof \$50,000 Cleveland & Pittsburgh 4½'s of 1942. (Market values are usually stated.)

*(Signed)*

JOHN JONES & Co.

A messenger boy is sent to the bank with the Cleveland and Pittsburgh bonds, to present at the loan window. After examination of the new securities by the loan clerk, the messenger will receive the Baltimore & Ohio bonds as requested.

#### GOOD DELIVERIES.

When shares of stock are sent in for sale, it is often a question whether these certificates are good or bad deliveries, i. e., acceptable by brokers to whom they were sold, or acceptable to the Transfer Office for re-registration. The matter is further complicated when executors or beneficiaries present for sale shares of stock unendorsed or possibly improperly endorsed. Certified copies of wills, copies of death certificates, waivers from the Inheritance or State Tax Department and certified copies of letters testa-

mentary must all accompany stock certificates to be sold which were owned by the deceased and unendorsed. Equal difficulty arises in the case of shares of stock made out in the name of married women. It is also usual that alteration of signature appear on certificates of stock that would render such certificates both bad deliveries and bad transfers until suitable correction and guarantee of erasure have been made. Missing coupons, or bonds from which the coupon sheets have been detached are also considered by the brokerage fraternity as bad deliveries. Bonds carrying coupons that are defaced in any way are also considered deficient from a delivery standpoint. Under such circumstances it is usually necessary to obtain the written O. K. of the Transfer Office or of the secretary of the Stock Exchange before delivery can be effected.

It might be well here to include the rules for delivery covering securities admitted to dealings on the New York Stock Exchange.

#### RULES FOR DELIVERY.

I. Securities admitted to dealings on the New York Stock Exchange, registered and transferable in the Borough of Manhattan, City of New York, in conformity with the requirements of Section 1, Art. XXXIII of the Constitution, are a delivery:

- (a) Certificates of stock for 100 shares or odd lots aggregating 100 shares, with irrevocable assignment for each certificate, and in the name of a member or a member's

firm, registered and doing business in the Borough of Manhattan. Certificates for the exact amount or aggregating the amount of an odd lot.

- (b) Or with irrevocable assignment witnessed by a member, or correctness of signature guaranteed by a member or a member's firm.
- (c) Or with irrevocable assignment and each power of substitution witnessed by a member or a member's firm.
- (d) Coupon bonds payable to bearer, in denominations of \$500 or \$1,000 each, with proper coupons of the bond's number securely attached. Small bonds, under \$500 or large bonds over \$1,000 only in special transactions, except that in transactions in United States Victory or Liberty Loan coupon bonds, denominations of \$5,000 and \$10,000, when such pieces are exchangeable for \$1,000 or \$500 denominations, may be delivered. The money value of a missing coupon may be substituted only with the consent of the Committee on Securities for each delivery. Coupon bonds exchangeable into registered bonds and convertible bonds must carry all unpaid and unmatured coupons.
- (e) Registerable coupon bonds in denominations of \$500 or \$1,000 registered to bearer, or when transfer books are closed with an assignment to bearer for each bond by a member of his firm or witnessed by a mem-

ber, or the correctness of the signature guaranteed by a member or his firm, registered and doing business in the Borough of Manhattan.

(f) Registered Bonds in denominations not exceeding \$10,000 properly assigned.

2. Securities contracted for in amounts exceeding 100 shares of stock or \$10,000 in bonds, may be tendered in lots of 100 shares of stock or \$10,000 in bonds, or any multiple of either, and must be accepted and paid for as delivered.

3. Securities with assignment, or power of substitution, signed by an insolvent, are not a delivery. During the close of transfer books, such securities held by others than the insolvent are a delivery if accompanied by an affidavit for each certificate or bond, that said securities were held on a date prior to the insolvency.

Securities with assignment or with power of substitution, guaranteed by a member or his firm suspended for insolvency, are not a delivery and must be reguaranteed by a solvent member or his firm.

4. Securities with an assignment or a power of substitution executed by a firm that has ceased to exist are not a delivery, except during the closing of the transfer books. The assignment must be proved or acknowledged before a notary public. (Form No. 3 and for witness Form No. 9).\*

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\*See pages 57 to 64 inclusive for forms.

Securities with either the assignment or any power of substitution witnessed by a deceased person are not a delivery.

5. Securities assigned, or a power of substitution by a firm that has dissolved and is succeeded by one of the same name, are a delivery, when the new firm shall have signed the statement "Execution guaranteed," under a date subsequent to the formation of the new firm.

6. Securities in the name of a corporation or an institution, or in a name with official designation, are a delivery only when the statement "Proper papers for transfer filed by assignor" is placed on each assignment and signed by the transfer agent.

7. Securities with an assignment or power of substitution signed by a deceased person, trustees, guardians, infants, executors, administrators, assignees, and receivers in bankruptcy, agents or attorneys are not a delivery.

8. Securities assigned by a married woman are not a delivery. A joint assignment and acknowledgment by husband and wife before a notary public, will make such security a delivery only while the transfer books are closed. (Form No. 4.)

9. Securities in the name of an unmarried woman, with the prefix "Miss," are a delivery without notarial acknowledgment, when signed "Miss."

10. Securities in the name of an unmarried woman (without the prefix "Miss"), or a widow are a delivery only when the assignment is



acknowledged before a notary public. (Form No. 5).

11. Securities of a company whose transfer books are closed indefinitely for any reason, legal or otherwise, the assignment and each power of substitution must be acknowledged before a notary public. (Forms Nos. 2, 3, for witness, 8 and 9.)

12. Securities in the name of foreign residents are not a delivery on the day the transfer books are closed for payment of a dividend or registered interest, and reclamation can only be made on that day.

13. Securities in the name of foreign residents must be accompanied by an acknowledgment before a United States consul or Morgan, Grenfell & Co., London, when required by transfer agents.

Several companies having transfer offices at Grand Central Station, New York, make this requirement.

14. Certificate of stock on which the name of a transferee has been filled in error, may be made a delivery during the closing of the transfer books by ruling of the Committee on Securities. Necessary form of release, cancellation, and reassignment will be furnished on application to the Committee on Securities.

15. An endorsement by a member or his firm, registered and doing business in the Borough of Manhattan, for the signature as a witness by such a member of a signature to an assignment or a power of substitution, is a guarantee of its

correctness. Each power of substitution, as well as the assignment, must be so guaranteed, or witnessed.

16. The receiver of stock may demand delivery by transfer when the transfer books are open, and must give ample time in which to make transfer. The seller may demand payment for the securities at the time and place of transfer. The seller may make delivery by transfer when personal liability attaches to ownership.

17. When a claim is made for a dividend on stocks after the transfer books have been closed, the party in whose name the stock stands may require from the claimant presentation of the certificate, a written statement that he was the holder of the stock at the time of the closing of the books, a guarantee against any future demand for the same and the privilege to record on the certificate evidence of the payment by Cash or Due Bill.

18. Coupon bonds issued to bearer, having an endorsement upon them not properly pertaining to them as a security, must be sold specifically as "Endorsed Bonds," and are not a delivery, except as "Endorsed Bonds."

Extract from Resolutions of Governing Committee, adopted May 23, 1883.

A definite name of a person, firm, corporation, an association, etc., such as "John Smith," "Brown, Jones & Co.," "Consolidated Bank," appearing upon a Coupon Bond, and not placed there for any purpose of the company by any of its officers, implies ownership, and is an "Endorsed Bond" under the above resolution.

19. Any endorsement on a coupon bond, stating that it has been deposited with a State for bank circulation or insurance requirement, may be released and release acknowledged before a notary public; it will then be a delivery as a "Released Endorsed Bond."

"RIGHTS" TO SUBSCRIBE.

20. Assignment of "Rights," with the signature of the assignor, witnessed and guaranteed in the same manner as other Assignments, as provided in these rules, are a delivery:

- (a) An assignment of the "Rights" accruing on each 100 shares, or, assignments of "Rights" on odd lots aggregating the "Rights" on 100 shares.
- (b) An assignment for the exact amount, or assignments aggregating the amount, on a sale of the "Rights" accruing on an odd lot of stock.

21. Assignments of "Rights" in the name of a married woman, widow, or an unmarried woman are a delivery without notarial acknowledgment.

22. Assignments of "Rights" made by a deceased person or a firm that has ceased to exist are not a delivery, and must be taken back by the party delivering them.

23. Assignments of "Rights" signed by Trustees, etc., or for corporations, etc., are not a delivery, until passed by the Committee on Securities.

24. "Rights" may be dealt in after a day to be fixed by the Committee on Securities. Warrants for Rights are deliverable upon a subsequent day to be fixed by the Committee, after said day all dealings shall be as in other securities.

25. Due Bills for "Rights" accompanying stock which, by ruling of the Committee on Securities, does not sell "Ex Rights" at the closing of the books, must be redeemed on a day fixed by the Committee on Securities.

26. Contracts in warrants for "Rights" may be enforced "under the rule."

Reference is made to Section 2 of Article XXXII of the Constitution for method of settlement of contracts carrying "Rights" other than those covered by 24 and 25 of these Rules, and also for Rights accruing during the pendency of a contract.

#### RECLAMATIONS.

27. Reclamation for irregularity in a security, when such irregularity affects only its currency in the market, must be made within ten days from day of delivery of the security. (Article XXIX, Constitution). A security with an irregularity having been delivered may be returned up to 2:15 o'clock P. M. to the party who delivered it, who must immediately give the party presenting it either the security in proper form for delivery, or pay the market price of the security, and assume all liability for non-delivery. In the latter case, the security in

proper form may be delivered to the claimant before 2:15 P. M., and the amount paid shall be returned.

#### SIGNATURES TO ASSIGNMENTS AND DUE BILLS.

28. The signature to an assignment or a power of substitution must be technically correct, i. e. it must correspond in every particular, without any change, with the name in which the security is issued, and the name of the attorney or substitute.

The date of an assignment or a power of substitution must be legible, and any correction properly noted by the signer.

- (a) Titles must be prefixed or affixed to signatures, exactly as they are in the name in which the security is issued.
- (b) "Brothers" or "Bros." must be written as it appears in the security.
- (c) "And" or "&," "Company" or "Co.," may be written either way.
- (d) "Mr." "Messrs." "Esq." or the Residence or Business Address of an individual or firm need not be made part of the signature.
- (e) Due Bills must be signed or guaranteed by a member or a firm registered and doing business in the Borough of Manhattan.

The Committee recommends:

That transfer agents be given the exact form of the name to which securities are to be transferred.

That the signatures of all members and the

firm signatures of each of the partners in a member's firm, doing business in Borough of Manhattan, be filed with transfer offices in order to secure promptness of transfer of securities.

#### ASSIGNMENTS AND NOTARIAL ACKNOWLEDGMENTS.

A detached assignment of a security must contain provision for the appointment irrevocable of an attorney, and substitute and a full description of the security, i. e., name of company, issue, certificate or bond number and amount (the latter written in words and numerals) and must be acknowledged before a notary public with seal and date. A separate assignment must accompany each certificate or bond (See Form No. 10 for detached assignment and Forms No. 11 and 12 for acknowledgments.)

In the acknowledgment of an assignment or power of substitution in the name of an individual, the notary public must certify with seal and date that he knows the person signing to be the person named in the security, or in the power of substitution and that the signer acknowledged his signature. (Form No. 2).

An assignment or power of substitution in the name of a firm, the notary public must certify that he knows the person and knows him to be, or to have been on the date of execution, a member of the firm, and that he acknowledged that he executed the assignment or power of substitution as the act and deed of the firm. (Form No. 3.)

In proving, before a notary public, an assignment or power of substitution, the witness must make deposition that he knows the person who executed the assignment or power of substitution, to be the person named in the security or assignment, and saw the signer execute the same. For assignments of securities in the name of a firm, the witness must make deposition that he knows the party signing to be (or to have been at the date of execution) a member of the firm. (Forms 8 and 9).

Any alteration in the wording of an assignment, must be stated over the signature of the party signing.

Any alteration in a notarial acknowledgment, must be noted by signature of the notary.

#### INTEREST PAYING BONDS.

##### *Rules for Dealing "and Interest:"*

In settlement of Contracts in INTEREST PAYING BONDS, "interest" shall be computed to the day of maturity of contract on regular sales or on sales at three days, at the rate specified in the bond; and on time option contracts, interest specified in the bond shall be computed to include the day of sale, and thereafter at the rate of interest agreed upon.

Contracts made after default in payment of interest and during continuance of defaults shall be "flat."

Bonds on which the interest is in default shall carry all unpaid coupons.

REGISTERED BONDS will not sell Ex-interest on the day the books close for payment of interest. In settlement of contracts in interest paying registered bonds, interest must be added to the date of the maturity of contract, and a due bill, signed by the party in whose name the bond stands for the full amount of the interest to be paid by the company, must accompany the bond until interest is paid; the due bill issued by a non-member must be paid when due by the exchange member or firm guaranteeing it.

On a contract in interest-paying bonds "Seller's or Buyer's Option" at a rate agreed upon (as Seller or Buyer 20, 2%) the interest specified in the bond shall be computed to and including the day of sale; and thereafter interest at the agreed rate shall be computed on the contract price plus accrued interest. An agreed rate of interest must be computed for actual elapsed days.

Interest at the rate specified in an interest-paying bond must be computed on a basis of 360-day-year, i. e.:

Every calendar month is  $\frac{1}{12}$  of  $360 = 30$  days.

Every period from a date in one month to the same date in the following month is 30 days.

Income Bonds must be dealt in "flat."

---

October 25, 1913.

The Committee on Securities, being informed that the deliveries of bonds are sometimes made



at a "flat" price on dates when interest is due, the seller having detached for collection the current coupon,

Rules, that deliveries of bonds on dates on which interest is payable must carry the coupon due on such date unless it is otherwise agreed.

FORM OF ASSIGNMENT

FORM No. 1

FORM OF ASSIGNMENT ON A CERTIFICATE OF STOCK  
ACCEPTED BY THE COMMITTEE ON STOCK LIST

FOR VALUE RECEIVED.....hereby sell, assign, and transfer unto..... Shares of the Capital Stock represented by the within Certificate, and do hereby irrevocably constitute and appoint..... Attorney to transfer the said stock on the Books of the within named Company with full power of substitution in the premises.

Dated.....19.....

IN PRESENCE OF .....

FORM OF POWER OF SUBSTITUTION

POWER OF SUBSTITUTION to be placed on the back of a Certificate when name of Attorney has been filled in with the name of an individual or a firm.

I (or we) hereby irrevocably constitute and appoint .....my (or our) substitute to transfer

the within named stock under the foregoing Power of Attorney, with like power of Substitution.

Date.....19.....

.....

IN THE PRESENCE OF

.....

FORMS FOR NOTARIAL ACKNOWLEDGMENTS AND DEPOSITIONS PRESCRIBED BY THE COMMITTEE ON SECURITIES

FORM No. 2

ACKNOWLEDGMENT BY AN INDIVIDUAL, BY WHOM AN ASSIGNMENT OR A POWER OF SUBSTITUTION IS EXECUTED.

State of.....) ss.

County of.....)

On this.....day of.....19.....before me, a Notary Public for the County of..... personally appeared.....to me known, and known to me to be the individual named in the within certificate, and described in and who executed the foregoing instrument, and acknowledged to me that he executed the same.

.....  
.....

SEAL

If used for a Power of Substitution, substitute for the word Instrument, "Power of Substitution, dated .....19....." the date referred to be filled in.

FORM No. 3

ACKNOWLEDGMENT FOR FIRM

State of.....) ss.

County of.....)

On this.....day of.....19.....before me, a Notary Public for the County of..... personally appeared.....to me known, and known to me to be one

of the firm of.....named in the within certificate, and described in and who executed the foregoing instrument, and acknowledged to me that he executed the same as the act and deed of said firm.

SEAL

.....  
.....

If used for a firm that has dissolved, omit the word "be" in third line and substitute the words "have been on.....19....."

If used for a Power of Substitution, executed by a firm that has dissolved, substitute for the word Instrument, "Power of Substitution, dated ..... 19 ....." the dates referred to be filled in.

FORM No. 4

JOINT ACKNOWLEDGMENT OF EXECUTION OF  
AN ASSIGNMENT MADE BY HUSBAND AND WIFE

State of.....) ss.  
County of.....)

On this.....day of.....19.....before me, came.....and.....her husband, both of them known to me, and they severally acknowledged that they executed the foregoing (or within) Assignment and Power of Attorney, for the purpose therein mentioned.

FORM No. 5

ACKNOWLEDGMENT OF AN ASSIGNMENT EXECUTED  
BY AN UNMARRIED WOMAN OR A WIDOW

State of.....) ss.  
County of.....)

On this.....day of.....19..... before me, personally came..... to me known and known to me (or satisfactorily proven to me) to be an unmarried woman

(or widow) and known to me to be the same person named in the within certificate of stock and described in and who executed the foregoing (or within) Assignment and Power of Attorney, and acknowledged to me that she executed the same for the purpose named.

.....  
.....

SEAL

FORM No. 6

NOTARIAL ACKNOWLEDGMENT FOR ASSIGNMENT OR A POWER OF SUBSTITUTION EXECUTED BY A MEMBER SUSPENDED FOR INSOLVENCY

State of.....) ss.  
County of.....)

On this.....day of.....19..... before me, a Notary Public for the County of..... personally appeared..... to me known and known..... to me to be the individual named in the within certificate, and described in and who executed the foregoing Instrument, and acknowledged to me that he executed the same on.... 19.....

.....  
.....

SEAL

If used for a Power of Substitution, substitute the words "Power of Substitution, dated..... 19....." for the word "Instrument."

FORM No. 7

NOTARIAL ACKNOWLEDGMENT FOR ASSIGNMENT OR A POWER OF SUBSTITUTION EXECUTED BY A FIRM SUSPENDED FOR INSOLVENCY

State of.....) ss.  
County of.....)

On this.....day of.....19..... before me, a Notary Public for the County of..... personally ap-

peared . . . . . to me known and known to me to be one of the firm of . . . . . named in the within Certificate, and described in and who executed the foregoing Instrument, and acknowledged to me that he executed the same on . . . . . 19 . . . . . as the act and deed of said firm.

. . . . .  
. . . . .

SEAL

If used for a firm that has dissolved, substitute the words "have been" for the word "be" in third line.

For a Power of Substitution, substitute the words "Power of Substitution, dated . . . . . 19 . . . . ." for the word "Instrument."

FORM No. 8

DEPOSITION BY A WITNESS OF THE EXECUTION OF AN ASSIGNMENT OR A POWER OF SUBSTITUTION BY AN INDIVIDUAL

State of . . . . . ) ss.  
County of . . . . . )

On this . . . . . day of . . . . . 19 . . . . . before me, a Notary Public for the County of . . . . . personally appeared . . . . . to me known, who being by me first duly sworn did depose and say that he resides at . . . . . that he knew . . . . . named and described in the . . . . . instrument, which was signed in witness' presence.

. . . . .  
. . . . .

SEAL

If used for a Power of Substitution, executed by an individual, see instructions in Form No. 2.

FORM No. 9

DEPOSITION BY A WITNESS OF THE EXECUTION OF AN ASSIGNMENT OR A POWER OF SUBSTITUTION BY A FIRM

State of.....) ss.  
County of.....)

On this.....day of.....19.....before me, a Notary Public for the County of.....personally appeared.....to me known, who, being by me first duly sworn, did depose and say that he resides at..... that he knew.....and knew him to be one of the firm of.....named and described in the.....instrument, which was signed in witness' presence.

SEAL

.....  
.....

If used for a firm that has dissolved, or for a Power of Substitution executed by a firm that has dissolved, see instructions in Form No. 3.

FORM No. 10

DETACHED ASSIGNMENT AND POWER OF ATTORNEY FOR STOCKS OR BONDS

For value received..... have bargained, sold, assigned, and transferred, and by these presents do bargain, sell, assign, and transfer unto.....Shares of the.....Capital Stock (or one (1) Bond) of the.....standing in.....name on the books of said..... represented by Certificate (or bond for.....\$......) No.....herewith, and.....do hereby constitute and appoint.....true and lawful Attorney, irrevocable for.....and in..... name and stead, but to.....use, to sell, assign, transfer and set over, all or any part of the said stock, and for that purpose to make and execute all neces-

sary acts of assignment and transfer, and one or more persons to substitute with like full power, hereby ratifying and confirming all that.....said Attorney or.....substitute or substitutes shall lawfully do by virtue hereof.

Date.....19.....

IN PRESENCE OF

.....  
.....

FORM NO. 11

ACKNOWLEDGMENT ON A DETACHED ASSIGNMENT MADE BY AN INDIVIDUAL

State of.....) ss.  
County of.....)

On this.....day of.....19.....before me, a Notary Public for the County of.....personally came .....to me known to be the individual named in the annexed Certificate of Stock (or Bond) and described in and who executed the foregoing Instrument, and acknowledged to me that he executed the same.

.....  
.....

SEAL

FORM NO. 12

ACKNOWLEDGMENT ON A DETACHED ASSIGNMENT EXECUTED BY A FIRM

State of.....) ss.  
County of.....)

On this.....day of.....19.....before me, a Notary Public for the County of.....personally appeared.....to me known and known to me to be one of the firm of.....named in the annexed certificate of Stock (or Bond) and described in and who exe-

cuted the foregoing Instrument, and acknowledged that he executed the same as the act and deed of said firm.

SEAL

If used for a firm that has dissolved, see instructions in Form No. 3.

### DEFERRED DELIVERY CONTRACTS.

By the rules of the New York Stock Exchange contracts for the purchases and sales of securities might be closed for Deferred Delivery; that is to say for periods of three days, contemplating delivery upon the third day following the making of the contract. Or, purchases and sales might be made at "buyer's or seller's option," for not less than four days nor more than sixty days from the day of contract.

On transactions for more than three days, it is usual that written contracts be exchanged on the day following the transaction and carry interest at the legal rate, unless otherwise agreed. On such contracts one day's notice shall be given at or before 2:15 P. M. before the securities shall be delivered prior to the maturity of the contract. As a matter of fact, the reference made to the interest charges in the above quotation is seldom, if ever, adhered to in practice. While it is true that where bonds are purchased or sold for Deferred Delivery, interest ceases on the day of sale, the technicality of Stock Exchange law is not literally enforced concerning the right



of either party to exact legal interest on the principal sum involved in the contract.

A great many of the bond houses consider deferred delivery contracts in the same light as they would Failed-to-Receive or Failed-to-Deliver items. Fear that this practice might prevail among those whom this booklet reaches calls for a brief discussion on the difference between Deferred Delivery and Failure items.

Deferred Delivery items raise no question as to the right of the purchaser to buy in the contracts "under the rule." The purchaser must await the day of maturity before he may logically regard the seller in default. Of course the purchaser could exercise his prerogative to "buy in" only on the day following the maturity, but, between the day of making the contract and the maturity date thereof, no right vests in the purchaser to close the contract "under the rule."

A Failure-to-Deliver item on the other hand arises from the default in a contract made in the regular way or following the maturity of a Deferred Delivery contract. Consequently, the dealer is not justified in treating, pending Deferred contracts as Failure items, since the test determining the status of a Failure item is the right of the purchaser to "buy in" in order to cover the default.

Deferred Delivery contracts should be entered in a special book provided for that purpose, showing the date of purchase, the quantity and description of the security, the price thereof, the

name of the account for whom purchased or for whom sold, and the maturity date of the item. Since one day's notice is necessary before delivery can be effected, it behooves the cashier to be ever on the alert concerning maturity dates.

## CHAPTER VII

### Departments Under Control of Cashier

#### COMPARISON DEPARTMENT.

After a purchase or sale of bonds has been effected it is the rule of the "Street" for the seller to confirm the contracts entered into between brokers by means of issuing a Comparison Ticket which must be stamped by the buyer between the day of sale and 10 A. M. the next following business day.

The rule of the New York Stock Exchange governing the issuance of comparisons prescribes that:

It shall be the duty of the seller to compare, or to endeavor to compare, each transaction at the office of the buyer, not later than one hour after the closing of the Exchange. It shall be the duty of the buyer to investigate before 10 o'clock A. M. of the day after the purchase each transaction which has not been compared by the seller. Neglect of a member to comply with the provisions of Section 2 hereof shall render him liable to a fine not exceeding \$50. to be imposed by the Committee on Arrangements.

Comparisons shall be made by an exchange of an original and duplicate comparison ticket; the party to whom the comparison ticket is presented shall retain the original if it be correct and immediately return the duplicate duly signed.

## FORM OF COMPARISON.

The actual date of purchase or sale appears at the top of the comparison slip, and the name of the broker issuing the comparison, the name of the broker with whom the contract was made, the quantity and description of securities and the prices at which purchased or sold. These comparison forms are usually made out in duplicate so as to enable the broker to whom the comparison was sent to retain the original and return the duplicate properly stamped. This stamp evidences the correctness of the transaction and also operates as a legal memorandum under the Statute of Frauds.

It is the duty of this department also to issue the necessary documents whenever securities are purchased or sold on a "when issued" basis.

By the terms of such a contract, neither the buyer nor seller becomes obligated until such time as the securities are actually issued either in temporary or definitive forms. Nevertheless such purchases or sales must be properly recorded, giving the name of the broker dealt with, the quantity and description of securities, the price, and a notation that such purchase or sale was closed on the "as, if, and when issued" basis. It is customary for buyer and seller to issue a "when issued" contract form containing the salient facts governing the purchase or sale.

As soon as the stock or bond issue is ratified and the contracts become regular, financial en-

try is made in the books as soon as stocks are received or delivered against values.

#### MARGIN DEPARTMENT.

In the bond business there is little occasion for the establishment of a margin department, since only an infinitesimal part of the transactions of customers are carried on margin. In passing it might be remarked that it is the function of such a department to account on record cards for the adjustment of market quotations, leading to a statement of the amount of margin on hand as protection on open commitments.

#### BORROWED AND LOANED DEPARTMENT.

As in the stock business, so in the bond business it becomes necessary at times in order to effect delivery of securities, to borrow from other dealers those bonds which are required for delivery purposes.

Occasion might arise where owing to the delay in the shipment of securities sold by out of town clients, delivery cannot be made within the specified time. It happens just as often that the purchasing dealer might demand delivery under penalty of closing the contract. It becomes a simple matter to communicate with other bond houses within one's immediate vicinity, asking such dealers whether they could lend the bonds in question. Where bonds are available, a loan follows calling for delivery by the lender and the payment by the borrower on the basis of market values.

It is customary under such circumstances for the borrower who has advanced the funds to charge the lender of the bonds interest at approximately call money rates. Much more frequently, perhaps, the lender of the bonds merely desires to accommodate the borrower and because of such accommodation, the question of interest might not be raised.

With the bonds so borrowed delivery is made in satisfaction of the contract.

As soon as the out-of-town shipment is received the borrower returns the securities to the lender, the latter returning the funds originally advanced to him. This closes the transaction.

A record is invariably kept of bonds which are either borrowed or loaned in order to account properly for securities within the control of the cashier's department. This loan book is usually to be found in the cashier's department.

#### MARK-UP AND MARK-DOWNS.

Where securities borrowed or loaned cover a long duration of time, a sharp rise or decline would occasion marking-up or marking-down the principal of the loan involved in the transaction.

As an example, if John Jones & Co. borrowed \$50,000 Baltimore & Ohio Prior Lien  $3\frac{1}{2}\%$  of 1925 at 90, advancing \$45,000 to Smith & Co. the lenders, and if the bonds should decline to let us say 85, a mark-down would be issued by

Jones & Co. requesting Smith & Co. to return \$2,500.

Conversely if the price is advanced to 95, then Smith & Co. would issue a mark-up wherein they request Jones & Co. to pay \$2,500 to adjust the securities to the higher market price.

A mark-up or mark-down is tantamount to making a new loan at revised valuations. Consequently, when the securities are eventually returned to the lender, they are returned not for original values but rather at adjusted ones.

#### DIVIDEND DEPARTMENT.

In the course of business the bond dealer is called upon to transfer securities for dividend purposes. Wherever he has a lien on shares of stock, to secure debit balances due him, the securities invariably are transferred into his name as a matter of custom; also for the purpose of obtaining from the corporation dividend checks against the shares registered in his name.

As is commonly known, transfer books usually close a few days before dividends are payable. The cashier makes daily note of dividend checks which are expected against declarations, and orders the proper entries to be made on the books indicated to show the total of dividends receivable and the customers who are entitled to dividend credit. The entries ordered are made as follows:—

Debit—Dividends Receivable  
Credit—Customers' Accounts

When the dividends are received cash is charged, and dividends receivable account credited.

#### BOOKKEEPING DEPARTMENT.

It is the duty of the bookkeeper to post to his ledgers all transactions occurring within the course of the business. He keeps record of both the firm's purchases and sales and the customers' accounts, besides keeping record of all items of income and expense incidental to the conduct of business. It is quite necessary that all transactions be posted to date to enable them to determine their own positions in the security market. Due to the fact that the modern bond house has an active trading department, it becomes almost imperative to complete the bookkeeping details each day to make possible frequent checking of the trading positions in the market.

At the end of an accounting period it should be possible for the bookkeeper to extract from his records a suitable operating statement and balance sheet calculated to reveal the profits realized or losses sustained in the course of operations, as also the financial status of the firm as at a given date.

#### COMMISSION RULES.

As a guide to the bond dealer the table below states the commission rates in force on the Stock Exchange:—



## NEW YORK STOCK EXCHANGE COMMISSION RATES.

The commission rates which members of the New York Stock Exchange may charge are prescribed by the constitution in Article XXXIV, which reads as follows:—

SECTION 1. Commission shall be charged and paid under all circumstances, upon all purchases or sales of securities dealt in upon the Exchange, (except as provided in sub-division (h) and (I) of section 2 of this article); and shall be absolutely net and free from all or any rebate-ment, return discount or allowance in any shape or manner whatsoever, or by any method or arrangement direct or indirect, and no bonus or any percentage or portion of the commission shall be given, paid or allowed, directly or indirectly, or as a salary or portion of a salary, to any clerk or person for business sought or procured for any member of the Exchange.

SECTION 2. Commission shall be calculated on the basis of selling prices as hereinafter specified:

(a) On business for parties not members of the Exchange, including joint account transactions, in which a non-member is interested; transactions for partners not members of the Exchange; and for firms of which the Exchange member or members are special partners only, the commission shall be not less than the following rates on stocks;

On stocks selling below \$10. per share..... 7½c. per share

On stock selling at \$10. per share and above, but under \$125 per share..... 15c. per share

On stocks selling at \$125 per share and over..... 20c. per share provided, however, that the minimum commission on an individual transaction shall be not less than one dollar.

- (b) On business for members of the Exchange when a principal is given up, the commission on bonds shall be not less than on the following basis:
- 25c. per \$1000 par value on bonds selling below 125%
  - 30c. per \$1000 par value on bonds selling at 125% and above
- and not less than the following rates on stocks:
- On stocks selling below \$10 per share..... 1¼c. per share
  - On stocks selling at \$10 per share and above, but under \$125 per share..... 2½c. per share
  - On stocks selling at \$125 per share and over..... 3c. per share
- Except that when the amount dealt in is less than 100 shares, the commission shall be not less than:
- On stocks selling below \$10 per share..... 1c. per share
  - On stocks selling at \$10 per share and over..... 2c. per share
- (c) On business for members of the Exchange when a principal is not given up, the commission on bonds shall be not less than on the following basis:
- 37½c. per \$1000 par value on bonds selling below 125%
  - 50c. per \$1000 par value on bonds selling at 125% and above
- and not less than the following rates on stocks:
- On stocks selling below \$10 per share..... 1¾c. per share
  - On stocks selling at \$10 per share and above, but under \$125 per share..... 3¾c. per share
  - On stocks selling at \$125 per share and over..... 5c. per share
- (d) In transactions where orders are received from a non-member, wherein the broker filling the order is directed to give up another broker or clearing house, the responsibility of collecting the full commission, spec-

- ified in Subdivision (a) hereof, shall rest with the broker or clearing house settling the transaction.
- (e) In transactions where orders are received from a member, on which a clearing firm is given up by said member or by his order, the responsibility of collecting the full commission, as specified in subdivision (c) hereof, shall rest with said clearing firm; and it shall be the duty of the broker to execute such orders to report such transactions to the clearing firm and render to them and collect his bill therefor at the rate specified in subdivision (b) hereof; and also that where a broker executes an order for a member and clears the security himself, he must charge the rate specified in subdivision (c) hereof.]
- (f) Wherever a non-member of this Exchange shall cause to be executed in any market outside of the United States any order or orders for the purchase or sale of securities listed on this Exchange (except as provided in subdivisions (h) and (i) hereof), and said purchase or sale shall be accepted by a member or firm who are members of this Exchange, for the account of said non-member, the commission specified in subdivision (a) hereof shall be charged said non-member in addition to any commission charged by the party or parties making the transaction.
- (g) When securities are received or delivered on a privilege for a non-member, the commission specified in subdivision (a) hereof must be charged whether the said securities are received or delivered upon the day of expiration of said privilege or prior thereto.
- (h) On subscription rights, bonds or notes of foreign countries having five years or less to run, notes of corporations having five years or less to run, bonds having five years or less to run, such rates to members or non-members as may be mutually agreed upon; provided, however, that the committee on commissions with the approval of the governing committee may hereafter determine special rates on any or all of the above-mentioned securities.
- (i) Securities of the United States, Porto Rico and

Philippine Islands, and of States and municipalities therein are exempted from the provisions of this Article.

#### OWNERSHIP CERTIFICATES.

The owners of bonds or other obligations, except domestic and resident corporations, whether or not such bonds or other obligations contain a tax-free covenant, issued by domestic or resident foreign corporations, when presenting interest coupons for payment shall file a certificate of ownership for each issue of bonds.

Form No. 1000 is to be filed by citizens and residents of the United States when no personal exemption or credit is claimed against interest on bonds containing a tax-free covenant; by non-resident alien individuals, by partnerships composed in whole or part of non-resident aliens and not having a place of business in the United States, and by foreign corporations not engaged in trade or business in the United States; by partnerships, resident or non-resident and (prior to Jan. 1, 1922) personal service corporations; and where the owner is unknown to the withholding agent. The form makes provision for the name and address of the debtor corporation, the name and address of the owner of the bonds, the nature of the obligation, the amount of interest and its due date and the amount of any tax withheld.

Form No. 1001 is the same in its make-up as Form No. 1000 and is to be used by citizens and residents of the United States when personal exemption is claimed against interest on bonds

containing a tax-free covenant and when presenting coupons from bonds not containing a tax-free covenant; by domestic and resident partnerships, in case of bonds not containing a tax-free covenant.

Form No. 1001 A is used by citizens and residents of the United States, individual or fiduciary, or by resident partnerships who hold bonds of foreign countries or bonds and stocks of non-resident foreign corporations. The form calls for the name of the debtor corporation and the address, the name and address of the owners of the bonds or stocks and the amount of interest on bonds or dividends on stocks.

Form No. 1086 is the form of ownership and exemption certificate for the use of foreign corporations having an office or place of business in the United States. It makes provision for the name and address of the person paying the income, the foreign corporation's name and address entitled to receive the income and the kind and amount of income to be paid.

Form No. 1087 is used to disclose the actual owner of stock so that dividends paid to a holder of record will not be charged against the holder of record if such holder is not the actual owner. The form makes provision for the name and address of the owner of record, the name and address of the actual owner, the number of shares owned, the class of stock, common, preferred, etc., the issuing corporation and its address, with an affidavit to the effect that the above statements are correct.