46th Annual Report of the Securities and Exchange Commission

for the fiscal year ended September 30, 1980

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Chairman's Letter of Transmittal

The Honorable George Bush
President, U.S. Senate
Washington, D.C. 20510

The Honorable Thomas P. O'Neill, Jr.
Speaker, U.S. House of Representatives
Washington, D.C. 20515

Gentlemen:

It is my pleasure to transmit to you the Annual Report of the United States Securities and Exchange Commission for the fiscal year ended September 30, 1980. This is the fourth Annual Report which I have been privileged to transmit to the Congress on behalf of the Commission. As has been my practice, I would like to review some of the important challenges which the Commission has met, as well as some of the additional initiatives which we have undertaken, during the past year. Each of these matters should be viewed as illustrative of our on-going efforts to continue to merit the reputation for excellence in public service which this Agency has earned over nearly half-a-century.

When this Annual Report is published, I will have served as Chairman of the Commission for close to four years—longer than all but two of my 20 predecessors. A tenure of this length has provided me with a perspective on the work of the Commission which may, perhaps, not be available to one serving a shorter time in this office. It has also convinced me of the validity of my view that a long-term commitment to service is essential if a Chairman is to have a significant impact on the shape and character of the Commission and its work. Until this time, the average tenure of Commission Chairmen has been two years and two months. I hope that my term will mark the beginning of a new tradition of long-term commitment by the chief executive officer of the Commission.

Such a commitment from the Chairman of the Commission is important for a number of reasons. At the practical level, many issues which face the Commission are so complex or difficult that their resolution inevitably involves a multi-year process. A Chairman measuring his tenure in months, rather than years, might be reluctant to take on a major task with no expectation that he would have time to conclude it. Or, if he did address such a question, he might be tempted to seek an expedient answer which would produce more immediate results, but prove unsatisfactory over the long term. In my experience, such issues as achieving the integration of the disclosure systems of the Securities Act of 1933 and the Securities Exchange Act of 1934, or helping to foster a meaningful and effective system of self-regulation for the accounting profession, are among those matters which could not successfully have been addressed in a compressed time frame.

More subtly, it is impossible for a Chairman who remains in office only a relatively brief time to develop a complete sense of the sophisticated scheme of Federal

securities regulation which the Commission and the private sector administer, or to provide the necessary sensitivity and continuity of action that are required if he is to have a significant impact on the diverse regulatory relationships which exist between the Commission and the private sector. Since I took office in April, 1977, the Commission has been engaged in a comprehensive effort to reexamine—and, where appropriate, to rebalance—its relationships to those segments of the private sector with which we interface in a variety of regulatory contexts. The past year has been characterized by a continuation of these same kinds of efforts.

Thanks to the unique disclosure and self-regulatory framework established by the Federal securities laws, the Commission's relationship with the private sector has traditionally been more one of oversight than prescription—more cooperative than adversarial. The high esteem in which the Commission has been held is at least in part attributable, in my view, to the fact that its traditional regulatory objectives—that is, its corporate disclosure and self-regulatory oversight programs—are rational and achievable ones. Historically, we have been largely uninvolved in substantive economic regulation or in balancing competitive interests.

The Commission's reputation as a model agency can also be traced, in part, to the fact that it has understood the importance of a healthy private sector and appreciated government's limitations, as well as its responsibilities. Too often, debate about an issue centers on whether to address the real or perceived problem through enhanced governmental regulation and, if so, what degree of externally-applied governmental restraint should be brought to bear on the matter. Little thought is given to refocusing the debate: The issue should not be framed solely as one involving the appropriateness or degree of governmental involvement. Rather, we should first focus on the legitimate needs and expectations of the American public, as well as the respective roles which both the private sector and government could usefully play in meeting them, ever mindful of our broader interests in fostering and maintaining those philosophies and institutions which underpin our free and democratic society.

Thus, the Commission has been committed to being a judicious and balanced agency—or, in other terms, an accountable regulator. It has recognized the need for private sector diversity, encouraging considerable discretion for those who, in good faith, seek to comply with the spirit of the law.

Such a regulatory sensitivity and balance has fostered an atmosphere in which private institutions respond meaningfully and constructively to societal interests within a broad self-regulatory framework, and with a minimum of Commission or Congressional involvement. For example, rather than seeking a legislative remedy to concerns about the accounting profession that were raised during the late 1970s, the Commission counseled the Congress instead to encourage and support the accounting profession's own constructive efforts towards effective self-regulation. To further this objective, the Commission accepted the responsibility to monitor and evaluate the profession's efforts and undertook to report to the Congress on the progress being made. Similarly, rather than call for new legislation, or adopt a host of new rules and regulations itself, in response to various concerns raised about corporate accountability in this Country, the Commission has left the initiative to resolving fundamental questions regarding the structuring and functioning of business enterprises, including their boards of directors, where it best belongs—within the domains of private-sector responsibility and decisionmaking.

Further, the Commission has appreciated that the broader interests of society and the economy are at issue. The ultimate purpose of the Federal securities laws is, after all, to ensure the confident, efficient, and fair securities markets that foster the capital formation process which underpins our prosperity and our democracy. In this light, while the Federal securities laws speak specifically only to the need for investor protection and the maintenance of fair and orderly markets, achieving those objectives and fostering capital formation are not inconsistent ends. On the contrary, when they are properly balanced, they go hand-in-hand. Adequate investor protection and fair and orderly markets enhance the confidence and willingness of the public to invest, while healthy and active capital markets provide the fuel for a growing economy and offer investors a fair and efficient marketplace for a broad range of investment media.

To achieve this regulatory balance, the Commission has been dedicated to improving those of its traditional core activities—such as its inspection, market surveillance, and enforcement programs—which are central to ensuring honest and healthy securities markets. At the same time, however, the Commission recognizes its responsibility to accept regulatory risks and balance competing interests so as not to seriously discourage legitimate investment and commerce in the name of investor protection. The Commission's adoption of Rule 242, as well as its amendments relaxing the requirements of Rule 144, are two examples. A third is the Commission's recent adoption of the Rule 19c–3 experiment.

Nor has the Commission been reluctant to reexamine long-standing views or administrative practices when such a course seemed indicated. For example, in reviewing its disclosure requirements, the Commission has emphasized the most useful information, even if it is so-called "soft" information such as projections, value-based disclosures, and management's discussion and analysis. Often, that has meant fostering private-sector innovation and allowing experimentation—even, when necessary, establishing safe harbors from exposure to liability under the Federal securities laws. In that regard, Financial Accounting Standards Board Statement No. 33, concerning the effects of changing prices, is an example of such an innovative private-sector approach to disclosure.

Similarly, the growth of two similar but separate corporate disclosure systems over 46 years, with requirements added or deleted in an almost *ad hoc* manner, had resulted in a crazy-quilt disclosure pattern difficult for registrants and the Commission to deal with and not as useful as it could be to the investing public, the intended beneficiaries. The Commission's integrated disclosure response has been a highlight of my term as Chairman and is now nearly complete.

A third example of the Commission's willingness to reexamine long-held views can be seen in its recent efforts to reform its regulation of investment companies. The nearly 40 years of Commission administration of the Investment Company Act of 1940 had produced a pervasive regulatory pattern that had subtly shifted responsibility for business decisions from the private to the public sector. Yet, the Commission's response, these last four years, has been to refashion this regulatory system to remove the Federal government from such routine business decisions and to place the authority—and the responsibility—for these matters where they belong—on investment company managers and directors, especially independent directors.

In addition to these philosophical reasons calling for Commission sensitivity and critical self-examination, budgetary and personnel restraints during the period also

made it imperative that the Commission consider seriously reordering its priorities and reallocating its resources. The securities markets themselves had grown enormously, becoming infinitely more complex and outstripping the Commission's facilities to understand, surveil, and oversee their operation by the self-regulatory organizations. Similarly, the number and complexity of filings by issuers and others had grown tremendously over the past few years. The inability of the Commission to increase staff or budget at a time of such explosive growth in the private sector, as well as in the responsibilities assigned to us by the Congress, made it essential that we reassess how well we were discharging our responsibilities, and that we find better ways to do our job, including a greater degree of reliance on private-sector initiative and good faith.

In summary, I believe that the Commission has more than satisfactorily met the needs of the present, while at the same time preparing itself—as well as the private sector—to confront the challenges of the future. Moreover, it has done so in ways which have enhanced the cost-effectiveness of the Commission's many programs, improved the sensitivity and stability of the Commission's relationships with the private sector, and allowed that sector to begin to meet the American public's growing expectations.

I will now touch on a few highlights of the Commission's recent efforts to be a fully successful—and accountable—regulator:

The Full Disclosure System

When the Congress enacted requirements for public disclosure of corporate information in connection with new offerings of securities as part of the Securities Act of 1933, and then added requirements for continuous disclosure of corporate information as part of the Securities Exchange Act of 1934, it sowed the seeds of two, largely uncoordinated, systems of disclosure. The earliest members of the Commission recognized the potential problem. When William O. Douglas resigned as Chairman of the Commission to join the Supreme Court in 1939, he wrote to President Roosevelt that integrating those two disclosure systems was one task which he regretted he had not had the opportunity to accomplish. It was a task that remained undone until this past year, when the Commission finally took steps which should lead us very shortly to a complete rationalization and full integration of the disclosure systems of the Securities Act and the Securities Exchange Act.

In a series of related actions at the end of August, 1980, the Commission moved to make the yearly report on Form 10–K the centerpiece of corporate disclosure for both the registration of new offerings, as well as the Commission's continuous reporting requirements. Furthermore, the Form 10–K was revised and streamlined, eliminating requirements that had led to "boilerplate" disclosure, while at the same time placing new emphasis on such useful data as cash flow and the impact of inflation. As a part of this same integration effort, requirements for information that appears in both the 10–K and the less formal annual report to shareholders were made uniform, facilitating the ability of companies to use their shareholder reports, if they so choose, to meet significant portions of their 10–K filing obligation. The final major piece of the integration program should fall into place some time this year when the Commission considers adoption of a new, three-tiered system of registration for offerings based on the minimum information package contained in the new Form 10–K.

The results of this major integration initiative will be to reduce costs, delays, and other burdens associated with corporate filings, while at the same time making the disclosure system more useful to investors. For example, given the current unsettled state of the securities markets—especially the market for corporate debt as a result of rapidly fluctuating interest rates—it is extremely important that the regulatory scheme allow an offering to be brought to market in a timely fashion once the business decision to proceed with the offering is reached. Reliance on an issuer's continuous disclosure filings, as well as the availability of the technique of incorporation by reference from such filings to satisfy 1933 Act registration requirements, should aid immeasurably in that regard. The ultimate objective—which I believe we are well on the way towards achieving—is, of course, to facilitate the Nation's capital formation process.

In order to administer the new integrated disclosure system in a cost-effective manner, the Division of Corporation Finance undertook its first major reorganization in almost 20 years. Reorganized now along lines that concentrate review of companies from the same industry in the same branch, the Division is developing both reservoirs of experience in particular industries, as well as continuity in its comments on the filings of a given company. In addition, the Division has also implemented a "selective review" procedure. This allows increasingly-strained Commission resources to be focused on review of the most critical registration and continuous disclosure documents, while placing examination of other documents on an audit, or sample, basis. In some instances, registration statements of established, seasoned companies will be allowed to go effective with no staff review, with issuers reminded that adequate disclosure remains their responsibility.

At the same time as we were engaged in implementing the integrated disclosure program, and the organizational and administrative changes necessary to make it work during a period of budgetary restraint, the Commission continued its widely-acclaimed efforts to facilitate capital formation by small businesses. The focal point for these efforts is the Office of Small Business Policy, established in 1979 in the Division of Corporation Finance to spearhead and coordinate the Commission's efforts to assist smaller issuers. During the past four years, the Commission has eased registration and disclosure burdens on such issuers to the greatest extent consistent with investor protection and sound administrative practice.

A few examples should suffice: Prior to fiscal 1980, the Commission had adopted a new, abbreviated Form S–18 for registered offerings of up to $5 million. A study of the use of the streamlined Form S–18 during the first 15 months following its adoption in April, 1979 showed that it had been used to raise more than $286 million in capital, mostly by companies which had never before sought financing through the public securities markets.

As a further step in this area, the Commission, on January 17, 1980, adopted Rule 242. That Rule allows qualifying companies to raise up to $2 million in any six-month period through securities offerings totally exempt from Commission registration. The effects of this Rule were assessed in a monitoring report issued late last year, and consideration is presently being given to increasing the dollar limit of the exemption.

Significant changes have also been made to Rule 144, governing resales of securities held by affiliates of the issuer and other restricted securities. Over the past three years, the much-criticized requirements of the Rule have been relaxed considerably. After some of the initial changes, the Commission's staff undertook an

empirical study to determine the impact on the markets of this deregulatory effort. Finding no significant adverse impact from the earlier changes, the Commission continued to relax its regulation of the area, with some of the most significant changes coming just after the close of the last fiscal year.

Also during fiscal 1980, the Commission announced that it was considering the advisability of defining classes of securities issuers by size in order to make possible modified reporting requirements for smaller issuers. Public comment was sought on the various questions involved, and the Commission is considering this initiative in coordination with its efforts to implement the recently-enacted Regulatory Flexibility Act.

In a related matter, the Commission actively participated, during the fiscal year, in the development of The Small Business Investment Incentive Act of 1980. Signed into law on October 21, 1980, the Act effects a number of statutory changes which should have a beneficial impact on the ability of small business to raise needed capital.

On another front, during the past fiscal year, the Commission authorized publication of its *Staff Report on Corporate Accountability,* the product of a three-year study of mechanisms of corporate accountability, shareholder communication, and corporate governance generally. In view of the significant progress being made voluntarily by the private sector, the staff recommended against legislation, as suggested by some, to set standards for the composition and performance of corporate boards. In addition, however, to the changes in the Commission's proxy rules previously adopted as an outgrowth of the study, the staff did recommend a number of other actions for the Commission to consider, many of which may be pursued during the present fiscal year. Finally, the Commission will continue monitoring information furnished in proxy statements in order to track developments in this important and dynamic area.

The Securities Markets

The past year saw record trading volume in the Nation's securities markets, placing unprecedented demands upon the industry's trading, clearing, and back office capabilities. For example, volume on the New York Stock Exchange alone totaled 11.4 billion shares during calendar year 1980, a figure 40 percent greater than the year before, and close to four times what it was only 10 years ago. The other exchanges and the over-the-counter markets have experienced similar dramatic increases in volume.

The orderly and generally very satisfactory manner in which these demands were accommodated by the securities industry is a measure of the progress which the industry and the Commission have achieved during the past decade in modernizing and strengthening mechanisms for communication, execution, and processing. It is also testimony to the wisdom of the evolutionary approach which the Commission has followed towards facilitating the establishment of a national market system.

Undoubtedly, the single most important action in that regard was the Commission's initiative to increase market maker competition in exchange-traded securities by prohibiting application of exchange off-board trading restrictions to newly-listed securities. In adopting Rule 19c–3 last June, the Commission hoped to foster, among other things, a valuable experiment in competition between exchange and over-the-counter market makers. In order to be in a position to assess this experience—and to take appropriate regulatory action in response to trading

developments—the Commission committed itself to a careful monitoring program and will shortly issue its first monitoring report.

To make the 19c–3 experiment a meaningful one, however, the Commission also recognized that there must be an efficient trading link between the exchanges and the over-the-counter markets. To that end, the Commission was considering, at the close of the fiscal year, a regulatory measure to require the implementation of an automated linkage between the Intermarket Trading System (ITS) and the National Association of Securities Dealers' (NASD) Automated Quotation System, in the event that such a linkage is not achieved voluntarily by the parties involved. On February 5, 1981, in response to an industry initiative in that regard, the Commission issued for public comment an order which would require the linkage to be implemented, on a pilot basis, by September 30, 1981. In doing so, the Commission expressed its preliminary belief that the prompt implementation of such a linkage would both increase competition and efficiency in the Nation's securities markets, as well as enhance the ability of brokers to achieve the best possible execution of their customers' orders.

In the final analysis, however, progress towards a national market system must be measured by the events which occur in the marketplace, rather than solely by the development of any given facility, or by the number or frequency of overt Commission regulatory action. In that connection, Commission adoption of Rule 19c–3 was only the most recent of a series of steps which have been taken during the past four years to achieve a national market system. Among prior industry and Commission accomplishments were the establishment of both the ITS and the all-electronic National Securities Trading System of the Cincinnati Stock Exchange; the implementation and refinement of the nationwide consolidated quotation and transaction reporting systems; the proposal of criteria for designating securities as "qualified" to trade in a national market system, an initiative subsequently adopted in modified form after the close of the fiscal year; and the commitment of the exchanges participating in ITS to develop a joint plan for the protection of public limit orders. With the advances of fiscal 1980, it is clear that, given the continuing good faith cooperation of the industry, we stand on the threshold of having the facilities and trading environments in place which would provide the experience necessary to define the contours of a truly national market system.

Also during fiscal 1980, the Commission concluded a unique, and uniquely successful, exercise in cooperation between a regulated community and a Federal regulatory agency when it terminated the moratorium on expansion of trading in standardized, exchange-listed options on equity securities. The moratorium, adopted voluntarily by the industry in July, 1977 at the Commission's request, provided an opportunity for the Commission's staff to complete the most comprehensive study ever undertaken of the options markets. The Commission and the industry self-regulatory organizations (SROs) subsequently worked in concert to implement many of the recommendations of the study, making possible the end of the moratorium on March 26, 1980. Following the Commission's action to end the options moratorium, expansion of this important and fast-growing segment of the securities markets resumed at a measured pace in accordance with a plan worked out jointly by the affected SROs.

Moreover, recently, the Commission also approved, in principle, the expansion of the standardized exchange-traded options markets to include an options contract on a non-equity security. In approving the filing of the Chicago Board Options

Exchange to trade options on Government National Mortgage Association pass-through certificates, the Commission recognized not only the economic value to the housing industry and the economy of such trading, but also the fact that, with the enhancements of recent years, there was no reason to suspect that the regulatory environments of the registered options exchanges were not adequate to ensure that such trading would be carried on in the public interest. Other options exchanges are expected to file similar applications, and the Commission expressed its tentative view in favor of allowing multiple trading of such non-equity options.

Significant progress was also made during fiscal 1980 towards implementation of the Commission's Market Oversight and Surveillance System (MOSS). That System will enable the Commission to oversee appropriately the securities industry SROs in today's complex, increasingly interrelated and computerized, and mushrooming trading markets, as well as provide the Commission with an enhanced capacity for market and intermarket surveillance in several important areas. With a three-year authorization from the Congress, and completion of the pilot phase of the project, the Commission is now ready to begin operational implementation on a limited basis.

MOSS should be viewed as an important part of the Commission's overall program to reassess and strengthen its SRO oversight and inspection programs. It will not in any way supplant the work of the SROs, which will have continuing primary responsibility for surveillance of their own marketplaces. Rather, it will enable the Commission to carry out better its own responsibilities to provide the constructive oversight tension necessary for the self-regulatory system to continue functioning effectively.

Finally, just after the close of the fiscal year, the Commission was able to resolve a complex regulatory question that had been pending since 1976 as result of a Federal District Court decision in the case known as *Papilsky v. Berndt.* The questions raised by this case—which many felt endangered the continued viability of the fixed-price system for underwriting new issues of securities, as well as the Nation's capital raising capacity which had come to rely on that system—were resolved through approval by the Commission of new rules of the NASD governing such transactions. Again, the Commission and the industry were able to arrive at a mutually-satisfactory resolution to a complex regulatory problem without the need for the Commission to engage in direct rulemaking.

Accounting Matters

In August, 1980, the Commission submitted to the Congress the third of its series of reports on *The Accounting Profession and the Commission's Oversight Role.* These reports have played a key part in the Commission's efforts to stimulate development of a system of meaningful and effective self-regulation within the profession. Important progress has been made in this area during the past three years, all of it achieved without adoption by the Commission of a single rule. Last year's report concluded that, while the ultimate success of the profession's program remains to be proven, the significant private-sector progress to date provides a basis for continuing optimism that the objective would be achieved.

The Commission also devoted a great deal of study during fiscal 1980 to comments by corporations and their auditors with regard to difficulties which they were experiencing in complying with the accounting provisions of the Foreign Corrupt Practices Act (FCPA), enacted in December, 1977. In order to provide some

certainty about the Commission's views regarding the FCPA, and to dispel needless anxiety in the business and professional communities concerning it, the Commission recently took the unprecedented step of issuing a policy statement regarding its interpretation of and enforcement intentions under these provisions. In that statement, the Commission stressed the reasonableness standard of the Act and its principal objective of reaching knowing or reckless conduct. We also indicated that a wide degree of deference would be afforded issuers in their good faith exercise of business judgment in designing, implementing, and maintaining accounting systems to meet the requirements of the Act.

Also during the fiscal year, the Commission completed a review of the comments which it had received on its proposal to require the filing of a statement of management on the adequacy of internal accounting controls, to be reviewed by the independent auditor, as part of the issuer's 10–K report. In order to encourage private-sector initiatives in developing systems of accounting controls and reporting upon them, and based in large part upon the advances which had already been made by the private sector and its commitments for further progress, the Commission, in June, 1980, withdrew its proposed rule. In doing so, the Commission indicated that it would continue to monitor private-sector progress in the area and would revisit the question after three years' experience.

The Commission continued, during the year, to work closely with the accounting profession and the Financial Accounting Standards Board (FASB) on a wide range of issues, including the FASB's important Conceptual Framework Project. One such issue, which is key to the continued efficiency of financial disclosure, is that of accounting for the effects of changing prices.

Such disclosure, as a supplement to financial statements, was first required for the largest companies by the Commission's Accounting Series Release No. 190 (ASR 190). In September, 1979, in what the Commission views as a major breakthrough in this area, the FASB adopted Financial Accounting Statement No. 33, which addresses essentially the same needs as, and builds upon the experience gained under, ASR 190. The development of Statement No. 33 made it possible for the Commission to withdraw its own requirements, in favor of those adopted by the private sector.

The FASB's action in adopting Statement No. 33 represents a recognition that the current state of the art does not at this time permit a definitive standard, but that the urgency of the need for enhanced disclosure in this area is such that one must begin the process and still allow for the experimentation that is the only practical source of necessary experience and empirical data on which to build a better standard. Accordingly, the Commission urged issuers and their advisors to provide the most meaningful disclosure possible in this emerging area, adopting a broad safe harbor from liability for such disclosures.

Similarly, the Commission and the FASB have been involved in on-going efforts during this period to develop the most useful and appropriate accounting and disclosure standards for the activities of oil and gas producers. In August, 1978, the Commission announced its intention to begin a period of experimentation looking towards the development of a method of Reserve Recognition Accounting (RRA) to replace both successful efforts and full cost, the two historical-cost accounting methods then in use. At the time the RRA initiative was first introduced, the Commission indicated that it expected RRA to be a uniform method of accounting to be used by all oil and gas producers in their primary financial statements, but noted

that the feasibility of its development was not assured given the current state of reserve estimation technology. The Commission also indicated at that time that it would continue to explore the relevance and reliability issues raised by the commentators concerning RRA.

Since that time, the Commission has adopted requirements that data regarding changes in present value of estimated future revenues of oil and gas producers be included in certain Commission filings. It has also, however, provided that such information need not be audited and may be presented supplementally, noting both the need to allow additional time to establish and implement uniform guidelines and standards for reserve evaluation and reporting, as well as the remaining uncertainty concerning the costs and related benefits of having such information audited.

Recently, after reviewing the work of the Commission's advisory committee on RRA, and consulting further with the FASB and representatives of the petroleum engineering profession, the Commission announced that it no longer considers RRA to be a potential method of accounting in the primary financial statements of oil and gas producers, and that it supports an undertaking at this time by the FASB to develop a comprehensive package of disclosures for such entities. In doing so, the Commission reiterated its firm belief that value-based disclosures were vital to any such disclosure package, and indicated that the issue of the appropriate method of primary financial statement accounting might more usefully be addressed after the FASB has developed appropriate supplemental disclosures for oil and gas production activities and made further progress on its Conceptual Framework Project. With these actions regarding RRA, the Commission thus again displayed its willingness to experiment in an emerging area, to recognize the limitations of what it could responsibly do, and to defer to private-sector initiatives which hold the promise of meaningful progress, in a difficult area, without the need for the Commission itself to act precipitously or preemptorily.

Investment Companies

The Investment Company Act of 1940 is perhaps one of the most extreme of the Commission's major regulatory statutes in terms of the degree of constraint which it imposes upon an industry. A major regulatory reform effort during the past three years has been the Commission's project to cut back on the involvement of the Commission and its staff in the business decisions of investment companies. The objective has been to reduce the costs and burdens of regulation, while at the same time enhancing the authority and responsibility of investment company directors—especially the independent directors—in overseeing management decisions.

To pursue this effort, the Investment Company Act Study Group was established in the Division of Investment Management during fiscal year 1978. The Group has been at work since that time, reviewing the complex of statutory provisions and Commission rules applicable to investment companies with a view towards reducing reporting burdens and direct Commission regulatory involvement wherever possible.

One of the first major initiatives to result from this Study was withdrawal of the policy that had resulted in detailed Commission staff review and clearance of investment company advertisements. In addition, during fiscal 1980, the Commission adopted several rules which permit, under certain circumstances, previously-prohibited transactions between an investment company and its affiliated persons. Shortly after the close of the fiscal year, the Commission also adopted rules

permitting mutual funds, for the first time, to use fund assets to finance the distribution of their own shares. This action resolved a persistent controversy and was taken, consistent with the goals of the Investment Company Act Study, despite long-standing doubts about both the benefits of such use of investment company assets and whether the practice is fair to existing shareholders. Once again, ultimate responsibility for those decisions is placed on the company's directors, where it belongs, subject to certain safeguards.

Finally, during the past fiscal year, the Commission adopted Rule 465 under the Securities Act, permitting amendments to the registration statements of open-end investment companies to become effective without any action on the part of the Commission or its staff. For these funds, which maintain a continuous offering of their shares, this action will steamline the amendment process and permit the registrants themselves to assume greater responsibility for meeting their disclosure obligations.

Enforcement and Litigation

The individual initiatives which I have just described comprise only a small part of the wide range of activities in which the Commission has been involved during the past fiscal year. For example, our enforcement program continues to be the best of its kind anywhere in the Federal government, lending credibility to all Commission disclosure and regulatory activities. In addition, we have successfully focused much of our enforcement efforts—which, like other Commission operations, are limited by available resources—on areas critical to the integrity of the public securities markets, such as insider trading.

Similarly, in an area of increasing importance to investor protection and the orderly development of the law, the Commission's Office of the General Counsel has strengthened the Commission's ability to identify and participate, as *amicus curiae,* in legal proceedings between private parties that could have a significant impact on the interpretation of the Federal securities laws. This effort has been increasingly important given the adverse effects of certain recent court decisions limiting private rights of action.

Program Analysis and Management

The Commission has also continued, during fiscal 1980, to attempt to institutionalize empirical analysis and monitoring as fundamental tools in rulemaking and assessing regulatory impact. The previously-mentioned reports on the usage of Form S–18, Rule 242, and Rule 144, and the programs developed to monitor such diverse areas of concern as private sector progress concerning board composition and functioning and the effects of Rule 19c–3, are all illustrative of the success of this initiative. Moreover, the Commission has begun to issue expanded yearly reports on the securities industry provided by the Commission's Directorate of Economic and Policy Analysis.

Finally, by way of managerial improvements, the Commission implemented, during the fiscal year, a new performance evaluation system for middle-level managers, an automated position tracking system, an automated Case Activity Tracking System, new financial controls, and systematic management reviews. An internal audit function was established at the Commission for the first time; a unique arrangement with the Office of Personnel Management has provided the

Commission with the opportunity to develop a new performance appraisal system that will aid in manpower planning, career counseling, and management development; upgrades of data processing and information storage and retrieval systems have brought state-of-the-art technology to those important areas of Commission operations; and programs to strengthen both communication with key constituencies and public education about the Federal securities laws have helped facilitate accomplishment of the Commission's mission. These initiatives, together with such earlier management efforts as our development of the Commission's Staff Time and Activity Tracking System, have improved our ability to utilize effectively our limited resources and to enhance the professionalism with which the Agency is managed.

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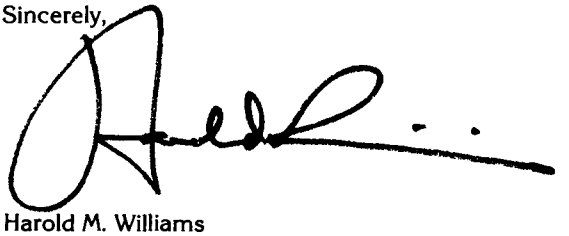
As the Commission approaches the completion of its first half-century, I am pleased to be able to report that it remains the vigorous, flexible, and responsive regulatory agency that its architects undoubtedly intended it to be. When a reexamination of its processes, a rethinking of its policies, or a rebalancing of its relationship to the private sector has been necessary, the Commission has shown itself ready and able to undertake the task.

The staff—which has earned, collectively and individually, a reputation as the best in the Federal Government—remains capable and committed. It is a tribute to what a meritocracy can achieve in government. Its members have appreciated the need for regulatory reform, and they have had the intelligence, creativity, and sophistication to fashion Commission initiatives and to enforce securities regulations in the highest traditions of this unique agency. I am proud of them and honored to have been associated with them.

In addition, those in the private sector, on the whole, have also responded to the Commission's initiatives in a most responsible and constructive manner. Most have shown an understanding of, and a commitment to, the necessity of maintaining an appropriate degree of Commission presence and discipline in protecting the integrity of the Nation's securities markets. Moreover, they have accepted their own responsibilities most creatively and positively. As is common among people of goodwill, we have, at times, disagreed. But, my sense is that there is a remarkably broad consensus on common objectives.

In sum, the Commission has—with the cooperation and understanding of the private sector—proven able to adapt to the demands of the times and the realities of limited resources. I think that I speak for my fellow Commissioners and the Commission's staff when I say that we are proud of the important role which we have played in helping to keep the Nation's securities markets the best in the world, and that we are prepared to continue doing so.

Sincerely,



Harold M. Williams
Chairman

Commissioners and Principal Staff Officers

(As of December 31, 1980)

Commissioners	Term expires June 5
HAROLD M. WILLIAMS of California, *Chairman*	1982
PHILIP A. LOOMIS, JR., of California	1984
JOHN R. EVANS of Utah	1983
STEPHEN J. FRIEDMAN of New York	1981
BARBARA S. THOMAS of New York	1985

Secretary: **George A. Fitzsimmons**

Executive Assistant to the Chairman: **Daniel L. Goelzer**

Principal Staff Officers

Benjamin Milk, *Executive Director*
George G. Kundahl, *Deputy Executive Director*
Edward F. Greene, *Director, Division of Corporation Finance*
- **Lee B. Spencer**, *Deputy Director*
- **William C. Wood**, *Associate Director*
- **Mary E. T. Beach**, *Associate Director*
- **John T. Shinkle**, *Associate Director*

Stanley Sporkin, *Director, Division of Enforcement*
- **Irwin M. Borowski**, *Associate Director*
- **Benjamin Greenspoon**, *Associate Director*
- **David P. Doherty**, *Associate Director*
- **Theodore A. Levine**, *Associate Director*

Douglas Scarff, *Director, Division of Market Regulation*
- **Sheldon Rappaport**, *Deputy Director*
- **Roger D. Blanc**, *Associate Director*
- **George T. Simon**, *Associate Director*
- **Edward A. Kwalwasser**, *Associate Director*
- **(Vacant)**, *Associate Director*

Sydney H. Mendelsohn, *Director, Division of Investment Management*
- **Martin C. Lybecker**, *Associate Director*
- **Joel Goldberg**, *Associate Director*

Aaron Levy, *Director, Division of Corporate Regulation*
- **Grant Guthrie**, *Associate Director*

Ralph C. Ferrara, *General Counsel*
- **Jacob H. Stillman**, *Associate General Counsel*
- **(Vacant)**, *Associate General Counsel*
- **Michael K. Wolensky**, *Associate General Counsel*

Paul Gonson, *Solicitor to the Commission*
Andrew L. Rothman, *Director, Office of Public Affairs*
Chiles T.A. Larson, *Deputy Director*
A. Clarence Sampson, *Chief Accountant*
LeGrand C. Kirby, *Deputy Chief Accountant*
Steven E. Levy, *Director of Economic and Policy Analysis*
William Stern, *Director, Office of Opinions and Review*
Herbert V. Efron, *Associate Director*
R. Moshe Simon, *Associate Director*
Warren E. Blair, *Chief Administrative Law Judge*
Lawrence H. Haynes, *Comptroller*
Richard J. Kanyan, *Director, Office of Administrative Services*
G. William Richardson, *Deputy Director*
James C. Foster, *Director, Officer of Personnel*
Wilson Butler, *Director, Office of Applications and Reports*
John D. Adkins, *Director, Office of Data Processing*
Thomas J. Whalen, *Deputy Director*
Robert R. Wolf, *Acting Director, Office of Consumer Affairs and Information Services*
Matthew R. Schneider, *Director of Legislative Affairs*

Regional and Branch Offices

Regional Offices and Administrators

Region 1. New York, New Jersey.—**Stephen L. Hammerman,** 26 Federal Plaza, New York, New York 10007.

Region 2. Massachusetts, Connecticut, Rhode Island, Vermont, New Hampshire, Maine.—**Willis H. Riccio,** 150 Causeway St., Boston, Massachusetts 02114.

Region 3. Tennessee, Virgin Islands, Puerto Rico, North Carolina, South Carolina, Georgia, Alabama, Mississippi, Florida, part of Louisiana.—**Jule B. Greene,** Suite 788, 1375 Peachtree St., N.E., Atlanta, Georgia 30367.

Region 4. Illinois, Indiana, Iowa, Kansas City (Kansas), Kentucky, Michigan, Minnesota, Missouri, Ohio, Wisconsin.— **William D. Goldsberry,** Room 1204, Everett McKinley Dirksen Bldg., 219 S. Dearborn St., Chicago, Illinois 60604.

Region 5. Oklahoma, Arkansas, Texas, part of Louisiana, Kansas (except Kansas City).—**Wayne M. Secore,** 8th Floor, 411 West Seventh St., Fort Worth, Texas 76102.

Region 6. North Dakota, South Dakota, Wyoming, Nebraska, Colorado, New Mexico, Utah.—**Robert H. Davenport,** Suite 700, 410 Seventeenth St., Denver, Colorado 80202.

Region 7. California, Nevada, Arizona, Hawaii, Guam.—**Leonard H. Rossen,** Suite 1710, 10960 Wilshsire Boulevard, Los Angeles, California 90024.

Region 8. Washington, Oregon, Idaho, Montana, Alaska.—**Jack H. Bookey,** 3040 Federal Building, 915 Second Ave., Seattle, Washington 98174.

Region 9. Pennsylvania, Maryland, Virginia, West Virginia, Delaware, District of Columbia.—**Paul F. Leonard,** Room 300, Ballston Center Tower No. 3, 4015 Wilson Boulevard, Arlington, Virginia 22203.

Branch Offices

Detroit, Michigan 48226.—231 Lafayette St., 1044 Federal Bldg.

Houston, Texas 77002.—Room 5615, Federal Office & Courts Bldg., 515 Rusk Ave.

Miami, Florida 33131.—Suite 1114, DuPont Plaza Center, 300 Biscayne Boulevard Way.

Philadelphia, Pennsylvania 19106.—Federal Bldg., Room 2204, 600 Arch St.

Salt Lake City, Utah 84111.—Suite 810, Boston Bldg., One Exchange Place.

San Francisco, California 94102.—450 Golden Gate Ave., Box 36042.

Biographies of Commissioners

Harold M. Williams, *Chairman*

Chairman Williams was born on January 5, 1928, in Philadelphia, Pennsylvania. He received his B.A. from UCLA in 1946, graduating Phi Beta Kappa at the age of 18. Three years later he was awarded his J.D. degree from Harvard University Law School. He joined a Los Angeles law firm in 1949 where he specialized in tax and corporation law and remained until 1955 except for an interruption to serve as a U.S. Army legal officer during the Korean emergency. He joined Hunt Foods and Industries, Inc., in 1955 as Associate Tax Counsel. He subsequently became Tax Counsel, Vice President– Finance and Executive Vice President. In 1964, he became President of Hunt-Wesson Foods, Inc. In 1968, he was elected President of Hunt Foods and Industries, Inc., and with the formation of Norton Simon, Inc., later that year—resulting from consolidation of Canada Dry Corporation, Hunt Foods and Industries, Inc., and McCall Corporation—he was named Chairman of the new company's Finance Committee. In 1969, he assumed the additional post of Chairman of the Board of Norton Simon, Inc. In July of 1970, Mr. Williams became Dean and Professor of Management of the UCLA Graduate School of Management. During his administration, the School achieved national ranking, including recognition as the leading graduate business school in a public university. During the 1973 energy crisis, Mr. Williams took leave to serve as full-time Energy Coordinator for the City of Los Angeles. While at UCLA, Mr. Williams also served as Director of Norton Simon, Inc., Phillips Petroleum Company, ARA Services, Inc., CNA Financial Corporation, Signal Companies, Inc., and Montgomery Street Income Securities, and as a Trustee of the Aerospace Corporation. In his service to the community, Mr. Williams acted as Co-Chairman for the Public Commission on Los Angeles County Government, a subcommittee chairman of the Mayor's *ad hoc* Committee on Los Angeles City Revenues, a member of the State of California Commission for Economic Development and of the California Citizens Commission on Tort Reform, and a member of the SEC Advisory Committee on Corporate Disclosure.

Philip A. Loomis, Jr.

Commissioner Loomis was born in Colorado Springs, Colorado, on June 11, 1915. He received an A.B. degree, with highest honors, from Princeton University in 1938 and an LL.B. degree, cum laude, from Yale Law School in 1941, where he was a Law Journal editor. Prior to joining the staff of the Securities and Exchange Commission, Commissioner Loomis practiced law with the firm of O'Melveny and Myers in Los Angeles, California. Commissioner Loomis joined the Commission's staff as a consultant in 1954, and the following year he was appointed Associate Director and then director of the Division of Trading and Exchanges. In 1963, Commissioner Loomis was appointed General Counsel to the Commission and served in that capacity until his appointment as a member of the Commission. Commissioner Loomis is a member of the American Bar Association and the American Law Institute. He received the Career Service Award of the National Civil Service League in 1964, the Securities and Exchange Commission Distinguished Service Award in 1966, and the Justice Tom C. Clark Award of the Federal Bar Association in 1971. He took office as a member of the Securities and Exchange Commission on August 13, 1971, and is now serving for the term of office expiring June 5, 1984.

John R. Evans

Commissioner Evans was born in Bisbee, Arizona, on June 1, 1932. He received his B.S. degree in Economics in 1957, and his M.S. degree in Economics in 1959 from the University of Utah. He was a Research Assistant and later a Research Analyst at the Bureau of Economics and Business Research at the University of Utah, where he was also an instructor of Economics during 1962 and 1963. He came to Washington in February 1963, as Economics Assistant to Senator Wallace F. Bennett of Utah. From July 1964 through June 1971 Commissioner Evans was minority staff director of the U.S. Senate Committee on Banking, Housing and Urban Affairs and served as a member or the professional staff from June 1971 to March 1973. He took office as a member of the Securities and Exchange Commission on March 3, 1973, and is now serving for the term expiring June 5, 1983.

Stephen J. Friedman

Commissioner Friedman was born on March 19, 1938 in New York City. In 1959 he received an AB, magna cum laude, from Princeton University where he majored in public and international affairs (Woodrow Wilson School). He graduated from Harvard Law School, LL.B. 1962, magna cum laude, where he was an editor of the Harvard Law Review. Mr. Friedman began his career clerking for Supreme Court Associate Justice William J. Brennan, Jr. in July 1963. From July 1964 to July 1965, he served as Special Assistant to the Maritime Administrator at the Department of Commerce. He joined the New York firm of Debevoise, Plimpton, Lyons & Gates as an associate in August 1965, and became a partner of that firm in January 1971. From 1974 to 1977 he was also a lecturer in advanced securities regulation and corporation finance at Columbia Law School. From 1974 to 1979 he served in the Treasury Department as Deputy Assistant Secretary for Capital Markets Policy. Mr. Friedman is the author of a number of published speeches and articles on corporate, financial and securities law, and of *An Affair with Freedom: Mr. Justice Brennan,* published in 1967. He also contributed articles on Justices Brennan and Goldberg to *The Justices of the United States Supreme Court,* published in 1969, and was the draftsman of the Revised Uniform Limited Partnership Act, prepared under the auspices of the National Conference of Commissioners on Uniform State Laws. He has been a member of the Federal Regulation of Securities Committee, American Bar Association and a member of the Committee on Securities Regulation and the Ethics Committee of the Association of the Bar of the City of New York. In addition, he has served as co-chairman of the Committee on Banking of the Administrative Law Section of the American Bar Association from 1965 to the present. Mr. Friedman took the oath of office as a member of the Securities and Exchange Commission on April 14, 1980, for the term expiring on June 5, 1981.

Barbara S. Thomas

Commissioner Thomas was born December 28, 1946. She received a B.A. cum laude in history from the University of Pennsylvania in 1966. In 1969, she received a J.D. from the New York University School of Law, cum laude, where she placed second in a class of 323, was a member of the Order of the Coif, and was an editor of the New York University Law Review. A John Norton Pomroy Scholar, she received the Jefferson Davis Prize in Public Law, American Jurisprudence Prizes for Excellence in 15 subjects and made the Dean's List every semester. Mrs. Thomas was an associate of the firm of Paul, Weiss, Rifkind, Wharton & Garrison in New York from September 1969 to April 1973 when she joined the firm of Kaye, Scholer, Fierman, Hays & Handler, also of New York, as an associate. In January 1978, Mrs. Thomas was made a partner of Kaye, Scholer, Fierman, Hays & Handler. She was Chairman of the Corporation Law Committee of the Association of the Bar of the City of New York, a member of the Committee on Federal Regulation of Securities of the American Bar Association and a member of the Securities Regulation Committee of the New York State Bar Association. She is also a member of the University of Pennsylvania Alumni Council on Admissions. On October 21, 1980, Mrs. Thomas took the oath of office as a member of the Securities and Exchange Commission, and is now serving for a term that expires June 5, 1985.

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Regulation of the Securities Markets

Securities Markets, Facilities and Trading

Natural Market System — During the past fiscal year, continued progress was made in the development of a national market system. Most significantly, the Commission initiated an experiment designed to increase competition in exchange-traded securities.

On June 11, 1980, the Commission adopted Rule 19c-3 under the Securities Exchange Act of 1934 (Exchange Act).[1] The rule precludes the application of off-board trading restrictions to certain securities that become exchange-listed after April 26, 1979, including those securities which had been listed previously, but failed to remain so.

In its release adopting Rule 19c-3, the Commission noted that the rule will provide the opportunity for competition between over-the-counter and exchange markets. By permitting exchange members to effect transactions in-house, the rule may also result in cost savings for brokers, dealers and investors. Furthermore, by limiting expansion of off-board trading restrictions, the rule will maintain the status quo pending resolution of the broader issues associated with such anti-competitive requirements generally. Finally, the rule will permit the Commission and the industry to gain valuable experience regarding the effects of concurrent over-the-counter and exchange trading. Among other matters, experience under the rule should enable the Commission to observe the effectiveness of existing trading systems, particularly the Intermarket Trading System (ITS) and the Cincinnati Stock Exchange's automated National Securities Trading System (NSTS), in addressing the needs of such an environment. The lessons of this experience may provide incentives to improve those systems or to develop new systems to accommodate any changes in trading patterns that occur.

In a separate release, the Commission noted that it did not expect to take further action in the near future with respect to off-board trading restrictions generally.[2] Accordingly, the Commission withdrew an earlier proposal — proposed Rule 19c-2 under the Exchange Act — with respect to off-board trading rules. That proposal, which was published in June 1977,[3] would have eliminated all remaining exchange restrictions on off-board principal transactions and on "in-house agency crosses," (i.e., off-board agency transactions in which a member acts as agent for both buyer and seller in the same transaction), with respect to reported securities.

On December 5, 1979, the Commission proposed Rule 11Aa3-2 under the Exchange Act, which, if adopted, would establish procedures relating to the filing and approval of plans governing planning, developing, operating or regulating a national market system or its facilities.[4] The rule is proposed to be adopted pursuant to Section 11A(a)(3)(B) of the Exchange Act, which provides for Commission approval of joint industry action with respect to the establishment of a national market system. At the close of the fiscal year, the Commission was analyzing the comments received in response to pro-

posed Rule 11Aa3-2 and was considering further action with respect to it.

On February 19, 1980, the Commission adopted two proposals designed to refine the operation of the consolidated transaction reporting and quotation systems. First, the Commission adopted an amendment to existing Rule 17a-15[5] (redesignated as Rule 11Aa3-1) under the Exchange Act which eliminates, subject to one condition, the preexisting prohibition on retransmission of transaction information for purposes of creating a moving ticker display. It also sets forth procedures for amending transaction reporting plans filed pursuant to the rule.

Second, the Commission adopted Rule 11Ac1-2 under the Exchange Act, which imposes minimum requirements regulating the manner in which securities information vendors display transaction and quotation information.[6] Most importantly, the rule requires that the NASDAQ system disseminate, for securities traded solely over-the-counter, the best bid and best offer as opposed to a "representative" quotation. This provision of the rule became effective on July 5, 1980. On June 24, 1980, in order to allow time for development of certain quotation processing facilities related to compliance with the rule, the Commission extended the effective date of portions of the rule regulating the display of quotation and transaction information for exchange-traded securities.[7]

During the fiscal year, the Commission continued its efforts to achieve its goal of intermarket price protection, initially for public limit orders, and ultimately for all orders. The Commission reviewed comments received on proposed Rule 11Ac1-3 under the Exchange Act,[8] which, if adopted, would prohibit any broker or dealer from executing any order to buy or sell certain securities at a price inferior to the price of any public limit order displayed at the time of execution unless the broker or dealer assures that those limit orders are satisfied. In addition, the Commission continued to encourage the ITS participants to implement their commitment to develop a joint plan for protection of public limit orders. At the end of the fiscal year, the Commission was anticipating the receipt of an amendment to the ITS plan that would provide for the implementation and operation of a pilot Limit Order Information System (LOIS). LOIS would provide, on the floor of each ITS participant, a display of limit orders entered from all participant exchanges at various price levels. LOIS, in combination with ITS, is intended to provide a mechanism through which nationwide limit order protection with respect to certain block transactions may be achieved. Finally, the ITS participants have, on their own initiative, begun discussions about a rule that would preclude the execution of transactions on one ITS participant at prices inferior to the quotations disseminated by any other ITS participant.

The Commission has also continued to encourage the development of linkages between the ITS and the over-the-counter market and between the ITS and the NSTS. In its release adopting Rule 19c-3, the Commission stated that it expected that the ITS participants and the National Association of Securities Dealers, Inc. (NASD) would quickly reach agreement on an automated linkage between the ITS and the NASDAQ system, which was recently enhanced to provide the capability for automated execution against third market maker quotations. The Commission also stated that it expected that the ITS participants and the NSTS would quickly reach agreement on a linkage between their systems.

Shortly before the end of the fiscal year, the Commission received a status

report from each of the relevant parties on the implementation of a linkage in the near term between the ITS and the NSTS. However, the ITS participants did not commit themselves to the implementation of an automated linkage between the ITS and the NASDAQ system. While hopeful of achieving voluntary industry agreement with respect to the linkage between the ITS and the NASDAQ system, the Commission, at the close of the fiscal year, was considering regulatory measures to ensure the implementation of that linkage if no voluntary agreement is reached.

National System for Clearance and Settlement of Securities Transactions—During the fiscal year, substantial progress was made in the Commission's effort to foster development of a national system for clearance and settlement of securities transactions. The staff continued its review of the two issues remanded by the United States Court of Appeals for the District of Columbia Circuit in *Bradford National Clearing Corporation v. Securities and Exchange Commission.*[9] In that decision, the court affirmed the Commission's decision granting the application of National Securities Clearing Corporation (NSCC) for registration as a clearing agency. The Commission has viewed that registration as a key step in achieving a national clearance and settlement system. While not disturbing NSCC's registration, the court remanded two issues to the Commission for further consideration: (a) NSCC's selection of Securities Industry Automation Corporation as the facilities manager of its consolidated system without competitive bidding; and (b) NSCC's use of geographic price mutualization (GPM). GPM is the practice of charging all participants the same fees regardless of whether the participants deal with the clearing agency at its main facility or through a branch office.

In March 1979, the Commission solicited public comment on those two issues.[10] In addition to the 11 comment letters received by the Commission in the previous fiscal year, the Commission received three letters in fiscal 1980 from NSCC in response to those comment letters, as well as a report on the economic aspects of competitive bidding and GPM, submitted on behalf of NSCC. The Commission also received an economic report submitted on behalf of Bradford National Corporation in response to NSCC's report. The Commission is completing its review of those letters, reports, and other available information and expects to announce its decision on these issues in fiscal year 1981.

The Commission continued its review of the issues raised by proposed rule changes submitted by Bradford Securities Processing Services, Inc. and NSCC that would establish automated comparison and clearance systems for municipal securities. Such systems have resulted in significant improvements in the processing of equity and corporate debt securities. Specifically, the proposed systems would (a) enable municipal securities brokers and dealers to compare transactions through a central entity rather than having to relate directly to each broker and dealer with whom they execute transactions; (b) increase standardization in the processing of transactions in municipal securities; and (c) provide the settlement and financial benefits that accrue from the netting of transactions in the same security.

Progress toward a national system was also evident in other areas. The expansion of interfaces among securities depositories was furthered by the Commission's approval of proposed rule changes filed by The Depository Trust Company and the Philadelphia Depository Trust Company establishing an in-

terface between them.[11] That interface permits a participant in either depository to make book entry movements of securities either to its own account, or to an account of another participant, in the other depository. It thus eliminates the need for the actual withdrawal and physical movement of securities in order to settle transactions among depository participants. In addition, the national system was furthered by the approval of a rule change which established procedures whereby book-entry transfers within New England Securities Depository Trust Company may be used for settlement of trades clearing through Boston Stock Exchange Clearing Corporation.[12]

Options Trading—As previously reported, beginning on July 15, 1977, there existed, at the Commission's request, a voluntary moratorium on expansion of the standardized options markets, pending (a) completion of the Commission's Special Study of the Options Markets (Options Study); (b) evaluation of the Options Study's findings; and (c) resolution of Commission concerns regarding the adequacy of the regulatory framework within which standardized options trading occurred.[13]

The report of the Options Study was released to the public on February 15, 1979,[14] followed by a Commission release, on February 22, 1979, setting forth the Commission's plan for implementing the Options Study's recommendations and terminating the moratorium.[15] In that release, the Commission stated that, before it would permit further expansion of the options markets, certain ,recommendations of the Options Study would have to be implemented by the options self-regulatory organizations and the broker-dealer community. These recommendations generally called for additional self-regulatory organization rules, improvements in self-regulatory organization surveillance and compliance systems and procedures, and improved regulatory controls by brokerage firms.

Upon finding that the self-regulatory organizations had responsibly addressed the major regulatory deficiencies identified by the Options Study, the Commission determined on March 26, 1980, to terminate the moratorium and to begin to permit further expansion of the standardized options markets.[16] The Commission, therefore, approved rule change proposals submitted by each of the options exchanges and the New York Stock Exchange (NYSE).[17] Those rules, if complied with, should provide significant additional protection for public investors.[18] The Commission also received undertakings from the options exchanges that were found to be generally responsive to the Options Study recommendations to revise their broker-dealer examination and compliance procedures. In addition, the Commission found that the surveillance systems of the options exchanges, if effectively utilized and upgraded in the normal course of business and in response to Commission staff requests, would be adequate to detect most currently known trading abuses involving options and their underlying securities. With respect to those few recommendations that the Commission did not believe the self-regulatory organization rule proposals addressed adequately, such as those relating to the establishment of a central customer complaint file and the disclosure of commission information on customer account statements, the Commission indicated that it intended to initiate formal rule-making proceedings to determine whether Commission rules mandating compliance with such recommendations should be adopted.

In its release terminating the options

moratorium, the Commission also issued a general statement of policy regarding the listing of additional put and call options classes, the expansion of multiple trading and the filing of expansionary rule proposals (March policy statement).[19] As a result of the options moratorium, each options exchange had been limited to the listing and trading of five put option classes. In the March policy statement, the Commission stated that it had not identified any surveillance or compliance problems unique to puts trading and perceived certain benefits with respect to the listing of puts and calls on the same underlying security. To ensure that puts expansion would occur in an orderly manner, the Commission requested each options exchange to furnish to the Commission a proposed puts expansion schedule and to file proposals to increase the number of its authorized puts classes in accordance with that schedule. Pursuant to the schedules subsequently submitted by each of the options exchanges,[20] and based on representations that puts expansion would not adversely affect exchange surveillance, operational capabilities or member firms back office operations, the Commission approved a series of proposals to enable each options exchange to list puts on any security underlying that exchange's call option classes.[21]

In view of the continuing restriction on multiple trading and the limited number of attractive stocks meeting the current options listing standards, the Commission requested the options exchanges to formulate and jointly submit, an appropriate plan to allocate additional call options. On May 30, 1980, the Commission approved proposals by the options exchanges incorporating a listing procedure devised jointly by them for the selection of 60 additional call options classes.[22] By the end of the fiscal year, pursuant to Commission authorization,[23] the options exchanges had instituted options trading on most of the securities selected in the initial allocation.

One issue raised, but not resolved by the Options Study was whether the Commission should continue its policy of restricting multiple trading in exchange-traded options. In the March policy statement, the Commission stated that, under appropriate circumstances, the benefits of multiple trading appeared to outweigh any adverse consequences. At the same time, the Commission expressed the belief that the near-term development of market integration facilities might create a more fair and efficient market structure within which multiple trading could occur. As a result, the Commission deferred further action on the general expansion of multiple trading in order to afford the self-regulatory organizations an opportunity to consider whether, and to what extent, the development of market integration facilities would minimize market fragmentation and maximize competitive opportunities in the options markets. In this regard, the Commission requested that the self-regulatory organizations jointly discuss the desirability of implementing such facilities and submit a report to the Commission which either described the facilities needed and a plan for their implementation, or explained why such facilities were unnecessary, unfeasible or otherwise inappropriate. In response to the Commission's request, the options exchanges have formed a joint task force to study options market integration questions.

Finally, the March policy statement announced the Commission's determination to once again begin to consider expansionary self-regulatory organization rule proposals relating to options. Among the regulatory initiatives submitted by the self-regulatory organiza-

tions since the termination of the moratorium are proposals to rescind their respective restricted options rules and to modify options position limits, exercise limits and strike price intervals. The self-regulatory organizations have also submitted proposals involving new options products, including an NASD proposal to trade standardized options in the over-the-counter market[24] and a Chicago Board Options Exchange (CBOE) proposal to trade options on Government National Mortgage Association modified pass-through certificates (GNMA).[25] At the end of the fiscal year, the Commission was actively reviewing these proposals.

Study of Government Securities Markets—As a result of an inquiry from Senator Harrison A. Williams, the Commission staff, together with staff members of the Department of the Treasury and the Board of Governors of the Federal Reserve System, conducted a study of the government-related securities markets. Staff members of the three agencies assembled information about these markets, including abusive practices in securities transactions by market participants, and analyzed the adequacy of existing regulation of these markets. The agencies are preparing a report for presentation to the Congress that analyzes the need for increased regulation of the government-related securities markets and for legislation establishing a new regulatory structure.

Issuer Repurchases—Late in the fiscal year, the Commission considered republishing for comment a revised version of proposed Rule 13e-2 under the Exchange Act. If adopted, Rule 13e-2 would regulate purchases of an issuer's securities by or on behalf of the issuer and certain other persons. The rule would generally limit the time, price and volume of such purchases. In addition to the purchasing limitations, the rule would impose specific disclosure requirements that would pertain to repurchase programs of substantial size. The regulatory predicate that underlies proposed Rule 13e-2 is the need for a pattern of regulation that limits the ability of an issuer and persons whose purchases are closely related to those of the issuer to control the price of the issuer's securities. The rule, therefore, is designed to assure that the trading markets are free from control or domination by the issuer and certain other persons. Proposed Rule 13e-2 had been previously published for comment in 1970 and 1973. (Subsequent to the close of the fiscal year, on October 17, 1980, the Commission published a release asking for public comment on a revised version of proposed Rule 13e-2.[26]

Effects Of The Absence of Fixed Commission Rates—In May 1975, the Commission prohibited the national securities exchanges from prescribing fixed minimum commission rates to be charged by their members. Later that year, the Congress enacted a similar prohibition as part of the 1975 Amendments. Pursuant to that legislation, the Commission submitted to the Congress five reports (through December 31, 1976), describing the effects of the unfixing of commission rates on the maintenance of fair and orderly markets and on the development of a national market system for securities.

Analysis of commission rates is now integrated into the Commission's ongoing monitoring of the financial condition of the industry. In that connection, the Commission's Directorate of Economic and Policy Analysis released to the public in September 1980, a "Staff Report on the Securities Industry in 1979" (Staff Report), which detailed the results of its commission rate survey in the context of a comprehensive analysis of the basic economic dynamics of the securities industry. The Staff Re-

port—the third in a continuing series of annual reports designed to provide the Commission with an economic basis for anticipating the impact of regulatory changes upon the securities industry, investors and the broader economy—greatly expands the scope of the previous reports on the securities industry with respect to fundamental industry trends and relationships while continuing to monitor the impact of negotiated commission rates.

Some of the more specific findings in regard to commission rates are as follows. From April 1975 through June 1980, individual investors' effective commission rates, when measured as a percent of principal value, declined 18.2 percent. Institutional customers, because of their larger average order size and greater bargaining power, have negotiated discounts averaging 56.3 percent from the pre-May 1975 exchange-prescribed minimum rates. When commission rates are measured in cents per share, the declines were 10.5 percent for individuals and 55.3 percent for institutions. Individuals paid an average of 26.9 cents per share on their June 1980 orders, which averaged 427 shares in size. Institutional orders averaged 2,513 shares in size and commissions on these orders averaged 11.6 cents per share. Individual orders of 10,000 shares or more showed commission rate discounts comparable to similarly sized institutional orders.

Broker-dealers were affected by the elimination of fixed minimum commission rates largely depending upon the extent to which they served institutional investors. Some firms which did a large portion of their total business with institutions have merged with more diversified firms or have gone out of business and a new industry segment, discount broker-dealers, has appeared. On the whole, these changes now offer investors a broader spectrum of services with a correspondingly broader range of commission rates.

Monitoring Commission Rules—Monitoring of Commission rules continues with the annual *Staff Report on the Securities Industry in 1979* (the 1979 Report released in September 1980), which describes and analyzes the securities industry's financial experience and focuses upon major areas of concern to the industry and the Commission. During the last fiscal year, the Commission's Directorate of Economic and Policy Analysis also developed and implemented a program to monitor the impact of Rule 19c-3, which involves an experimental removal of off-board trading rules; published the results of a survey measuring the impact on broker-dealers of Section 11(a) of the 1934 Act, which makes it unlawful for a member of a national securities exchange to effect certain transactions, and of the temporary rules promulgated by the Commission to alleviate the unintended effects of that section; continued to monitor and provide reports to the Commission concerning the effects of the Intermarket Trading System on the quality of markets, the routing of order flow and intermarket competition; provided monitoring reports to the Commission concerning the Cincinnati Stock Exchange National Securities Trading System, an automated securities trading market; compiled and reported the results on its Survey of Specialists, which has been conducted over the past five years; and published a study on the monitoring of the operation of Rule 144 (a "safe harbor" rule applicable to public sales of restricted stock in the over-the-counter market) and its effect on securities prices.

PAUL GONSON
SECURITIES AND EXCHANGE COMM'N
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Regulation of Brokers, Dealers, Municipal Securities Dealers and Transfer Agents

Regulatory Burdens on Small Brokers and Dealers — The Commission is aware of the need to evaluate the costs and competitive impact of its regulations on small brokers and dealers. Accordingly, in adopting regulatory requirements, the Commission weighs the benefits to investor protection and other statutory goals against possible compliance and competitive burdens. In addition, the Commission endeavors to tailor regulatory requirements to particular business practices so as to avoid imposing unnecessary regulatory burdens. This effort can particularly benefit small, more specialized brokerage firms.

Broker-Dealer Reporting Requirements — On September 9, 1980, the Commission proposed amendments to Form X-17A-5, the Financial and Operational Combined Uniform Single (FOCUS) Report, under the Exchange Act, which is filed with the Commission by broker-dealers.[27] The proposed amendments would revise and clarify certain requirements of the FOCUS reporting system so that the reporting burden is minimized, consistent with the attainment of other public policy objectives. In addition, they would provide more useful information that will assist the Commission in monitoring the operations and financial condition of broker-dealers and in evaluating the likely effect of proposed and existing regulations on the securities industry and would define items more clearly so that information will be reported in a consistent manner by all firms.

Registration Requirements — Form U-4, the Uniform Application for Securities and Commodities Industry Registration, is the personnel form that the Commission requires to be filed on behalf of associated persons of a broker or dealer by a registered broker or dealer who is not a member of a registered national securities association. Form U-4 is also accepted as a uniform application form for associated persons by 46 states, all of the national securities exchanges and the NASD.

During fiscal 1980, the Commission proposed for adoption extensive revisions to Form U-4.[28] These proposed revisions include changes in format to improve clarity and to eliminate duplication and the addition of several questions requesting information about the applicant. If adopted, this amended form will be used by the entities which currently use Form U-4. The amended form would also be used in implementing the operation of the Central Records Depository (CRD). The CRD is a joint undertaking by the self-regulatory organizations and 46 states, under which an applicant will be required to file only one application in order to register with all participating entities.

Broker-Dealer Examinations — As a result of a reorganization within the Division of Market Regulation in January 1980, the Branch of Broker-Dealer Examinations was established in the Office of Inspections, Examinations and Surveillance. The branch has primary responsibility for the coordination of the Commission's broker-dealer examination programs.

The branch plans and coordinates the broker-dealer examinations conducted by the Commission's regional offices and has revised and improved the examination materials used by the regional office staffs. All examinations conducted in the program are reviewed by the branch to detect unique issues or trends in the operations or sales practices of the broker-dealer community. In addition, the branch serves as a clearinghouse for legal and regulatory in-

quiries from the regional office examining staffs.

The branch also coordinates regional office efforts to respond to changes and events in the industry. For instance, the branch coordinated the regional offices' efforts to conduct a detailed review of the operational and trading practices activities of discount broker-dealers. The branch also worked with the various stock exchanges in order to prepare for and alleviate strains on the market created by the New York City transit strike.

In March 1980, the branch conducted a regulatory conference for the Commission's Assistant Regional Administrators for Regulation and Chief Broker-Dealer Examiners. At the conference, the regional office representatives discussed various regulatory developments and problems. The conference resulted in a number of projects relating specifically to areas of concern in the Commission's examination program.

In September 1980, the branch conducted the first of a new series of training sessions for the Commission's securities compliance examiners. Experts on various aspects of examination techniques and the securities laws, drawn primarily from the Commission's staff, served as instructors for examiners from all of the Commission's regional offices.

Municipal Securities Brokers and Dealers — On January 15, 1980, the Commission adopted amendments to Rule 15b10-12 under the Exchange Act.[29] The amended rule exempts the municipal securities transactions of all "Securities and Exchange Commission Only" (SECO) brokers and dealers from the Commission's fair practice rule, and makes the SECO fair practice rules applicable to transactions in government and other exempted securities by all SECO brokers and dealers.

On August 28, 1980, the Commission adopted amendments to Form MSD, the form used by municipal securities dealers that are banks or separately identifiable departments or divisions of banks.[30] The amendments conform a definition in Form MSD to a definition in a rule of the Municipal Securities Rulemaking Board and allow, under certain circumstances, bank municipal securities dealers to substitute, for forms currently required to be filed with the Commission, forms required by the bank regulatory agencies containing similar information with respect to supervisory personnel.

During the fiscal year, the Commission, pursuant to Section 17(b) of the Exchange Act, jointly conducted with the appropriate bank regulatory agency one examination of a bank municipal securities dealer.

Lost and Stolen Securities — The Lost and Stolen Securities Program (the Program), which includes more than 17,000 Federally-insured banks, securities organizations and non-bank transfer agents as participants, uses a data bank to monitor missing securities. Participants use the system to seek assurance of the authenticity and ownership of the certificates they are processing. On June 10, 1980, the Commission released a staff report containing comprehensive general statistical information regarding the operation of the Program for calendar year 1979. As stated in that report, Securities Information Center, Inc., of Wellesley Hills, Massachusetts, the Commission's designee to operate and maintain the computerized data base of missing, lost, counterfeit and stolen securities, received reports of loss, theft or counterfeiting concerning approximately 280,000 certificates valued at approximately $1.3 billion. As of December 31, 1979, the aggregate net value of the data base since the incep-

tion of the program was approximately $2.6 billion.

Transfer Agents—On September 2, 1980, the Commission published a comprehensive release[31] that sets forth staff interpretations regarding Rules 17Ad-1 through 17Ad-7 under the Exchange Act. These rules establish, among other things, minimum performance standards and record-keeping requirements for all registered transfer agents. The release (a) discusses many of the issues previously addressed by the staff in interpretive and no-action letters that are publicly available; (b) sets forth prior responses to many oral requests for interpretive assistance; (c) further clarifies previous written staff interpretations; and (d) provides illustrations of the practical operation of many of the provisions of these rules.

Securities Investor Protection Corporation—The Securities Investor Protection Act of 1970 (SIPA)[32] provides certain protections to customers of brokers and dealers that fail to meet their obligations to their customers. SIPA is administered principally by the Securities Investor Protection Corporation (SIPC), a non-profit membership corporation, the members of which are, with limited exceptions, registered brokers and dealers. SIPC is funded through assessments on its members, although it may borrow up to $1 billion from the United States Treasury under certain emergency conditions.

During fiscal year 1980, SIPC transmitted to Congress a recommendation, which was later endorsed by the Commission, that the level of customer protection provided by SIPA be raised to $500,000 (from the previous level of $100,000), not more than $100,000 (previously $40,000) of which may be for cash claims. A bill incorporating this recommendation was pending before Congress at the close of the fiscal year. (Just subsequent to the end of the fiscal year, the bill was enacted into law.)

Oversight of Self-Regulatory Organizations

National Securities Exchanges—As of September 30, 1980, ten exchanges were registered with the Commission as national securities exchanges pursuant to Section 6 of the Exchange Act: American Stock Exchange (Amex); Boston Stock Exchange (BSE); Chicago Board Options Exchange (CBOE); Cincinnati Stock Exchange (CSE); Intermountain Stock Exchange (ISE); Midwest Stock Exchange (MSE); New York Stock Exchange (NYSE); Pacific Stock Exchange (PSE); Philadelphia Stock Exchange (Phlx); and Spokane Stock Exchange (SSE). No exchange is currently operating under an exemption from registration as a national securities exchange.

During the fiscal year, the Commission completed a review of its policy concerning applications for unlisted trading privileges in listed securities. The Commission determined to grant applications for unlisted trading privileges where (a) transactions in the subject securities are required to be reported in the consolidated transaction reporting system and (b) the exchange has the capacity for executing trades in a fair and orderly manner. In addition, Rules 12f-1 and 12f-3, regarding information to be included in applications for the extension or termination of unlisted trading privileges, were amended to reflect the new standards set forth in the Securities Acts Amendments of 1975 (1975 Amendments).[33]

In connection with the Commission's oversight of the delisting of securities traded on national securities exchanges, pursuant to Section 12 of the Exchange Act, the Commission, during the fiscal year, granted applications by exchanges

to strike 65 equity issues and nine debt issues from listing and registration. The Commission also granted applications submitted by issuers requesting withdrawal from listing and registration for 25 equity issues and 12 debt issues.

The national securities exchanges reported to the Commission, pursuant to Section 19(d)(1) of the Exchange Act and Rule 19d-1 thereunder, 407 final disciplinary actions imposing a variety of sanctions upon member firms and their employees. On August 22, 1980, the Commission amended Rule 19d-1 to exempt from its reporting requirements uncontested summary sanctions imposed for violations of exchange regulations regarding floor decorum.[34]

During the fiscal year, the Commission received from the national exchanges 208 filings pursuant to Rule 19b-4 under the Exchange Act, including 177 proposed rule changes and 31 notices of a stated policy, practice or interpretation not constituting a rule change.

Among the significant exchange rule filings approved by the Commission during the fiscal year were: (a) adoption of the Uniform Code of Arbitration by ten self-regulatory organizations;[35] (b) establishment by the NYSE of an Opening Automated Report Service and trade comparison procedures for orders received before the opening of trading;[36] (c) a rule change of the MSE requiring MSE specialists to guarantee execution of orders between 100-399 shares of issues traded in the Intermarket Trading System;[38] and (e) an Amex rule recommending that Amex-listed companies have at least two independent directors and establish audit committees composed solely of independent directors.[39]

During the fiscal year, the Commission disapproved a NYSE proposed rule change to limit the number of physical access annual members to two because the Commission was unable to find that the proposed rule change was consistent with Sections 6(b)(8) and 6(b)(5) of the Exchange Act.[40] The Commission also initiated proceedings to determine whether to disapprove proposed rule changes of the NYSE and Amex to make permanent their rules governing registered competitive market makers (RCMMs) and registered equity market makers (REMMs), respectively.[41] The rules currently permit individual members to register as supplemental market makers in equity securities, thereby qualifying their on-floor proprietary trades for the market maker exemption from the general exchange member proprietary trading prohibitions of Section 11(a)(1) of the Exchange Act.

National Association of Securities Dealers, Inc.—The NASD is the only national securities association registered with the Commission. At the close of the fiscal year, 2,888 brokers and dealers were NASD members.

During the last nine months of the fiscal year, the NASD reported to the Commission the final disposition of 210 disciplinary actions. At the beginning of fiscal 1980, 16 proceedings for review of NASD disciplinary decisions were pending before the Commission, and during the year 12 additional cases were brought up for review. The Commission reviewed 22 of these cases.

During the year, the Commission continued to review an NASD proposed rule change submitted in 1978 to prohibit NASD members from giving discounts to customers in distributions of securities offered at a fixed price. The proposal would amend the NASD's Rules of Fair Practice to impose a more explicit prohibition on an NASD member's taking securities in trade (swap) at more than their fair market price and to limit the ability of members to grant or receive discounts in connection with fixed price offerings. The proposal was filed in response to a 1976 judicial deci-

sion, *Papilsky v. Berndt,*[42] which held that certain discounts were not unlawful absent a contrary Commission or NASD ruling.

Between September and November 1979, the Commission held public hearings on the issues raised by the proposed rule. Based on the testimony of the 16 witnesses at the hearings and on the comment letters received, the Commission determined to send the NASD a letter requesting the NASD to consider amending the proposal in certain respects.[43] The Commission suggested that the NASD broaden the circumstances under which a member could be compensated in connection with a fixed price offering for research provided to customers and revise the definition of fair market price as it relates to the practice of swapping securities in a fixed price offering. The NASD filed amendments to the proposal in September 1980 as suggested by the Commission.[44] (Subsequent to the close of the fiscal year, the Commission approved the NASD's revised rules proposals.)

During the fiscal year, the Commission approved a proposed rule change of the NASD to create two new categories of registration for employees of NASD member firms.[45] The proposal permits an individual whose activities are limited to either investment company and variable contracts products or tax shelter securities (direct participation programs) to register with the NASD as a "limited representative" in one of those areas after passing an appropriate specialized qualification examination.

In addition, the Commission approved a proposed rule change of the NASD to amend the procedures for the reporting of over-the-counter transactions in listed securities to the consolidated transaction reporting system.[46] The rule change requires NASD members to report over-the-counter principal transactions on a "gross" basis, *i.e.,* exclusive of any commission equivalent or differential, as well as any retail mark-up or mark-down. Previously, those transactions were reported inclusive of any mark-up or mark-down. Since transactions effected on exchanges are reported on a gross basis, the rule change should provide greater comparability of over-the-counter and exchange transaction information in listed securities.

The Commission also approved a rule that authorizes the NASD Board of Governors to adopt rules relating to the sponsorship and distribution to the public of tax shelter securities, or direct participation programs, by NASD members and their affiliates.[47] Such rules adopted by the NASD Board of Governors must be submitted to the Commission for individual approval.

Allocation of Regulatory Responsibility—In fiscal 1980, the Commission approved four plans pursuant to Section 17(d)(1) of the Exchange Act and Rule 17d-2 thereunder, for the allocation of regulatory responsibility among the NASD and four stock exchanges—the BSE, the CSE, the MSE, and the PSE.[48] Pursuant to these plans, the NASD is responsible for conducting all on-site examinations, both routine and special, and reviewing related reports of brokers and dealers that belong to both the NASD and one of the exchanges. Dual members designated to the NASD after the execution of the plans would be examined by the NASD for compliance with the NASD's rules and the exchange's regulatory rules. As a result of the allocation plans, a dual member which had previously been examined on a routine basis by the NASD and one of the participating exchanges would be subject to an examination by only the NASD. The adoption of the plans has therefore eliminated duplica-

tive examining responsibilities between the NASD and each of the four exchanges that executed the plans.

Municipal Securities Rulemaking Board—As in the case of national securities exchanges and the NASD, the Commission reviews proposed rule changes of the Municipal Securities Rulemaking Board (MSRB). During the fiscal year, the MSRB filed 12 rule proposals. The Commission considered a number of those proposals and others which were pending from previous years.

On March 6, 1980, the Commission approved an MSRB rule that established standards of ethical conduct for municipal securities brokers and dealers that provide financial advisory services for compensation to municipal issuers.[49] The rule requires a municipal securities broker or dealer, acting as a paid advisor with respect to a new issue of municipal securities, to satisfy certain conditions specified in the rule prior to purchasing the same issue. The rule also requires a municipal securities broker or dealer that establishes a "financial advisory relationship" with an issuer with respect to a new issue of municipal securities to enter into a written agreement that sets forth the basis of compensation to the municipal securities broker or dealer.

In addition, the Commission approved substantial changes in the MSRB's rules pertaining to customer and interdealer confirmations.[50] The changes were designed to increase the amount of information available regarding prices, yields and call features on municipal bonds. The effective dates of the amendments were originally delayed for six months, to September 24, 1980, to allow time to plan for the orderly implementation of the new requirements. On September 12, 1980, the effective dates of the amendments were extended to December 1, 1980, to allow additional time for implementation.[51]

Finally, the Commission approved amendments to the MSRB's arbitration code which established a simplified procedure for the resolution of intra-industry disputes involving $5000 or less. Such disputes can now be settled by a single arbitrator instead of the previously required three.[52] The amendments were also designed to conform the MSRB rules with the uniform arbitration code developed by the Securities Industry Conference on Arbitration.[53]

Clearing Agencies—During the fiscal year, the Commission announced the publication of standards that the Division of Market Regulation will use in reviewing clearing agency registration applications.[54] The standards represent the views of the Division regarding the manner in which clearing agencies should comply with the registration provisions of Section 17A(b)(3) of the Exchange Act. They deal with, among other things, requirements regarding participation in clearing agencies, fair representation of participants, disciplinary procedures, the safeguarding of securities and funds and the clearing agency's obligations to participants. The Division will apply the standards in making recommendations to the Commission regarding the granting or denial of registration to the 13 clearing agencies that currently are temporarily registered with the Commission, and those clearing agencies that may apply for registration in the future.

In December 1979, the Commission adopted Exchange Act Rule 17Ad-8, which requires registered clearing agencies to provide, upon request, securities position listings to issuers whose securities the clearing agency holds in its name or that of its nominee.[55] A securities position listing is a list of (a) the participants in a clearing agency on whose behalf the clearing agency holds

the issuer's securities and (b) their positions in the issuer's securities as of a specified date. The Final Report of the Street Name Study published by the Commission in December 1976,[56] made several recommendations to improve the existing system for transmitting communications from issuers to beneficial shareowners, and Rule 17Ad-8 was adopted in response to one of those recommendations.

During the fiscal year, the Commission staff conducted oversight inspections of Stock Clearing Corporation of Philadelphia, Philadelphia Depository Trust Company and Pacific Clearing Corporation. The staff also conducted a joint inspection of Pacific Depository Trust Company (PSDTC) with the Board of Governors of the Federal Reserve System (FRS), which is PSDTC's appropriate regulatory authority. The conduct of this examination on a joint basis furthered the statutory goal of avoiding unnecessary regulatory duplication and unnecesary regulatory burdens on clearing agencies that are subject to inspection by both the Commission and Federal bank regulators.

The findings of these inspections were discussed with the respective clearing agencies and they either have been or are being addressed.

Procedures for Filing Proposed Rule Changes—Section 19(b) of the Exchange Act, as amended by the 1975 Amendments, requires self-regulatory organizations to file all proposed rule changes with the Commission for approval. Shortly after Section 19(b) became effective, the Commission adopted Rule 19b-4 and related Form 19b-4A establishing procedures for self-regulatory organizations to file proposed rule changes and designating the types of proposed rule changes that may become effective upon filing. In May 1979, the Commission proposed a number of amendments to Rule 19b-4 and Form 19b-4A[57] which were designed to improve and simplify the rule filing process, thus expediting Commission review of proposed rule changes.

The Commission received a number of comment letters in response to its proposed amendments to the rule filing requirements and during the fiscal year, the staff revised the proposals in light of issues raised by those comment letters.

(Subsequent to the close of the fiscal year, the Commission adopted amendments to Rule 19b-4 and Form 19b-4A.[58] The amendments, to become effective on January 1, 1981, include (a) an amendment to Rule 19b-4 clarifying which actions of self-regulatory organizations require proposed rule changes; (b) an amendment to Rule 19b-4 designating certain clearing agency rules as eligible for summary effectiveness; and (c) amendments to Form 19b-4A, redesignated as Form 19b-4, to specify, in greater detail, the information required by that form.)

Inspections and Surveillance—During the fiscal year, the Commission's staff continued its inspection program of the Nation's securities markets. The purpose of this inspection program is to evaluate, on an ongoing basis, the adequacy of the operational, market surveillance, compliance, and disciplinary programs of the various stock and options exchanges and the NASD.

A total of 12 inspections focusing on market surveillance programs were conducted during the fiscal year. These included inspections of the equity trading programs of the Amex, the BSE, the National Securities Trading System (NSTS) of the CSE, the Intermountain Stock Exchange, the MSE, the NASDAQ trading program of the NASD, the NYSE, the Phlx, the PSE, and the Spokane Stock Exchange. In addition, the staff inspected the options trading programs of the Amex, the CBOE, and the Phlx.

Since September 1979, the staff has also conducted inspections of the operations of NASD district offices located in Atlanta, Boston, Seattle, Cleveland, Los Angeles and Dallas. The focus of these inspections was on the overall quality of the NASD's programs to insure compliance by its member firms with the securities laws. Specifically, the staff reviewed all NASD district office programs including not only the district offices' routine examination programs, but also their programs for (a) investigating customer complaints and terminations of registered representatives from employment for cause; (b) monitoring the financial condition of member firms; (c) processing Regulation T extension requests; and (d) disciplining member firms.

The Commission's inspection program disclosed a number of deficiencies in the current programs of the self-regulatory organizations examined during the fiscal year. In the surveillance area, these included: (a) inadequate market surveillance techniques for particular categories of trading violations at some self-regulatory organizations; (b) inadequate trading information and trade processing systems at several marketplaces; and (c) inadequate prosecution of disciplinary cases by some securities exchanges. In addition, the compliance inspections noted various problems with the broker-dealer examination programs conducted by the NASD and certain of the exchanges. The self-regulatory organizations were asked to address these problems; and throughout the course of the fiscal year significant action was taken by particular self-regulatory organizations in several of these areas.

In November 1979, an inspection report presented to the Commission regarding regulatory capabilities of the Amex questioned the adequacy of disciplinary actions taken in several trading investigations. The Commission sent a letter to the Amex requesting that the exchange undertake a general review of its disciplinary procedures with a view toward improving the performance of its disciplinary system. In response, the Amex initiated several changes in its enforcement procedures regarding trading floor offenses, strengthened its disciplinary staff, and appointed a Special Committee of the Amex Board of Governors to review the entire disciplinary system. On September 18, 1980, the Special Committee delivered its final report to the Commission. Although the Committee concluded that radical changes were not necessary, it made several recommendations to improve the prosecution of disciplinary matters at the Amex. In part because of its experience with the Amex disciplinary process, the Commission staff initiated, shortly before the close of the fiscal year, a study of the performance of the disciplinary system of other self-regulatory organizations.

Similarly, during November 1979, the staff presented an inspection report to the Commission that detailed the various types of multiple and interlocking market maker accounts which can occur at the CBOE, and the difficulty which the existence of such account relationships often posed for the CBOE in enforcing many of its trading rules. As a result, the Commission requested that the exchange undertake a complete review of market maker account relationships on the CBOE floor and that it evaluate whether all CBOE market makers were actually performing in a manner consistent with their market making obligations. In June 1980, the CBOE filed a proposed rule change with the Commission to deal with these issues.

During October, November and December of 1979, the staff conducted three separate inspections of the mar-

ket surveillance and other regulatory programs of the NYSE. These inspections documented that the NYSE did not have an adequate transaction audit trail in certain respects and assessed its effect on the exchange's surveillance and disciplinary program. On the basis of these inspections, the staff prepared a report to the Commission regarding the performance of the NYSE market surveillance system and the Commission requested that the NYSE present a specific plan for the creation of an adequate transaction audit trail. On September 9, 1980, the NYSE presented its plan to the Commission's staff, including provisions for the development of an audit trail and the enhancement of several important market surveillance functions during fiscal year 1981.

In February 1980, the staff conducted an inspection of the equity trading program of the PSE. This inspection found significant deficiencies in the surveillance system of this exchange, specifically with the lack of a complete audit trail and any routine automated review of trading on the PSE floor. In recognition of these problems, the PSE undertook a complete overhaul of its surveillance program for equity trading and developed automated systems to replace ineffective manual procedures.

The Commission also brought administrative actions against the Phlx and the BSE as a result of problems discovered at those exchanges during previous years. In its proceeding against the Phlx, the Commission found that the exchange had failed to enforce certain of its rules regarding equity quote dissemination and options trading, and ordered remedial action to correct these deficiencies. In the BSE matter, the Commission found that the exchange had failed to develop and employ adequate surveillance procedures to detect violations by its specialists of the margin, net capital and bookkeeping requirements. (In both cases, the exchanges settled the action by agreeing to implement certain changes as explained more fully in the "Enforcement Program" section of this Annual Report.)

The staff also conducted an inspection of the Amex options compliance program during September 1979. The inspection focused on the response of the Amex to the recommendations made in the Commission's Options Study. The staff found, generally, that the Amex had made good progress in implementing the Commission's Options Study recommendations, but noted several areas where additional progress was needed.

The staff also conducted an oversight inspection of the compliance activities of the Phlx during June 1980. The inspection included a review of the Phlx's financial surveillance of member firms, its examination and disciplinary programs, and its response to the Options Study. This inspection had not yet been closed as of the end of the fiscal year.

In its inspections of the NASD's district offices, the Commission's staff found that those offices generally appeared to be executing their routine examination programs with reasonable thoroughness. The staff identified, however, several areas in which remedial attention was needed to cure problems in the examination program.

Since September 1979, the Division of Market Regulation has processed 50 applications pursuant to Sections 6(c)(2) and 15A(g)(2) of the Exchange Act and Rule 19h-1 thereunder, to permit persons subject to statutory disqualifications, as defined in Section 3(a)(39) of the Exchange Act, to become associated with broker-dealers. The following self-regulatory organizations filed such applications: (a) the NASD filed 23 applications; (b) the NYSE filed 23 applications; and (c) the

Amex, the Phlx, the CBOE, and the MSE each filed one application. The Commission determined that six of these applications were not in the public interest.

Market Oversight Surveillance System — The Market Oversight Surveillance System (MOSS) is an automated information system essential to effective Commission oversight of the nation's securities markets.

The system has five basic functions which support the Commission's ongoing programs. The first is trade audit, which provides the basic ability to monitor trading in the nation's securities markets on an exception basis. The second, market reconstruction, allows the staff on an as-needed basis to review historical trading. The third function, inspection support, assists in the inspection of broker-dealers, investment companies/advisers and self-regulatory organizations (SROs) with pre-inspection reports, analysis of inspection information and follow-up. Investigation tracking, the fourth function, assists management in the overall coordination of SRO and Commission inquiries and investigations. The final function is the analysis/MIS function, which gives the Commission the capability to evaluate the economic impact of existing or proposed rules.

Prior to designing MOSS, the Commission conducted a study of market surveillance and regulatory processes to determine the feasibility of improving its market surveillance and oversight functions. Once it was determined that surveillance and oversight could be enhanced with such an automated system, a detailed design was formulated and presented to the Commission. The Commission indicated two prime interests: (1) observing certain trading phenomena surrounding options trading, especially in light of lifting the options moratorium, and (2) testing the theory and practicality of the system design. Therefore, it was decided to initiate a pilot or prototype of the system in order to further evaluate the proposed design.

The first elements of the pilot became operational in January 1980. In contrast to the full MOSS design which provides on-line features, the pilot was limited to off-line processing. Although it captured basic trading and clearing data for listed securities, as well as NASDAQ quotes, the pilot analysis components did not include regional trading and clearing information or NASDAQ transactions.

During its first nine months of operation, the pilot provided the Commission staff with data useful in both its surveillance and oversight functions. During the life of the pilot, the staff has had an opportunity to observe the adequacy of SRO surveillance and data collection systems.

Concurrent with the pilot project, the full MOSS program underwent extensive scrutiny by OMB and Congress during fiscal 1980. Its funding requirements were carefully examined first by OMB, prior to including provision for MOSS in the President's fiscal 1981 budget, and then by the Appropriations Committees of the two Houses. In addition, the Senate Banking and House Commerce Committees closely examined MOSS as part of their overall review of Commission activities in connection with the agency's authorization. The final authorization approved Commission implementation of the first two years of MOSS, spread over a three-year period, 1981 – 1983.

The Commission has worked closely with the SROs in the development of the MOSS system and has tried to be responsive to the feedback received. Throughout 1980, a number of briefings were conducted for the SROs and

other members of the industry in order to introduce MOSS and provide insight into its possible impact. Briefings of SRO upper management, as well as their technical counterparts, were conducted at the various SROs and at the Commission's headquarters. This will be a continuing process throughout MOSS development.

The Disclosure System

The "full disclosure" system administered by the Commission is designed to assure that the securities markets operate in an environment in which full and accurate material information about publicly traded companies is available to all interested investors. During the fiscal year, the prime focus of the Commission in the area of disclosure policy was on the integration program.

This program has several major objectives: (1) integration of disclosures required by the Securities Act of 1933 (Securities Act) and the Securities Exchange Act of 1934 (Exchange Act); (2) narrowing of the differences between information supplied by registrants to the Commission in formal filings and to various segments of the public through informal means; (3) improvement of disclosure requirements by revising obsolete rules and making requirements uniform; and (4) refocusing of the staff review process. Substantial progress has been made in the last year in reaching these objectives.

Other areas of particular importance included the development of guidance for special situations outside the normal system of continuous disclosure and the implementation of a program review of existing disclosure rules and guides to delete or amend unnecessary or outmoded provisions.

Integration Program

The integration program is a considered response to the need to reduce burdens imposed by duplicative disclosure obligations under the Federal securities laws. The Securities Act established a system of transaction-oriented disclosure, with the focus on particular offerings of securities. The Exchange Act established a system of continuous disclosure, with the focus on public companies and their ongoing reporting obligations to the Commission and to their shareholders. These two systems developed and operated independently over more than 40 years, resulting in an unnecessary degree of duplication in the disclosure documents produced.

The integration program, an attempt to bring the two systems together into a single, rationalized system of corporate disclosure, is being carried out at several different levels. In the Exchange Act context, the Commission has eliminated unnecessary disclosure requirements and minimized the differences between formal disclosure documents, such as annual reports on Form 10-K, and those informal shareholder communications produced outside the system of formal Commission filings, such as annual reports to security holders. The Commission is also further integrating the disclosure systems under the Securities Act and Exchange Act by taking advantage of improved Exchange Act continuous disclosure documents to meet Securities Act disclosure needs wherever possible. Such a system has been expanded to include offerings of securities issued pursuant to employee benefit plans registered on Form S-8. Proposals to expand such integration to nearly the entire system of registration under the Securities Act have also been published. Finally, the procedures followed by the staff reviewing these disclosure documents have been substantially revamped to

account for the shift in emphasis from Securities Act disclosure to the continuous disclosure documents filed under the Exchange Act.

Revisions of Form 10-K—During the one-week period of August 27 to September 2, 1980, the Commission issued seven releases designed to implement integration of the disclosure and reporting provisions of the Securities Act and Exchange Act and to enhance the effectiveness of required disclosure, while reducing attendant burdens to the extent possible. At the center of this program are the amendments to Form 10-K, the annual report form required to be filed by most publicly owned companies; Regulation S-K, a repository of standard disclosure instructions covering both the Securities Act and the Exchange Act; and Exchange Act Rules 14a-3 and 14c-3, which govern annual reports to security holders.[59] These amendments restructure Form 10-K and impose content requirements on the annual report to security holders which are generally consistent with the revised Form 10-K requirements, thus encouraging and facilitating the voluntary combination of the annual report to security holders with the formal Commission report on Form 10-K. In addition, the Form 10-K was amended to require that a majority of the registrant's board of directors sign the company's Form 10-K. This requirement is consistent with the shift in emphasis effectuated by the integration program away from Securities Act disclosure to the continuous disclosure scheme under the Exchange Act.

The convenient central repository created by Regulation S-K was expanded to include three new items previously listed separately: Management's Discussion and Analysis of Financial Condition and Results of Operations; Selected Financial Data; and Market Price of the Registrant's Common Stock and Related Security Holder Matters. These three new items, which must appear in both the Form 10-K and the annual report to security holders, unify and give more meaning to the disclosure in both these documents. The new Regulation S-K items, with certain limitations, also appear in Securities Act registration statements, thereby improving the disclosure in such documents and further providing the basis for a integration of the Form 10-K, the annual report to security holders, and registration statements filed under the Securities act. The result of these major revisions to rules and forms is the establishment of a uniform, minimum package of information to be found in Securities Act registrations; Exchange Act periodic disclosure reports; and the annual report to security holders.

On August 27, 1980, the Commission adopted other amendments to Regulation S-K and certain frequently used forms under the Securities act and the Exchange Act in order to standardize and improve the Commission's requirements relating to the filing of exhibits.[60] These amendments—another step in achieving uniform filing requirements—deleted 13 exhibits formerly required to be filed, revised and made uniform the requirements relating to certain other exhibits and, with one exception, consolidated all of the amended exhibit requirements into a new Regulation S-K item.

Accounting Standards—Another critical part of the integration program involved the adoption of two proposals relating to accounting matters. The first release adopted uniform instructions to govern the periods covered by financial statements included in most registration and report forms filed under the Securities Act and Exchange Act, as well as in annual reports to security holders.[61] The other accounting release revised certain articles of Regulation

S-X, which governs the form and content of financial statements filed under the Federal securities laws, to give fuller recognition to the accounting standard-setting efforts of the private sector and to react to the ever-changing needs of users of financial statements.[62] These actions are integral to integration because they mean that the financial statements and certain other essential information will be uniform whether they appear in a Securities Act registration statement, an Exchange Act periodic report, or an annual report mailed to security holders.

Proposed New Registration Forms —Another Commission action involved the adoption of new Form S-15 and related rule amendments.[63] This form demonstrates, on a limited scale, how the integrated disclosure system operates in the Securities Act context. The new form provides an abbreviated format for registering securities issued in business combinations which do not significantly affect the issuer. Abbreviation is accomplished and duplication is avoided by the delivery of multiple documents. Information about the issuer is provided by delivering its annual report to security holders. The prospectus (Securities Act registration statement) contains only information about the particular transaction and about the company being acquired. The Commission sees Form S-15 as an experiment. Experience with its use, particularly the use of the annual report, will be of invaluable assistance in revising the new form as well as in the broader task of streamlining all Securities Act registration forms.

The remaining two rulemaking actions involved proposals designed to effect some of the most significant aspects of the integration program. The first, in particular, calls for comprehensive revision of the major Securities Act registration statement forms.[64] Three proposed new forms would replace the most commonly used existing forms—S-1, S-7, and S-16. Three tiers of Securities Act issuers would be established, with different levels of disclosure and delivery requirements applicable to each tier. The content of the registration statement in each instance would be basically the same, i.e., the minimum package of information identified in the Form 10-K context plus any additional information needed to describe the particular offering or material changes since such disclosure was made. The tier system would establish how much of this information is required to be set forth in the prospectus, rather than merely incorporated into it by reference, and how much is required to actually be delivered to prospective investors. The theory behind the varying disclosure and delivery requirements embodied in the three tiers is that previously disseminated information can be relied upon instead of repeated in the prospectus only in those instances where the issuer is large and its shares are widely traded and well followed. How close a particular issuer comes to meeting these various qualifications will determine the tier to which it is assigned and which will thereafter determine how much information it will be allowed to incorporate by reference and how much information the issuer must actually deliver in the context of offering its securities to the public.

Form 10-Q—The other proposal published for comment would revise the quarterly report on Form 10-Q.[65] These amendments would make Form 10-Q consistent with Form 10-K, most importantly, in the area of the Management's Discussion and Analysis. Moreover, these amendments would facilitate integration by providing for more effective continuous Exchange Act reporting.

Form S-8—On November 19, 1979,

the Commission issued a release requesting comments on proposed amendments to Form S-8, the form for registration of securities to be offered to employees pursuant to certain plans.[66] Comments were solicited on two general topics: (1) proposed procedures whereby filings on Form S-8 would become effective automatically, i.e., without affirmative action on the part of the Commission or its staff; and (2) proposals to change Form S-8 into an "integrated disclosure form" which could be automatically updated by use of periodic Exchange Act reports. In February 1980, after analyzing the comments, the Commission adopted automatic effectiveness procedures for filings made on Form S-8.[67] It is believed that these procedures will result in significant cost savings to issuers and will also allow Commission staff time to be more effectively utilized reviewing other disclosure documents. Subsequently, in April 1980, the Commission adopted amendments to Form S-8 which make that form a truly "integrated document", i.e., a Securities Act registration form which utilizes Exchange Act periodic reports for updating purposes.[68] The result is an elimination of duplicative reporting under the two Acts, with attendant cost and time savings to issuers without sacrificing the quality of disclosure made to investors.

Reorganization of Corporation Finance—In its first major reorganization in 20 years, the Division of Corporation Finance restructured its disclosure operations section to better implement the integration program. The overall effect of the reorganization was to concentrate review responsibilities for reporting companies engaged in the same industries in one of the five major operating sections. This distribution of review responsibilities enhances the Division's ability to focus its resources on the particular needs and characteristics of different industries and thus increases the Division's ability to respond more quickly on filings made by industries. It also coincides with the rulemaking initiatives which implement integration of the disclosure systems under the Securities Act and Exchange Act in that increased staff attention may be given to Exchange Act filings, an area where inadequate resources and increased filings made the ability of the staff to fully review the filings questionable in the past.

In connection with this reorganization and the integration program, the Division is moving toward a system of selective review. The developing system seeks to concentrate review resources on areas of greatest priority, while eliminating the review of other documents except on an audit or sample basis. In this regard, the Division created an Office of Procedures and Review whose principal functions are to assist in the implementation of this system of selective review and to develop staff training and other methods to obtain the maximum benefits from realignment according to industry categorizations.

Disclosure Revisions; Interpretive Advice

In the last year the Commission adopted several other revisions to its disclosure rules, including those rules governing the annual reports filed by certain foreign issuers, the timely reporting rules under the Exchange Act, and certain rules applicable to insider trading. Interpretative advice was provided on such subjects as the securities laws implications of pension plans and the required liquidation disclosure in proxy contests.

On November 29, 1979, the Commission issued four releases[69] announcing the adoption of several rules

and forms for foreign private issuers. The most important of these was Form 20-F which is a consolidated registration and annual report form available for use by certain foreign private issuers under the Exchange Act. Form 20-F generally calls for disclosure somewhat less extensive than Forms 10 and 10-K, the analogous forms for domestic issuers, but nevertheless is a substantial increase in the disclosure previously required from foreign private registrants. The Commission also amended Form S-16, a short form for registration under the Securities Act, to permit certain foreign issuers who file reports on Form 20-F to use Form S-16 to register certain rights offerings to shareholders.

In view of these increased disclosure requirements, the Commission has announced that it may be feasible to develop an integrated disclosure system, similar to the one described earlier, for foreign registrants. The Commission believes these actions are necessary in light of the increasing internationalization of the world capital markets and the growing harmonization of accounting and disclosure practices.

In April 1980, the Commission adopted amendments to Rule 12b-25, the timely reporting rule under the Exchange Act, and to the extension application procedure previously existing.[70] The amendments instituted a system requiring notification of a registrant's inability to file timely its Exchange Act reports. Under this system, there are no longer applications for extensions of time that necessitate action by the Commission or its staff. The Commission is therefore able to redeploy some of its limited staff resources to the review of Exchange Act filings, the cornerstone of the integration program.

In addition to the extensive revisions to the Commission's forms and rules already noted, during fiscal year 1980 the Commission revised Rules 16a-11 and 16b-3 to exempt certain transactions by officers, directors, and ten percent beneficial owners from the insider reporting and liability provisions of Section 16 of the Exchange Act. Included among these transactions were the reinvestment by such persons of dividends and interest pursuant to dividend reinvestment plans[71] and the delivery of stock by officers and directors as payment for the exercise of stock options.[72]

In order to provide guidance to the public, the Commission issued a comprehensive interpretative release setting forth the views of its staff on the application of the Securities Act to pension, profit-sharing and similar types of employee benefit plans.[73] The release discussed a variety of matters, including the circumstances under which participation interests in such plans are deemed to be securities which are subject to the registration and antifraud requirements of the Securities Act.

In May 1980, the Commission authorized the Division of Corporation Finance to issue a release stating the Division's views with respect to disclosure in connection with proxy contests where a principal issue in contention is the liquidation of all or part of the equity of an issuer.[74] The release resulted from an increased number of such contests over the past several proxy seasons and the Division's perception that participants did not fully appreciate the disclosure standards applicable with respect to a proposal to liquidate some or all of an issuer's equity, particularly in those instances where an attempt is made to project or suggest distribution value. The Division's interpretative release, therefore, noted that in such contests inclusion by any participant, whether management or opposition, of a distribution value in its proxy soliciting material is only proper where the valuation was made in good faith and on a

reasonable basis. Further, such statements should be accompanied by disclosure which would facilitate shareholders' understanding of the basis for and the limitations on the projected value.

The interpretative release also addressed a number of related issues, most significant being the use of expert opinions by participants to support distribution valuations. The release cautioned participants in proxy contests, particularly those that have had limited access to information concerning the issuer, that any material limitations on the procedure followed by such experts in developing their opinion on valuation, or any resultant material qualification on the opinion the expert finds necessary in rendering it, must be thoroughly and comprehensibly disclosed to shareholders. The release makes clear that there may be opinions that are subject to such qualifications and limitations as to nullify their value as part of the support offered by a participant for the projected distribution value.

In September 1980, the Commission issued a release[75] announcing an interpretation of the Divison of Corporation Finance which permits foreign governments or political subdivisions to register their securities on Schedule B using a shelf registration procedure. This technique, which is somewhat similar to the use of Form S-16 by domestic companies, does not reduce the amount of disclosure required but streamlines the registration process. A significant consequence of this interpretation may be to encourage the registration of offerings made in the international bond market that have not been registered in the past.

Corporate Accountability; Management Background and Remuneration

In September 1980, the Commission authorized publication of *The Staff Report on Corporate Accountability,* prepared by the Task Force on Corporate Accountability in the Division of Corporation Finance. The Report analyzes the complex issues raised during the Commission's 1977 corporate governance proceedings,[76] and sets forth the staff's conclusions concerning the efficiency of existing corporate accountability mechanisms. In particular, the staff concluded that in view of the changes being made voluntarily in the composition, structure and operation of boards of directors, and given the Commission's existing authority to encourage shareholder participation, it would be premature for the Commission to determine whether to recommend or support Federal legislation relating to corporate accountability. The staff indicated, however, that if legislation is to be enacted, it believes that it should be directed towards raising standards of care and providing a Federal course of action for breaches of such standards.

The Report recommended that the Commission take further action with respect to a number of matters including:

(1) Development of a uniform system for distributing proxy statements and other communications to record and beneficial stock owners;

(2) Issuance of a concept release soliciting public comment on the need for additional Commission initiatives to address issues growing out of the Supreme Court Bellotie decision;

(3) Monitoring the extent to which issuers consider shareholder nominations of directors for the purpose of determining whether it is necessary to adopt a rule requiring issuers to adopt procedures to consider shareholder nominations;

(4) Amending the proxy rules to require that proxy statements describe how shareholders can obtain copies of significant environmental compliance

reports their issuers have prepared pursuant to Federal law;

(5) Amending Regulation S-K to revise the existing requirements to describe all environmental proceedings involving a governmental authority so that issuers are required to describe only significant environmental proceedings or matters; and

(6) Monitoring the extent to which financial institutions voluntarily disclose the proxy voting criteria and procedures utilized when voting the stock they manage for others. If such information is not readily available and there is investor interest in obtaining it, the staff recommended the Commission develop or support legislation to require such disclosure.

In another effort to make the rules governing disclosure relating to management more meaningful to shareholders, the Commission closely monitored the efficacy of the management remuneration disclosure required by Item 4 of Regulation S-K. The staff issued numerous written and oral interpretations of these requirements.[77] On May 6, 1980, the Commission proposed for public comment amendments to the rules concerning the disclosure of management remuneration.[78] The proposals were a result of the Commission's monitoring of the disclosure provisions adopted in 1978 and are part of the Commission's effort to improve the presentation of information regarding executive compensation. Specifically, these proposals address pension, option, and stock appreciation rights plans, compensation relating to the termination of employment and certain technical amendments. (Subsequent to the close of the fiscal year, on November 13, 1980, in advance of the 1981 proxy season, the Commission adopted amendments to the management remuneration disclosure provisions.[79])

Monitoring of Existing Guidelines

During the last year the Commission has undertaken the task of an overall review of its published guides to required disclosure under the Securities Act and Exchange Act. It also focused on the disclosure guide applicable to one particular industry, bank holding companies, and revised the pertinent guide to both reduce the disclosure burden and make the remaining disclosure more meaningful.

In order to implement the Commission's continuing goal of reviewing existing rules to delete or amend unnecessary or outmoded provisions, an advance concept release was issued on December 5, 1979, announcing a re-evaluation of the *Guides for the Preparation and Filing of Registration Statements and Reports under the Securities Act of 1933 and the Securities Exchange Act of 1934* and soliciting comments on the manner in which such re-evaluation should proceed.[80] On the basis of the comments received, the staff is in the process of formulating proposals which would recommend the withdrawal of certain provisions of the Guides which are now obsolete and the rearticulation of those provisions which continue to have procedural or substantive significance.

In August 1979, the Commission issued a release requesting comments on the quality and desirability of the disclosure made under the existing guidelines for "Statistical Disclosure by Bank Holding Companies."[81] These particular guidelines have been in operation since 1976. The request was part of the Commission's effort to monitor the effect and value of its disclosure rules and guides with a view towards amending or rescinding those rules or guides which do not yield the expected benefits. Most of the commentators supported these particular guidelines and called the resulting disclosure valuable. A number of

amendments were made, however, to reduce the volume of disclosure, lower compliance costs, and improve the quality of the retained disclosure.[82]

Small Business

The Office of Small Business Policy in the Division of Corporation Finance was established in June 1979 to lead the Commission's small business rulemaking initiatives, to review and comment upon the impact of rule proposals on small businesses, and to serve as liaison with Congressional committees, government agencies and other groups concerned with small business. After its first year of operation, the Office is continuing its efforts to alleviate, to the degree consistent with the protection of investors, the problems of small business in raising capital. In this regard, the Office has already coordinated its efforts with (1) the White House Conference on Small Business Financing; (2) the Inter-Agency Task Force on Domestic Policy Review of Industrial Innovation; and (3) the Joint SEC-NASAA Committee on Small Business Capital Formation.

Form S-18—The Office is also responsible for monitoring the content and quality of disclosure in smaller offerings, pursuant to both Regulation A and Form S-18, which is the simplified registration procedure for small businesses. Form S-18 calls for substantially less narrative and financial disclosure than Form S-1, which is the form such issuers would otherwise use for registration of their securities. In a further effort to reduce the registration burden on small issuers, the Form S-18 was designed so as to contain all the disclosure requirements within the confines of the form itself so that the preparer need not seek out any cross references to other rules and forms. Form S-18 is available to certain domestic and Canadian corporate issuers for the registration of up to $5 million of their securities to be sold for cash. In order to facilitate processing for the issuer, the form may be filed with the regional offices of the Commission as well as in Washington, D.C. From its adoption in April 1979,[83] to August 1980, over 128 offerings were filed on Form S-18 in Washington and the regional offices.

In March 1980, the Commission released the results of a study prepared by its Directorate of Economic and Policy Analysis (the Directorate). The report examined the record of Form S-18 use during 1979 and compared key aspects with a sample of Form S-1 users. It found that the new Form S-18 has largely displaced the traditional Form S-1 for the registration of smaller initial offerings of common stock, and that these S-18 filings, covering offerings amounting in the aggregate to over $286 million, were made by companies that for the most part had never before sought to raise capital through the public markets.

Long-Range Studies—Analysis of the policy implications of the Federal securities laws confronting small, high-technology corporations in the capital markets, as well as accounting disclosure, tender offers and other policy concerns relevant to such enterprises, has been the focus of a joint project with the Department of Commerce's Experimental Technology Incentives Program (ETIP) and the Commission's Directorate. This project encompasses a broad spectrum of related studies, including several which will be published by the Directorate in the newly launched *Capital Market Working Papers* series.

A joint project with the Small Business Administration examining initial public offerings has been completed and reports have been distributed to the general public and small business firms. A new project to study the role of

certain exemptions from securities registration in providing a source of financing to small issuers has been undertaken and will culminate in a final report to be published in December 1981.

Rule 242—On January 17, 1980, the Commission adopted Rule 242, pursuant to Section 3(b) of the Securities Act.[84] This rule provides an exemption from the registration provisions of the Securities Act for sales by domestic corporate issuers of securities up to $2 million in any six-month period to an unlimited number of "accredited investors" as defined in the rule, and to 35 non-accredited persons. The rule itself does not require the issuer to furnish an offering circular to investors if only accredited persons are involved in a Rule 242 offering, based upon the presumption that these types of investors are able to fend for themselves. If, however, a Rule 242 offering involves one or more non-accredited persons, the issuer must furnish all purchasers, in-cluding both accredited and non-accredited persons, the same kind of information as that specified in Form S–18 to the extent material, except for certain financial information.

Rule 254—On June 19, 1980, the Commission proposed for comment certain amendments to Rule 252 under Section 3(b) of the Securities Act.[85] Rule 252 provides that a Regulation A exemption from registration for small public offerings of an issuer's securities shall not be available if the issuer is subject to one of the disqualifications described in the rule. The Commission solicited comments on amendments to the rule which would, among other things, make disqualifications, which now last indefinitely, terminate automatically after five years. In addition, the Commission proposed certain amendments to Rule 242 that would conform the disqualifying provisions of that rule to amended Rule 252.

Classifying of Issuers—On June 2, 1980, the Commission authorized the issuance of a release announcing that it was considering the advisability of classifying issuers under the Exchange Act so that defined classes of smaller issuers might have modified reporting and other requirements.[86] The release raised a number of general questions about the desirability or feasibility of a classification system and the criteria which could be used in grouping companies. In this connection, the Commission also released certain statistical data with respect to those companies that are subject to the periodic reporting provisions of the Exchange Act for the purpose of evaluating potential classification criteria. The Commission intends to consider the public comments in connection with any proposal of amendments to rules or forms under the Exchange Act.

Legislation—The Commission was also active in the formulation of proposed legislation entitled, "The Small Business Investment Incentive Act of 1980", H.R. 7554. In addition to the significant amendments to the Investment Company Act and the Investment Advisers Act that are designed to alleviate unnecessary regulatory constraints on venture capital undertakings (discussed in the "Investment Companies and Advisers" section of this Annual Report), the proposed legislation would also amend the Securities Act and the Trust Indenture Act of 1939 (Trust Indenture Act). First, the proposed legislation would create a new exemption from the registration provision in Section 5 of the Securities Act substantially similar to the "accredited investor" concept of Rule 242. In addition, at the request of the Commission, the legislation would raise from $2 million to $5 million the ceiling on the Commission's authority

under Section 3(b) of the Securities Act to exempt small issuers from the registration requirements of that Act. Finally, based upon a legislative proposal submitted by the Commission, the proposed legislation would amend the Trust Indenture Act to increase the aggregate amount of securities that may be partially or totally exempt from the provisions of that Act. (Subsequent to the close of the fiscal year, on October 21, 1980, this legislation was signed into law.)

Tender Offers

Tender offer Rules—In November 1979, the Commission adopted new tender offer rules[87] which had been published for comment in February 1979. At the same time, the Commission published for comment other proposed tender offer rules.[88] This action was part of the Commission's ongoing program to establish a comprehensive regulatory framework with respect to tender offers.

The new rules govern the activities of the person making the tender offer (the bidder) and prescribe certain obligations for the issuer of the securities sought in the tender offer (the subject company). The rules regulating the bidder may be divided into four categories: filing requirements; dissemination provisions; disclosure requirements; and substantive provisions. The operation of these rules is triggered by the date of commencement of the tender offer, which is defined by Rule 14d–2 as essentially equivalent to the date the tender offer is first published or sent or given to security holders.

Rule 14d–3 requires the bidder to file a Tender Offer Statement on Schedule 14D–1 as soon as practicable on the commencement date, to hand deliver a copy of the schedule to the subject company and to give telephonic notice of certain information to the securities exchanges and the NASD. Material changes in the information disclosed in the Schedule 14D–1 are to be filed as amendments in the same manner as an original filing.

Rule 14d–4 establishes three alternative methods of disseminating a tender offer to security holders which involves the exchange of their securities for cash: long-form publication; summary publication; and the use of stockholder lists and security position listings. While tender offers may be disseminated by methods other than those specified in Rule 14d–4, the use of the latter two methods is governed by the requirements of this rule. The dissemination of a tender offer involving the exchange of securities is governed by the provisions of the Securities Act if the transaction is subject to the registration requirements of that Act. Rule 14d–6 sets forth the specific disclosure requirements applicable to these tender offers, which requirements are generally based on the method of dissemination. If summary publication, stockholder lits or security positions listings are used, then the summary advertisement must contain specified disclosure items. Substantive provisions concerning tender offers regulate the minimum length of a tender offer, require prompt payment or return of the securities at the termination of the tender offer, provide additional withdrawal rights, and permit the bidder to extend certain pro rata acceptance provisions if full disclosure is made.

The new rules impose two duties on the subject company. First, the subject company must comply with Rule 14d–5 which permits the bidder to elect to use the subject company's stockholder list or dissemination of the tender offer materials. The subject company could determine to retain the stockholder list, in which case the subject company would distribute the bid-

der's tender offer materials, or to furnish the stockholder list to the bidder, in which case the bidder would distribute them. Second, the subject company is required to disclose to security holders its position with respect to the tender offer and the reasons therefor. Such a communication may be a solicitation/recommendation governed by Rule 14d–9 requiring the filing of Schedule 14D–9 with the Commission and transmittal to other designated persons.

The rules that the Commission proposed for comment in November 1979 included a definition of the term "tender offer"; certain antifraud provisions concerning trading by certain persons in possession of material non-public information relating to a tender offer; provisions requiring equal treatment of security holders in the context of tender offers; and a prohibition on certain purchases not made by means of a tender offer. In September 1980, the Commission adopted one of these proposals, Rule 14e–3, which established a "disclose or abstain from trading rule" for any person in possession of material information that relates to a tender offer by another person, which information he knows or has reason to know is nonpublic and was acquired from that other person or the issuer of the securities subject to the tender offer.[89] Included in the rule are exceptions pertaining to multi-service financial institutions and brokerage transactions. In addition, as a means reasonably designed to prevent fraudulent, deceptive or manipulative acts or practices, an "anti-tipping" rule was established with respect to material, non-public information relating to a tender offer. With respect to the remaining tender offer rule proposals, the Commission anticipates further rulemaking proceedings in the near future.

Tender Offer Legislation—On February 15, 1980, the Commission sent to Congress, in response to requests received from Senators Proxmire, Williams and Sarbanes, a package of legislative proposals relating to tender offers and acquisition of control. Among other things, these proposals would make certain changes to the current scheme of regulation in the Exchange Act as established by the Williams Act.

First, as to disclosure of beneficial ownership, the proposed revision of Section 13(d), and the rules which would be adopted thereunder, would replace current Sections 13(d) and 13(g) and would establish a unified and effective system for the disclosure of five percent beneficial ownership of publicly-traded equity securities. Moreover, the proposal would correct the present situation in which a person who has become obliged to file a statement disclosing the beneficial ownership of five percent or more of the securities of a class, or who has become obliged to amend such statement, may continue acquiring additional securities during the period prior to the actual filing of the required statement.

Second, as to issuer repurchases, present Section 13(e) would be reenacted with only minor, conforming amendments. As is presently the case under Sections 13(d) and 14(d), issuer repurchases would not be subject to the reporting requirements of proposed Section 13(d) or the regulatory requirements of proposed Section 14(d). Rather, issuer repurchases will continue to be regulated, as is necessary or appropriate by Commission rules adopted under Section 13(e).

Third, the present system of regulating "tender offers," which are not defined by statute, would be replaced by a system of regulating "statutory offers," which are defined, with appropriate exceptions, as acquisitions by any person who is or would become the beneficial owner of more than ten percent of a

class of publicly traded equity securities. Like present Section 14(d), the proposed revision would goven the dissemination of pertinent information.

Fourth, proposed Section 14(i) would create and define certain aspects of a private right of action for damages and/or equitable relief for violation of any provisions of proposed Section 13(d), 13(e), 14(d), 14(e), 14(f), 14(g) or 14(h). In addition to overruling *Piper v. Chris Craft Industries*, which denied a defeated tender offeror standing to sue for damages under Section 14(e), the proposal would provide needed protection to a broad range of persons aggrieved by violations of the beneficial ownership reporting, issuer repurchases, "statutory offer," and antifraud provisions of proposed Sections 13(d), 13(e), 14(d) and 14(e), respectively.

Finally, the proposal would provide for an explicit preemption of the antitakeover laws enacted by the States. Under the proposal, the only such laws allowed would be those limited in their application to tender offers for or acquisitions of securities of issuers having their principal place of business in the State, and having 50 percent or more of their shareholders, who hold 50 percent or more of the securities of the class, residents in that State. (This legislation was introduced in the Senate on October 1, 1980).

Beneficial Ownership Report

In June 1980, as required by Section 13(h) of the Exchange Act, the Commission sent a report to Congress concerning the beneficial ownership reporting requirements under the Exchange Act. The Commission concluded that in general the beneficial ownershp reporting requirements were operating effectively to produce appropriate disclosure of information concerning substantial acquisitions and holdings of equity securities by certain institutional investors and by officers and directors and certain beneficial owners of most publicly-held companies. The Commission identified certain areas where additional rulemaking may be appropriate either to close a disclosure gap in the present reporting system or to make the disclosure mandated more meaningful, while lessening the burdens and costs of such reporting. In addition, the Commission identified one area where additional legislation would be appropriate to improve the timeliness of certain disclosures.

The Commission also considered the issue of whether it is feasible or desirable to reduce or otherwise modify the five percent reporting of beneficial ownership thresholds in Sections 13(d) and 13(g) of the Exchange Act. Based upon an evaluation of the present reporting requirements and a comparison of the benefits and burdens of lowered reporting thresholds, the Commission concluded that at this time it was neither feasible nor desirable to modify these reporting thresholds.

Accounting Matters

The Accounting Profession and the Commission's Oversight Role—The Commission and its staff have continued to be active in overseeing the accounting profession's initiatives designed to establish meaningful self-regulation, assure the independence of auditors, and improve the accounting and auditing standard-setting processes. The overall objectives of the Commission's oversight activities is to assure that the accounting profession continues to make substantial progress toward its primary goal of promoting public confidence in the integrity and credibility of financial reporting by public companies.

In August 1980, the Commission submitted to Congress its Third Report on the Accounting Profession and the

Commission's Oversight Role. In that report, the Commission concluded that the accounting profession, under the oversight of the Commission, has made significant progress toward achieving its goals. The Commission noted, however, that the process of reform and improvement is far from over and that the programs instituted by the profession during the past few years must stand the test of time.

With respect to the profession's self-regulatory efforts, the Commission stated that while the structure is in place, its programs and mechanisms are not yet fully implemented or tested. In addition, continued commitment by members of the profession and effective leadership from within the private sector is necessary. Whether the profession can accomplish the ultimate goal of effective, meaningful self-regulation is still dependent upon future developments. While some questions and potential problems remain, the Commission continues to believe that the profession's efforts to create and maintain a meaningful system of self-regulation and self-discipline deserve the continued support of the Congress and the Commission. The Commission further believes that allowing the profession additional time to accomplish its objectives is appropriate since the Commission is not convinced that comprehensive, direct governmental regulation of accounting or accountants would afford the public either increased protection or a more meaningful basis for confidence in the work of public accountants.

With respect to the standard-setting processes of the private sector, the Commission stated in its August 1980 Report that it continues to believe that the initiative for establishing and improving accounting and auditing standards should remain in the private sector, subject to Commission oversight. The Commission reaffirmed its continued strong support for and general satisfaction with the work of the Financial Accounting Standards Board (FASB). The Commission believes that the FASB must continue its efforts to provide leadership and take appropriate action in controversial areas, and that members of the accounting profession must continue to support the FASB's decisions and join more actively in the standard-setting process. The Commission also stated its continued belief that the Auditing Standards Board (ASB) and its Advisory Council have generally performed in a satisfactory manner and have generally been responsive to changing public expectations concerning the role of the auditor.

Although the Commission acknowledges that significant progress has been made by the accounting profession to date, the Commission's statutory responsibility for the integrity of the financial information disseminated by public companies requires continuing attention to the accounting principles underlying that information, the auditing standards by which it is reviewed, and the independence and competency of the profession which performs that review. The Commission will, of course, continue to monitor the profession and to offer guidance, comments and leadership, if necessary and where appropriate.

Scope of Services by Independent Accountants — The appropriate scope of non-Audit services to be provided by independent public accountants has attracted substantial attention in recent years. Study and debate has centered around various services performed of a non-aduit nature (tax services, accounting and review services and management advisory services), with principal attention being focused on management advisory services (MAS) and the potential impact that performance of

such services for audit clients may have on auditor independence.[90]

During 1979, the Commission undertook to establish a system for monitoring the new disclosures required to be included in proxy statements by Accounting Series Release No. 250 (ASR No. 250). A sample of approximately 1,200 proxy statements, including both exchange-listed and over-the-counter registrants, were chosen statistically for review. Emphasis was placed on obtaining a better understanding of the nature of non-audit services being performed and the magnitude of such services in terms of percentage relationships to aggregate audit fees.

Results of this first year review showed that a large majority (approximately 91 percent) of companies engaged their auditors for some type of non-audit services, with the highest incidence being in tax related areas. The survey further indicated that the incidence of performance of certain specific services (i.e., actuarial services, plant layout, market surveys) was minimal. In Accounting Series Release No. 264 (ASR No. 264), which presented the Commission's views regarding factors it believes management, the audit committee and the accountant should consider in determining the appropriate scope of services to be performed by independent accountants, the Commission noted that the performance of these specific services may, in many cases, be difficult to justify on the basis of the factors set forth therein. In addition, the Report of the Senate Subcommittee on Reports, Accounting and Management of the Committee on Governmental Affairs[91] indicated that these specific services are incompatible with the public responsibilities of independent auditors.

As for the magnitude of non-audit services performed, the survey indicated that 68 percent of the companies incurred fees for non-audit services representing 0-25 percent of the total audit fees; 21.9 percent of the companies were in the 26-50 percent range; 7.4 percent of the companies were in the 51-100 percent range; and 2.7 percent of the companies were over 100 percent.

While these new disclosures for 1979 contribute to an understanding of existing practice, the Commission does not believe that meaningful conclusions as to the need for rulemaking or legislation can be drawn from disclosures for a single year. The relationships need to be reviewed and evaluated over a longer period of time. Accordingly, the Commission plans to use, over the next several years, the disclosures provided in proxy statements to obtain a better understanding of the nature and extent of auditor-client relationships and to identify any trends which develop as a result of the guidance offered by ASR No. 264 or as a result of actions taken by the accounting profession.

Although the Commission believes that ASR Nos. 250 and 264 provide a meaningful framework for the determination of the appropriate scope of services to be performed by independent accountants, it has not ended its examination of the scope of services issue. Rather, it views the issuance of ASR Nos. 250 and 264 as part of a continuing examination of the relationships between registrants and their independent accountants. After continued monitoring of the practice, the Commission will be in a better position to determine if any further action is necessary in this area.

Accounting Standards for Oil and Gas Producers — The Commission continues to assign a high priority to the issue of accounting practices for oil and gas producing companies.[92] The Commission is currently experimenting with reserve recognition accounting (RRA), a

new method of accounting for oil and gas producers. In September 1979, it adopted rules for the supplemental disclosure of a summary of changes in the present value of estimated future net revenues from the production of proved reserves. Also adopted was a requirement for a summary of oil and gas producing activities prepared on the basis of RRA. The Commission anticipates that these supplemental disclosures, together with previously adopted disclosure requirements, will provide the basis for evaluating the feasibility of requiring RRA as a uniform accounting method in the primary financial statements.

Closely related to the question of appropriate financial statements disclosures of oil and gas reserve information is the degree of auditor association with the information. In April 1980, the Commission considered the question of an audit requirement regarding oil and gas reserves. The Commission emphasized that it considers reserve information to be extremely important to an understanding of the financial results of a oil and gas producing company. At the same time, however, it acknowledged that uncertainty exists concerning the costs and related benefits of requiring an audit of the reserve information. Accordingly, the audit requirement was further postponed until a decision is reached on adopting RRA as a uniform method of accounting in the primary financial statements. The postponement of the audit requirement does not represent a conclusion on the part of the Commission as to whether or not RRA is feasible as a uniform method of accounting in the primary financial statements.

The Commission staff is also coordinating its activities on oil and gas accounting with related efforts of the FASB—specifically, the FASB's efforts to develop supplemental disclosures as to the effects of changing prices for specialized assets, including proved oil and gas reserves. In making any final determinations on accounting practices for oil and gas producers, the Commission will also give careful consideration to progress made by the FASB in the development of a conceptual framework for financial accounting and reporting.

FASB Conceptual Framework Project—The Commission continues to believe that the development of a conceptual framework as a basis for addressing accounting problems is the most important financial reporting matter confronting the FASB and its constituents. A conceptual framework should assist the FASB by providing structure and direction to financial accounting and reporting through an articulation of a coherent system of interrelated objectives and fundamentals leading to consistent standards, and through prescribing the nature, function and limits of financial accounting and reporting. The existence of such a framework should enhance the standard-setting process by accelerating the responsiveness of the FASB to emerging accounting problems and contribute to more timely, effective and consistent standards. In addition, a comprehensive conceptual framework should enhance the understanding of preparers and users of financial information as to the purposes, content and characteristics of such information.

During the past year, the Commission has continued to actively oversee the FASB's standard-setting initiatives. While the Commission has some concerns with respect to the delays that have been experienced in the FASB's conceptual framework project, as well as with the lack of clarity as to which phase or phases of the project will address certain fundamental conceptual issues, the Commission is generally

satisfied with the FASB's overall efforts during the past year.

The FASB is devoting a major portion of its resources to this project which is necessarily a long-term evolutionary effort. However, as the framework develops during the next few years, it is important that the evolving principles and concepts contribute significantly in developing financial reporting standards that address the important fundamental issues presently confronting the FASB and its constituents.

Although the Commission recognizes the long-term nature of the project, the Commission also believes that there are certain basic issues that the FASB should address within the next few years—perhaps within the maximum five-year experimental period established by the FASB for a comprehensive re-look at Statement of Financial Accounting Standards No. 33 (FAS-33), "Financial Reporting and Changing Prices." In this connection, the Commission believes that the resolution of the following two issues will be critical to the success of the conceptual framework project:

The first issue is the development of concepts to govern the establishment of accounting standards regarding the points in time when the elements of financial statements—i.e., assets, liabilities, revenues, expenses, etc.—should be recognized in the financial statements and the manner in which recognized elements should be measured. In this connection, the Commission believes that the measurement concepts set forth in FAS-33 are sound and that these concepts should be developed in a general concept statement dealing with measurement issues. Progress in these areas will, or should, directly affect the ultimate disposition of certain major projects (such as business combinations, consolidation policy and interim financial reporting) postponed by the FASB pending developments in the conceptual framework project. Development of these phases should also assist the Commission in its consideration of appropriate accounting and financial reporting for oil and gas producing companies.

Second are the conceptual issues related to the determination and display of the key components of operating performance and cash flow, which are highly relevant in the current economic environment. A corollary issue is the nature of possible summary financial reporting indicators that might be developed from this project which would identify the key items that indicate the success of an enterprise. The FASB must make progress on the phase whose objective is to determine the kinds of information about an enterprise's flow of funds and its liquidity position that should be provided in the context of objectives of financial reporting. The Commission believes that one of the ultimate results of this phase should be a revision of the statement of changes in financial position to better reflect cash flows.

The Commission will continue to work with the FASB by offering its comments and criticisms, where necessary, in an effort to ensure that the conceptual framework ultimately leads to a set of principles and concepts, as well as standards emanating from those principles and concepts, which will serve the needs of users of financial information in a constantly changing economic environment.

Financial Reporting and Changing Prices—The Commission continues to view the development of financial reporting to reflect the impact of inflation and changing prices as one of the most important ongoing challenges facing the FASB, the accounting profession and the business community. In partial

response to the need for financial reporting which reflects the economic realities of doing business, the FASB, in September 1979, issued its first standard to address the complex area of accounting for the effects of changing prices. Considered by the Commission to be a significant breakthrough in the private sector standard-setting process, FAS-33 represents an important addition to the historical cost-based accounting model and, perhaps more importantly, reflects the willingness of the FASB to deal with difficult issues requiring innovative solutions.

FAS-33 represents an experimental effort by the FASB, requiring two fundamentally different approaches to be followed in preparing required disclosures. Large, publicly-held companies subject to the provisions of the new standard are required to provide disclosure (as supplemental information to the primary financial statements) of both the effects of general inflation, and the effects of changing prices of specific goods and services.

FAS-33 reflects clearly the FASB's recognition that the state of the art does not permit a definitive standard, that experimentation is necessary, and that the urgency of the need for disclosure of the effects of inflation cannot await a perfect solution. The FASB has undertaken to study the disclosure practices under the new standard and to monitor the extent to which the information is used, the type of users who find the data useful, and the purpose for which it is used. The FASB plans to amend or withdraw requirements when evidence justifies the need and has stated that FAS-33 will be given a comprehensive reconsideration after a period of not more than five years. The Commission understands the basis for the FASB's conclusion as to the need for experimentation and supports its continuing efforts in this area in seeking the most meaningful disclosures. As a result of the issuance of FAS-33, the Commission rescinded its replacement cost rule and extended its safe harbor provisions to disclosures required by the new standard.

Ultimate success in achieving meaningful disclosures concerning the effects of inflation and changing prices will depend to a large extent on the efforts of the accounting profession and the business community in applying the new standard and experimenting with additional disclosures which may help users assess the impact of changing prices on particular entites and industries. In this regard, the Commission believes that the new standard should be viewed as a minimum for disclosure and that the corporate community should strive to contribute to the private sector standard-setting process by volunteering additional information which may be necessary to make the reporting most meaningful and useful in the circumstances.

Reporting on Internal Accounting Control — During the fiscal year, the Commission completed its review and evaluation of the numerous public comments received on its proposed rules which would have required inclusion of a statement by management on internal accounting control in annual reports on Form 10-K filed with the Commission under the Exchange Act, and in annual reports to security holders furnished pursuant to the proxy rules.[93]

In June 1980, the Commission, in Accounting Series Release No. 278 (ASR No. 278), announced the withdrawal of these rule proposals. The Commission's decision was based, in part, on a determination that the private-sector initiatives for public reporting on internal accounting control were significant and should be allowed to continue. The Commission believes that its action will encourage further voluntary initiatives

and permit public companies a maximum of flexibility in experimenting with various approaches to public reporting on internal accounting control. Further, the Commission urged similar experimentation concerning auditor association with such statements.

The Commission intends to give further consideration to rule proposals concerning management reports, and auditor association with them, based upon three years' experience. In order to supplement the information which the Commission obtained in the course of the rulemaking proceeding and through its analysis of reports for 1979, the Commission intends to continue a monitoring program through the spring of 1982. As part of that program, the Commission will carefully monitor private-sector initiatives in this area, as well as issuer practice in voluntarily providing management statements on internal accounting control and in engaging independent accountants to report on such statements.

In conjunction with its monitoring effort, the Commission invited public comment both on the progress being made by the private sector, as well as on what regulatory action the Commission might consider in this area. In addition, the Commission also encouraged comments on other issues and matters discussed in ASR No. 278.

Should the Commission's monitoring effort or the comments which it receives identify a specific need for further Commission action, the Commission stands ready to take whatever appropriate regulatory action may be indicated. In any event, however, a more comprehensive reconsideration of this area by the Commission can be expected after the Commission has had the benefit of its analysis of three years' experience with voluntary management reporting and auditor involvement.

Auditor Association with Required Supplemental Financial Information—The accounting profession today is facing new challenges over and above the traditional challenge of performing quality audits of financial statements. It is faced with the need for its members to become involved with supplementary financial information disclosed outside the confines of traditional financial statements. The FASB adopted a concept of financial reporting which recognizes that certain information, while relevant to an understanding of a company's financial position and results of operations, is better provided, or can only be provided, by means of financial reporting other than in financial statements. Recognition that the domain of financial reporting should extend beyond the primary financial statements is a significant step in the accounting standard-setting process and one for which the Commission has expressed support.

Recognizing that the accounting profession must accept some degree of responsibility for the presentation of supplementary inforrmation, the ASB, in December 1979, issued its Statement on Auditing Standards No. 27 (SAS 27), "Supplementary Information Required by the Financial Accounting Standards Board." SAS 27 provides guidance to an independent auditor on the nature of procedures to be performed when supplementary information is required to be presented pursuant to FASB pronouncements. Additionally, it requires an auditor to expand his report on the audited financial statements, if necessary, to call attention to an inability to complete the prescribed procedures, the omission of required supplementary information, or material departures from FASB guidelines on the measurement or presentation of such information.

The Commission believes that SAS

27 is a positive step toward providing the profession needed guidance in assessing the nature and extent of its association with supplementary information. However, the Commission is troubled by the ASB's decision to adopt requirements for exception reporting as opposed to explicit reporting on required supplementary financial information. An accountant's explicit report on supplementary information which describes the nature of his review and states whether he is aware of any material modifications that should be made to the information for it to conform with the FASB's guidelines should provide an important channel of communication between the profession and users of financial reports.

The Commission understands that the ASB deferred requiring explicit reporting on supplementary information due to, among other matters, its uncertainty over the applicability of Section 11 of the Securities Act to accountants' reports on supplementary information which are included in registration statements. The Commission recognizes that accountants' liability for reports on supplementary information must be consistent with their responsibility with respect to such information. Accordingly, the Commission has proposed rules which exclude accountants from liability under Section 11(a) of the Securities Act for their reports on the two types of supplementary information now required in financial reporting—the effects of changing prices and data on oil and gas reserves. The Commission believes that these proposed rules represent important steps in encouraging the ASB to adopt requirements for explicit reporting by auditors.

The Commission intends to consider whether it would be more appropriate for the liability issue to be addressed generally in the context of all types of supplementary information rather than specific supplementary information which companies are now presenting in registration statements and other documents furnished to shareholders or investors. The inclusion by public companies of supplementary financial information in annual reports and other disclosure documents is a new and evolving area of financial reporting and one which the Commission desires to encourage.

Disclosure Study and Related Matters

The Division of Investment Management established a study group at the end of fiscal year 1979, to undertake a thorough review of investment company disclosure requirements under the Securities Act of 1933 (Securities Act) and Investment Company Act of 1940 (Investment Company Act). The objective is to reduce unnecessary burdens on both the industry and the staff which may result from present disclosure requirements.

The first recommendations resulting from this study, Rule 465 under the Securities Act and related amendments to the registration statement forms,[94] were adopted by the Commission on August 25, 1980. This rule permits most post-effective amendments to registration statements filed by open-end, management investment companies and unit investment trusts, other than insurance company separate accounts, to become effective automatically, without affirmative action on the part of the Commission or its staff. Amendments which merely register additional shares, or which are filed to update the issuer's prospectus and do not discuss any material events in its operations, can become effective either immediately or on a date chosen by the registrant within 20 days of the date of filing. All other amendments will become effective on the 60th day after filing, including those which discuss material events in investment company operations. The rule is designed to accomplish two goals. First, it will eliminate staff review of purely routine filings, thereby enabling the Division to concentrate its resources on those filings which need the review process in order to insure complete disclosure. Second, and perhaps more importantly, it will permit registrants to assume greater responsibility for their compliance with the disclosure requirements of the Federal securities laws.

This disclosure study is continuing its review of ways to eliminate duplicative reporting requirements in documents sent to existing shareholders and potential investors. As part of its project to simplify reporting requirements, the study group is examining ways to reconcile differences in financial statements required to be included in different disclosure documents.

The Commission was also active in the area of money market funds during the fiscal year. On September 30, 1980, the Commission adopted amendments to Form N-1, the registration statement form for open-end, management investment companies, and Rule 434d under the Securities Act, regarding investment company advertising.[95] The amendment to Form N-1 requires the inclusion of a yield figure computed by a standardized method, and a quotation based on that computation, to be included in the prospectuses of money market funds. The amendment to Rule 434d further requires that any yield quotations used in advertisements under that rule be computed by the same standardized method. These amendments are based on the need of investors in money market funds for comparable yield quotations, since such funds are marketed primarily on the basis of yield. Prior to adoption of these amendments, money market yield quotations were not comparable and may have confused investors.

On March 14, 1980, the Federal Reserve Board announced adoption of a requirement that money market funds maintain with Federal Reserve Banks special non-interest bearing deposits in respect of any increase in asset size. In response to this requirement, many money market funds ceased further sales to the general public, and their sponsors filed registration statements for new funds, known as "clone funds," which were substantially identical to existing funds (base funds) except for the maintenance of the special deposit. The Division examined and processed, on a expedited basis, about 40 registration statements of these so-called clone funds. Clone funds were intended to protect shareholders of the base funds from the impact of lower yields, which would have resulted from maintenance by the base funds of the special deposit, while simultaneously allowing investors to continue to purchase money market fund shares, albeit with a lower yield resulting from the special deposit. The expedited treatment procedure established by the staff made it possible for most of those funds desiring early effectiveness to have their registration statements declared effective by the Commission within two weeks after the date of filing.

Investment Company Act Study

The Investment Company Act Study Group (the Study) was established by the Division at the end of fiscal year 1978 to review the regulation of investment companies under the Investment Company Act. Through its rulemaking proposals to the Commission and interpretive releases, the Study has proposed, consistent with the protection of investors, a simpler, more efficient regulatory system. This system reduces Commission involvement in investment company operations and concomitantly enhances the authority and responsibility of investment company directors, particularly disinterested directors, as primary overseers of an investment company's management decisions. The recommendations of the Study have generally taken two forms: (1) replacing administrative review by the Commission's staff of proposed investment company activities with rules establishing general criteria under which certain activities are permissible; and (2) refining the Investment Company Act's broad statutory prohibitions by interpretation so as to permit activities not originally contemplated as being within an exemptive provision's technical scope or underlying purpose.

Consistent with the goal of placing greater responsibility on directors for the operation of investment companies, during the fiscal year the Commission adopted several rules which permit certain transactions between an investment company and its affiliated persons under certain circumstances and after certain findings. These rules related to purchase of liability insurance policies;[96] receipt of cash or securities pursuant to a portfolio company's plan of reorganization;[97] and mergers and consolidations.[98] During that time, the Commission also adopted rules which lessen prohibitory regulation when certain contracts for investment advisory or principal underwriting services are terminated[99] and which clarify certain disclosure notices to periodic payment plan participants.[100]

Additionally, the Commission also proposed rules which would:

(1) exclude from the definition of investment company, and hence from regulation under the Investment Company Act, certain prima facie investment companies which are primarily engaged in a non-investment company business;[101]

(2) temporarily deem certain transient investment companies not to be

investment companies for purposes of the Investment Company Act;[102]

(3) deem certain subsidiaries of operating corporations not to be investment companies for purposes of the Investment Company Act;[103]

(4) deem, under specified circumstances for purposes of broadening the exception for private companies from the definition of investment companies, a company's owning ten percent or more of an issuer's outstanding voting securities to be beneficial ownership by one person;[104]

(5) exempt the purchase or sale of certain securities between an investment company and an affiliated person who is so affiliated solely because of having a common investment adviser, common officers and/or common directors;[105] and

(6) clarify which persons are required to be covered by fidelity bonding insurance.[106]

Progress was also made during the fiscal year toward resolving several other long-standing issues. First, the Commission continued to study whether to permit mutual funds to finance distribution of their own shares. For many years the Commission was reluctant to permit such a use of fund assets because of concerns about conflicts of interest, questions about whether funds would benefit from financing the sale of their own shares, and doubts about whether such a use of fund assets would be fair to existing shareholders. Nevertheless, consistent with the goals of the Investment Company Act Study, the Commission, in September 1979, published for comment Rule 12b–1 under the Act, which proposed conditions under which use of fund assets for distribution would be permitted. (Subsequent to the close of the fiscal year, on October 28, 1980, the Commission adopted Rule 12b–1.[107])

Second, the Commission considered whether to adopt Rule 17j–1 under the Act. That proposal would require that investment companies develop codes of ethics governing purchases or sales by investment company insiders of the same securities held or to be acquired by the investment company. (Subsequent to the close of the fiscal year, on October 31, 1980, the Commission adopted rule 17j–1.[108])

Finally, the staff completed its work on a proposed solution to the so-called "mini-account" problem. These accounts are offered by investment advisers in the form of individual accounts but may be operated, in practice, more like investment companies. (Subsequent to the close of the fiscal year, on October 10, 1980, the Commission published for comment proposed rule 3a–4 under the Investment Company Act dealing with how to characterize or regulate investment management services which provide clients with individualized treatment.[109])

Legislation Relating to Venture Capital

In cooperation with representatives of the venture capital industry and the staffs of the Congressional committees concerned with the securities laws, the Commission's staff drafted a bill designed to afford comprehensive requirements for certain small businesses and for certain firms that provide venture capital to developing businesses. This bill, the "Small Business Securities Acts Amendments of 1980", was favorably reported out of the respective committees by the end of August, 1980. (A discussion of the bill as it effects small businesses is found in the Disclosure System section of the Report.)

Titles I and II of the bill (which consists of five titles) amend the Investment Company Act and the Investment Advis-

ers Act. These amendments would have the effect of relieving qualifying "business development companies", as defined in the bill, from many of the regulatory restrictions imposed by those two Acts, and substituting a carefully-tailored pattern of reduced regulation that takes into account the special needs of the venture capital industry while still preserving important protections for the investing public. This new framework should substantially reduce the regulatory costs and impediments imposed on firms that undertake to finance and manage developing businesses. (Subsequent to the close of the fiscal year, on October 21, 1980, this legislation was signed into law.)

Significant Applications and Interpretations

Union Service Group — On September 25, 1980, the Commission granted an application, under Section 17 of the Investment Company Act, filed by the investment companies (funds) in the Union Service Group, and various affiliated companies, which permitted the externalization of the then internalized advisory, management and distribution functions of the funds. The Commission granted the application after concluding that the disinterested directors of the funds, based on information provided them by independent legal counsel and an independent financial consultant, had compared and quantified, on a company-by-company basis, the benefits which they anticipated would result from the externalization against the increased operating costs which would, at least initially, result from it in order to determine whether such costs and benefits were allocated fairly among all of the funds. The Commission also placed significant weight on the fact that the disinterested directors, with the assistance of their independent counsel and consultant, had determined what value should be placed on the right to manage the funds in order to determine whether the benefits flowing to those companies under the externalization exceeded the value of the right to manage them being acquired by the new external manager.

Union-Investment-Gesellschaft — On August 5, 1980, Union-Investment-Gesellschaft m.b.H. (Union-Investment) filed an application for a Commission order, pursuant to Section 7(d) of the Investment Company Act, permitting Unifonds, a West German investment company which is organized, operated and regulated in a manner substantially different from United States investment companies, to register and sell its shares in the United States. Union-Investment advises and administers five separate funds, including Unifonds, and is one of the oldest management companies in West Germany. The application is the first such filing by a foreign investment company made subsequent to the issuance of a 1975 Commission release setting forth the Commission's policy and guidelines for Investment Company Act registration of foreign investment company.[110] Thus, it presents for the first time novel and difficult issues concerning whether it would be legally and practically feasible to effectively enforce the Investment Company Act against the West German fund, and whether it would be consistent with the protection of investors to permit the fund to sell its shares in the United States.

Institutional Disclosure Program

The Commission's institutional disclosure program, adopted pursuant to Section 13(f) of the Securities Exchange Act of 1934 (Exchange Act), has now been in operation for over a year. Under the program, money managers that fall within the definition of an "institutional investment manager" con-

tained in Section 13(f)(5) of the Exchange Act, and that meet certain criteria set out in Rule 13f–1 under the Exchange Act, file reports on a quarterly calendar basis on Form 13F. Among the money managers that typically meet the requirements of Section 13(f) and file Form 13F reports, are investment advisers, banks and insurance companies. Those managers required to file Form 13F reports disclose certain equity holdings of the accounts over which those managers exercise investment discretion. Form 13F reports are not required to be in machine readable language. The Commission decided not to adopt such a form of reporting after receiving public comments in 1979 indicating that some managers do not employ computer systems and that those managers that do use computers employ a variety of systems. In light of these comments, the Commission determined that managers would find it unduly burdensome to employ uniform computer systems for the purpose of filing Form 13F reports in machine language.

Form 13F reports are made available to the public at the Commission's Public Reference Room as soon as possible after filing. In most cases, reports are available within one or two days of their filing. Also available for public inspection at the Public Reference Room are two tabulations of the information contained in Form 13F reports filed with the Commission. Both tabulations are produced by an independent contractor selected through the competitive bidding process. The first of the tabulations includes a listing arranged according to individual security held showing the number of shares of that security held and the name of the money manager reporting the holding. The second tabulation is a summary listing, also arranged according to individual security, showing the number of shares of that security reported by all institutional investments managers filing reports. The tabulations are normally available at the Commission's Public Reference Room between ten days to two weeks after the end of the 45 day period for filing Form 13F reports for a particular calendar quarter. The independent contractor produces and offers for sale to the public a magnetic tape containing the information included in the two tabulations.

Because the institutional disclosure program is still in its formative stages, and because the Commission has only limited resources to devote to the program, the staff has not yet undertaken to analyze or otherwise use Form 13F data on a formal basis. To date, much of the staff time devoted to the program has been spent: (1) answering public inquiries concerning the substantive provisions of Section 13(f) and the requirements of Form 13F; (2) assisting the general public, and on occasion representatives of congressional committees, in interpreting Form 13F information; and (3) preparing for publication the list of equity securities, used to complete Form 13F, that the Commission is required to make public under Section 13(f)(3) of the Exchange Act. The Commission and the staff have also undertaken consideration of the issue of when confidential treatment should be granted covering information contained in Form 13F reports.

Enforcement Program

The Commission's enforcement program is designed to secure as broad a regulatory impact as possible with the limited resources available. To this end, the Commission relies heavily upon civil damage actions based upon violations of the Federal securities laws, and upon self-regulatory and state and local law enforcement agencies. With respect to those agencies, the Commission devotes substantial efforts towards promoting the effective coordination of enforcement activities. In this manner, the Commission seeks to make maximum effective use of available resources in order to obtain an increased enforcement presence concerning matters within its jurisdiction.

The cases described here are illustrations which reflect the breadth of the Commission's responsibilities and its enforcement responses, and the continued vigor and effectiveness of the enforcement program.

Sanctions and Remedies

The Federal securities laws provide administrative and civil and criminal judicial remedies for violations of those laws. Sanctions in administrative proceedings for individuals subject to the Commission's regulatory jurisdiction may range from the imposition of a censure to the barring of a securities professional from the profession. Another type of administrative remedy permits the Commission to find, under appropriate circumstances, that an issuer of securities subject to the periodic reporting provisions of the Federal securities laws, has failed to comply with those provisions, and to order that issuer to comply upon such terms and conditions as the Commission may specify. The civil court remedy usually available to the Commission is court entry of an injunction barring further violations in addition to which the courts often enter orders providing for appropriate ancillary relief. Criminal sanctions include fines and imprisonment.

The Federal securities laws are primarily remedial in nature. In recognition of that purpose, in the litigation and settlement of its proceedings the Commission makes every attempt to prevent a recurrence of violative activity and to rectify the result of past violations. The Commission has been particularly successful in securing appropriate relief in injunctive actions. In fiscal year 1980, examples of such relief included: an agreement by a defendant to return $9 million alleged to have been wrongfully obtained;[111] the appointment to boards of directors of persons previously unaffiliated with a corporation;[112] filings with the Commission which correct earlier, incorrect filings;[113] undertakings by persons to resign as officers of corporations;[114] undertakings by persons to repay monies found to be due and owing from activities complained of in the Commission's complaint;[115] an affirmative undertaking by individuals to use their best effort to have independent audit committees set up by any other companies with whom they should become associated.[116]

In the majority of its cases, the Commission is able to settle with respondents or defendants on terms which secure the necessary remedial relief. Generally, respondents or defendants who consent to such settlements with the Commission do so without admit-

ting or denying the factual allegations contained in the Commission's complaint or order for proceedings. Thus, unless otherwise noted, in the discussion of the illustrative cases which follows, it should be assumed that settlements achieved were upon that basis.

Insider Trading

The purchase and sale of securities by persons in possession of material, non-public inside information has apparently increased in recent years. The Commission's enforcement interests have increased as well. Three of the important cases brought by the Commission are described below. Among this group is one case in which the Commission alleged insider trading based upon material information regarding corporate takeovers and tender offers, an area cited in last year's Annual Report.[117]

SEC v. Lerner, David, Littenberg & Samuel, et al.[118] — On April 2, 1980, the Commission filed a complaint against all of the partners and one associate of Lerner, David, Littenberg & Samuel (LDL&S), a patent law firm, and various members of their families, certain persons associated with clients of LDL&S, and friends of members of LDL&S. The complaint alleged violations of the antifraud provisions of the Exchange Act based on purchases by the defendants of common stock of Refac Technology Development Corp. (Refac) while in possession of material, non-public information. This information concerned the allowance by the U.S. Patent Office of certain principal claims in an application for the basic patent on the laser, which was being prosecuted by LDL&S under a joint royalty arrangement with Refac and the inventor of the laser.

In addition to the entry of the Court's orders with respect to further violations of the antifraud provisions of the Exchange Act, the Court ordered other equitable relief. In this regard, certain partners and associates of LDL&S and certain other persons who purchased Refac common stock undertook to make disgorgement of approximately $62,812 in profits derived from these securities transactions. Other defendants undertook to make disgorgement of $29,885 of profits derived from their transactions in the common stock of Refac. Moreover, LDL&S was ordered to comply with its undertaking to adopt, implement and maintain policies and procedures designed to prevent the use or dissemination of any material, non-public information received by any member or employee of the law firm by virtue of, or during the course of, their employment. The Commission, in its litigation release[119] issued a statement to emphasize its concern with respect to the use of material, non-public information by partners, associates and employees of law firms.

SEC v. National Kinney Corp.[120] — On June 30, 1980, the Commission filed a complaint against National Kinney Corporation (NKC) and others. The complaint alleged that various individual defendants purchased NKC stock while in possession of material, non-public information concerning arrangements between certain persons and entities in their attempt to acquire or develop hotel-casino gaming businesses in the United States, including the possible acquisition of the Alladin Hotel in Las Vegas, Nevada. The complaint further alleged violations of the antifraud provisions of the Exchange Act, based on allegations of untrue statements of material facts made by an officer of NKC to an official of the American Stock Exchange in response to questions by the official prompted by unusual and unexplained trading in NKC's common stock on that exchange.

The court ordered the defendants to comply with the antifraud provisions of the Exchange Act, and ordered NKC to make full, fair and accurate statements in communications with exchanges and self-regulatory organizations. The Court ordered certain defendants to disgorge profits realized on transactions in NKC common stock.

SEC v. David H. Hall[121] — On February 22, 1980, the Commission filed a complaint against David H. Hall, a practicing attorney. The complaint alleged that Hall frequently served as a "Special Shareholder Relations" counsel to publicly-held companies. In this capacity, he assisted in matters such as preparing for annual meetings or defending against takeover attempts and proxy contests. The complaint charged that Hall traded in the securities of certain of these companies while in possession of material, non-public information without disclosing such information. The non-public information in the possession of Hall related to various aspects of the business operations or plans of these companies, including information concerning favorable earnings reports or earnings projections, proposed tender offers, proposed stock splits, or cash dividend increases. The defendant was permanently enjoined from violations of the antifraud provision of the Exchange Act and, in addition, agreed to disgorgement of $33,702 in profits he derived from certain of his securities transactions.

Corporate Takeovers, Tender Offers, and Beneficial Ownership

During the fiscal year, the Commission brought a number of enforcement cases in situations where the investing public was harmed as a result of various practices by persons in connection with takeovers and tender offers. Also, an increase in the number of entities and persons holding significant amounts of particular securities as an investment strategy has led to an increasing number of enforcement actions regarding the Commission's rules which require the reporting of ownership of securities.

SEC v. Samuel E. Wyly, Raymond E. Shea and Eldon Vaughan[122] — On December 6, 1979, the Commission filed a complaint against Samuel E. Wyly, Raymond E. Shea, and Eldon Vaughan. The Commission's complaint alleged that Wyly, who served as Chairman of the Board of Directors of Wyly Corporation, entered into arrangements with other persons designed to provide additional incentives to them to induce the tender of Wyly Corp. debentures in connection with an exchange offer by Wyly Corp. The Commission's complaint alleged that Wyly entered into an arrangement to provide additional compensation to Shea, in the form of a consulting agreement, for the tender of his debentures. The complaint further alleged that the exchange offer was part of a plan of recapitalization of Wyly Corp., the success of which was the only alternative to Wyly Corp.'s seeking relief under the Federal bankruptcy laws. The complaint alleged that the arrangement with Shea and later negotiations between Shea and Wyly and Vaughn to settle Shea's claims pursuant to his arrangements were never disclosed by Wyly Corp. in its registration statement for its exchange offer, in its annual and periodic reports filed with the Commission under the Exchange Act reporting provisions, in its proxy statements, or in its press releases concerning its recapitalization efforts.

The Commission also alleged in its complaint that a business associate of Wyly, with funds obtained by Wyly through loans and real estate transactions made without arms-length negotiations and on favorable terms, purchased Wyly Corp. debentures on the open market during Wyly Corp.'s two

exchange offers and tendered them pursuant to those offers. The complaint alleged that the loans and real estate transactions were made by Wyly with knowledge that some of the proceeds would be used by the business associate to purchase and tender Wyly Corp. debentures.

The Court entered judgments of permanent injunction restraining and enjoining Wyly from violations of the antifraud, periodic reporting, proxy and tender offer provisions of the Exchange Act and restraining and enjoining Vaughan from the violation of the tender offer provisions of the Exchange Act.

SEC v. Sun Company, Inc. — In its Annual Report for each of the last two years, the Commission has noted this case as one of its important actions in the tender offer area.[123] Last year, the District Court found that the acquisition of approximately 34 percent of the outstanding common stock of Becton Dickinson and Company (BD) by means of an offer to certain institutional investors, which was not made available to the general public, constituted an illegal tender offer. Other defendants in this action included Salomon Brothers, F. Eberstadt & Co. (and certain other related entities), Fairleigh S. Dickenson, J. Fitzgerald Dunning, and Kenneth Lipper.

The Commission has reached a satisfactory settlement of its enforcement action against Salomon, Dunning, Lipper, Dickinson and Eberstadt. On February 15, 1980, orders were entered: (1) setting forth the terms of the stipulation of settlement between the Commission, Salomon and Lipper and dismissing the Commission's action against Salomon and Lipper with prejudice; (2) setting forth the terms of the stipulation of settlement between the Commission and Eberstadt and certain related entities and dismissing the Commission's action against certain of the related defendants with prejudice; and (3) reciting the Court's liability finding and order as to Dickenson and otherwise terminating the Commission's action against that defendant with prejudice.

On July 18, 1980, the Commission filed a memorandum regarding a plan of divesture of the illegally acquired securities for Sun. The Commission sought: (1) an absolute obligation upon Sun to divest itself of the ownership of and voting rights in its BD stock; (2) a plan of divestiture which would prevent Sun from reaping any benefits from its illegal acquisition, but would not insulate BD management from future takeover attempts; (3) undertakings by Sun which would further minimize the likelihood that it would violate the Williams Act in the future; (4) court supervision of the settlement, including the plan of divestiture; and (5) an overall settlement which would deter others from violating the Williams Act in the future.

A divestiture plan contained in a memorandum of understanding between Sun and BD does require Sun to dispose of its illegally acquired BD shares by means of a complex series of transactions, the major components of which are: (1) the issuance and public distribution by Sun, over a three-year period, of debentures which are exchangeable into the BD shares held by Sun; and (2) the immediate removal of Sun's power to vote the BD shares it illegally acquired.

The Commission's proposed settlement with Sun, which incorporates the plan of divestiture, also requires that for ten years Sun must obtain permission from the District Court before purchasing any BD securities. It further provides that Sun may not acquire more than five percent of the equity securities of a company registered with the Commission for consideration in excess of $10

million without prior consideration and approval by its board of directors and assurances that the transaction does not violate Section 14(d) of the Exchange Act or Rule 10b-13 thereunder.

On July 31, 1980, the court issued an opinion approving the settlement of five class actions which included the plan of divestiture, but that proposed class settlement has been objected to by two BD shareholders. Although their objections were rejected,[124] these BD shareholders have appealed to Judge Carter's August 15, 1980, judgment and order. Thus, as of the close of the fiscal year, there was no final resolution of the Commission or the related class actions.

SEC. v. Eurrell V. Potts, et al.[125] —On April 9, 1980, the Commission filed a complaint against Joe M. Cline & Associates, Inc. (Cline Associates), a broker-dealer registered with the Commission, Eurrell V. Potts (Potts), a registered representative of Cline Associates, and certain customers of Cline Associates. The Commission's complaint alleged that the defendants failed to file with the Commission the required beneficial ownership reports on Schedule 13D. Some of the defendants, as a group, owned 534,190 shares or 22 percent of the outstanding common stock of a corporation registered with the Commission. Other customers of Cline Associates additionally acquired approximatelyy 241,300 shares or 10 percent of the same corporation's shares. The Commission also alleged that Potts and Cline Associates violated the antifraud provisions of the Exchange Act by making materially false and misleading representations to customers and prospective customers and made unauthorized purchases of the company's stock for customers. The Commission alleged other violations including domination and control of the market for the shares of the corporations by Cline Associates and Potts.

The Court entered judgments of permanent injunction enjoining all defendants from further violations of the beneficial ownership provisions of the Exchange Act. Cline Associates and Potts were restrained from further violations of the antifraud provisions of the Securities Act and Exchange Act and from the recordkeeping and transaction reporting provisions of the Exchange Act. In addition to injunctive relief, the Court ordered other equitable relief, including certain undertakings. Part of this relief provided for the fair and orderly desposition of 736,216 shares of the corporation by a broker-dealer not a defendant in the action.

On the same day, the Commission announced the institution and settlement of administrative proceedings against Potts.[126] Potts consented to the entry of an order of the Commission suspending him from association with a broker or dealer for 150 days. Thereafter, he may become so associated upon a demonstration that adequate supervisory procedures have been established conforming to the terms and conditions set forth in the Commission's order.

Administrative Proceedings Under Section 15(c)(4) of the Securities Exchange Act

An important area of concern to the Commission is that filings with the Commission made by issuers pursuant to the Commission rules contain required disclosures and comply in material respects with applicable sections of the Exchange Act and with rules promulgated thereunder. Under Section 15(c)(4) of that Act, the Commission may publish its findings and issue an order requiring persons subject to the provisions of Section 12, 13, or 15(d) of that Act, to comply with such provisions or rules promulgated thereunder.

In the Matter of Occidental Petroleum Corporation[127] —The Commission

instituted proceedings, pursuant to Section 15(c)(4) of the Exchange Act, with respect to Occidental Petroleum Corp. (Oxy), a California corporation, to determine whether, since January 1, 1973, Oxy had failed to make certain required disclosures in various filings submitted to the Commission pursuant to Section 13 of the Exchange Act and the rules and regulations thereunder.

In its Order, the Commission found that various filings by Oxy with the Commission did not contain certain required disclosures relating to: the discharge of chemical and toxic wastes into the environment by Oxy's Hooker Chemical subsidiaries, or to the protection of the environment; the status of the proposed construction by Oxy of a hydroskimming refinery on Canvey Island; the status of Oxy's negotiations with Libya concerning the financial arrangement pursuant to which Oxy operated in Libya; and signed undated letters of resignation which were submitted at the request of Dr. Armand Hammer to him by certain nominees for election to Oxy's Board of Directors.

In the Order, the Commission ordered Oxy to, among other things, comply with the reporting requirements of the Exchange Act, amend and correct its reports with the Commission within 30 days, and include in its next quarterly report to shareholders a summary of the contents of the Order. In its Offer of Settlement, Oxy undertook to designate a director satisfactory to the Commission to: (1) prepare an environmental report with respect to certain specified matters; and (2) assure that potential liabilities regarding the impact of Oxy's operations on the environment have been identified to its board of directors, and that appropriate disclosure has been made in filings with the Commission. Oxy also made an undertaking and representation with respect to its policy concerning letters of resignation from members of its Board of Directors.

In the Matter of Peabody International Corporation [128] — During the fiscal year, the Commission issued an Order Instituting Proceedings, pursuant to Section 15(c)(4) of the Exchange Act, and Findings and Order of the Commission against Peabody International Corp. In its Order, the Commission found that Peabody had failed to comply in several material respects with Section 13(a) of the Exchange Act and Rules 13a-1 and 13a-13 thereunder in connection with its annual report on Form 10-K for its fiscal year ended September 30, 1979, and quarterly report on Form 10-Q for the quarter ended December 31, 1979. The Commission found that Peabody did not have a sufficient basis upon which to defer certain contract costs, attributable to an alleged breach of contract, to avoid recognition of the anticipated future costs and, by reason of the accounting treatment employed, overstated its income in filings with the Commission. Further, the Commission found that Peabody's disclosures concerning these matters in filings with the Commission were misleading, and that Peabody omitted to disclose material matters.

Peabody undertook among other things to: (1) restate certain financial statements and amend its filings accordingly; (2) immediately issue a press release concerning the proceeding and setting out the restated figures; and (3) develop appropriate procedures and policies concerning the deferral of certain costs. Peabody also undertook to defer costs only if allowed by generally accepted accounting principles, approved by its audit committee, and disclosed in specified filings and reports to shareholders.

The Commission ordered Peabody to comply with the reporting requirements of the Exchange Act, to amend its reports currently on file with the Commis-

sion and to comply with its undertakings.

Questionable Payments

The Foreign Corrupt Practices Act of 1977 [Sections 13(b)(2), 30A and 32(c) of the Exchange Act] was signed into law in December 1977. That Act prohibits issuers from, among other things, corruptly making payments to officials of foreign governments in order to induce such officials to use either their authority or influence to obtain business for the issuer in that country. The Act also requires corporations to maintain systems of internal accounting controls which provide reasonable assurance that certain objectives are met.

During the past year, the Commission's enforcement interests in this area continued and two of the important cases brought are described in the following summaries:

SEC v. Textron[129] — On January 31, 1980, the Commission filed a civil injunctive action in the U.S. District Court for the District of Columbia seeking to enjoin Textron from further violations of the antifraud, reporting and proxy provisions of the Exchange Act and of certain rules thereunder.

The Commission's complaint alleged that during the period from at least 1971 to 1978, Textron engaged in a course of business pursuant to which payments which totalled at least $5,400,000 were made to Textron sales agents. According to the complaint, Textron made such payments knowing, or having reason to know, that the payments to such sales agents would be shared in whole or in part with foreign government officials or employees, or members of ruling families, in order to induce those individuals to use their influence or position to secure business for Textron. In addition, the Commission's complaint alleged that Textron failed to disclose this course of business and the concommitant risks to earnings and profits occasioned by such practices.

It also alleged that, in furtherance of these activities, Textron made false and misleading representations to the United States government in connection with at least three contracts, and either falsely recorded or did not make and keep books, records and accounts which accurately reflected the true nature and disposition of most or all of the payments.

Textron consented to the entry of a final judgment of permanent injunction enjoining the company from further violations of Sections 10(b), 13(a) and 14(a) of the Exchange Act and rules thereunder. In addition, the judgment required that Textron file with the Commission a report which describes the procedures recommended to Textron by a special committee of the Textron board of directors intended to prevent reoccurrence of matters of the nature alleged in the complaint, and which Textron intended to or had adopted.

SEC v. International Systems & Controls Corporation, et al.[130] — As discussed in last year's Annual Report,[131] on July 9, 1979, the Commission filed a complaint seeking to enjoin International Systems & Controls Corporation (ISC) and five individuals. The Commission's complaint alleged violations of the antifraud, reporting and proxy provisions of the Exchange Act, as well as of the accounting and bookkeeping provisions of the Foreign Corrupt Practices Act. The complaint charged, among other things, that ISC made false and misleading disclosures or failed to disclose ISC commitments to pay a total of $33 million and its payment of approximately $23 million in connection with the securing of or solicitation of business in, among other countries, Iran, Algeria, Saudi Arabia, Nicaragua, Chile and the Ivory Coast.

The complaint also alleged that ISC overstated its assets, earnings, and shareholders' equity by including unbilled receivables which as of ISC's fiscal 1973 year end totaled $31 million and which reflected cost overruns on fixed-price contracts, sham claims for escalation and kickback arrangements. The complaint further alleged that the corporation failed to disclose that certain officers were the prime beneficiaries of a deferred compensation plan and that corporate funds were used to purchase, furnish and maintain a summer residence for the Chairman of the Board of the firm.

On December 17, 1979, ISC and two of the individual defendants consented to a final judgment and undertaking. The relief obtained included the appointment of three directors, who would form the membership of ISC's audit committee, and who were satisfactory to the Commission. The staff is continuing litigation against the three remaining individual defendants.

Government and Municipal Securities

As indicated in last year's Annual Report,[132] the trading of government and municipal securities has increased significantly in recent years. Due to the continuation of questionable issuing and trading practices in this area, the Commission's enforcement interest has also continued.

SEC v. G. Weeks Securities, Inc.[133] —On October 26, 1979, the Commission filed a complaint against G. Weeks Securities, Inc. (GWS), G. Weeks & Co., Inc., and several individuals. The complaint alleged that the defendants had violated the registration provisions of the Federal securities laws in the offer and sale of investments referred to as "standby with pair off" transactions by GWS. The complaint alleged that standby with pair off transactions, in which GWS would purportedly enter into a commitment to sell a specified amount of Government National Mortgage Association securities to a customer at a future date and simultaneously agree to repurchase the same securities on the same future date from the customer at a higher price, were "securities" in the form of evidences of indebtedness and investment contracts in GWS.

The Court enjoined the defendants from violations of the registration provisions of the Federal securities laws. A previous order which enjoined the defendants from violating the antifraud provisions of the Federal securities laws has been appealed by the defendants.

SEC v. Harwell[134] —This action was previously noted in last year's Annual Report.[135] During the last fiscal year, various developments occurred in this so-called "University of Houston" case. In this action, the Commission's complaint alleged numerous violations of the Federal securities laws based upon the channelling by a university employee of securities transactions through securities firms and individuals, who were also defendants, for the benefit of these parties and to the detriment of the university. The complaint alleged that one securities firm charged excessive fees to the university and charged commissions to both sides of the transactions while purportedly acting as a broker for the university. The complaint also charged that another firm had defrauded the university by charging excessive fees and by interpositioning with respect to $35 million in government security transactions. The complaint further alleged that another firm was needlessly interpositioned with respect to the university's trades in government securities to the financial detriment of the university and that excessive fees were charged to the university in connection with reverse repurchase transactions.

On February 1, 1980, the Commission ordered public administrative pro-

ceedings instituted pursuant to the Exchange Act[136] concerning Roger Kenneth Knox, a one-third shareholder of Covington-Knox, Inc. (CKI), one of the securities firms enjoined in *SEC v. Harwell*.

In these proceedings, the Commission found that Knox was convicted in November, 1979, of a felony involving the purchase and sale of securities and arising out of conduct of a business as a broker-dealer and that he was given a probated sentence; that Knox is permanently enjoined by order of the United States District Court for the Southern District of Texas from violating the antifraud provisions of the Securities Act and the Exchange Act; that Knox wilfully violated and wilfully aided, abetted and procured the violation by others of the antifraud provisions of the Securities Act and the Exchange Act; and that Knox wilfully caused false and misleading statements with respect to material facts to be made in CKI's application for registration as a broker-dealer and reports to be filed with the Commission under the Exchange Act.

The Commission ordered that Knox be barred from association with any broker or dealer.

Related-Party Transactions

An area of continuing concern to the Commission is that of transactions between persons who are related to a publicly-held corporation and that corporation which, directly or indirectly, serve to benefit the related party without regard to the interests of the corporation or its shareholders or without sufficient disclosure of all material facts. Transactions involving broker-dealers and customers can raise similar problems and are also of continuing concern to the Commission.

SEC v. Jack M. Catain, Jr. and Rusco Industries, Inc.[137] — On July 8, 1980, the Commission instituted a civil injunctive action against Jack M. Catain, Jr. and Rusco Industries, Inc. The action alleged that, between 1975 and 1980, Catain engaged in a course of conduct in which Rusco funds were used in connection with transactions in which Catain, and/or certain of his friends or associates, had an undisclosed interest. Such transactions were for the benefit of Catain or his friends without regard to the interests of Rusco and its public shareholders. The transactions included Catain's causing Rusco to: (1) purchase the assets of a corporation owned principally by Catain, thereby satisfying the corporation's obligations which Catain had guaranteed and retrieving for Catain a substantial portion of his investment in the losing venture; (2) make substantial advances to distributorships owned by Catain's relatives and associates; (3) cause a Rusco subsidiary to enter into a substantial lease and financial guarantee agreement with a company in which Catain had an undisclosed interest; and (4) lease cars from a separate entity formed by Catain.

The Court entered judgments of permanent injunction enjoining Catain and Rusco from further violations of the antifraud, reporting and proxy provisions of the Exchange Act. In addition, Catain and Rusco have agreed to certain undertakings which, among other things, require Catain to resign immediately as Chairman of the Board and Chief Executive Officer of Rusco and repay to Rusco any monies found to be due and owing from the activities complained of in the Commission's complaint.

SEC v. General Resources Corporation, et al.[138] — On October 31, 1979, the Commission filed a complaint seeking preliminary and permanent injunctions along with any other appropriate relief against General Resources Corporation (GRC), other corporate de-

fendants and various individual defendants. All of the individual defendants are either officers and/or directors of one or more of the corporate defendants, all of which are affiliated.

In the complaint, the Commission alleged violations by GRC and the affiliated corporate defendants of the antifraud provisions of the Securities Act and the Exchange Act, and violations of the periodic reporting and proxy provisions of the Exchange Act. The complaint alleged that the individual defendants violated and aided and abetted violations of the antifraud provisions and aided and abetted violations of the periodic reporting and proxy provisions in the course of their activities as officers and directors of GRC and the affiliated companies.

The complaint alleged that: (1) some of the corporate defendants who are publicly-held companies acquired, and thereafter caused to transfer, valuable assets for inadequate consideration; (2) agreements and transactions were entered into which were contrary to the companies' interests and the interests of their public shareholders; and (3) appropriate disclosure to the stockholders, the Commission, and the investing public was not made concerning these transactions and agreements.

The individual defendants are also alleged to have sustained the operation of insolvent and nearly insolvent upper-tier companies through a complex series of inter-company transactions in which cash of the acquired companies was exchangged for mortgages, coal leases and other property of dubious value.

An accounting is being sought of all monies or other property received by one individual defendant, W. Bennett Collett, and from some of the corporate defendants. An order of permanent injunction was signed against all of the corpporate defendants and individual defendants. However, litigation in this matter is continuing concerning defendant Roy E. Stephens.

SEC v. Investment Information, Inc., et al.[139] — On March 19, 1980, the Commission filed a complaint seeking a final order of permanent injunction against Investment Information, Inc. (III) and Frederick P. Oman, the company's president and majority stockholder. The complaint alleges that III and Oman violated the antifraud provision of the Exchange Act and aided and abetted violations of Section 206 of the Investment Advisers Act.

The allegations were based on an arrangement whereby III brought together money managers, investment advisers and bank trust departments with broker-dealers. Participating brokers remitted 50 percent of commissions to III, which used a majority of the money to pay for goods and services purchased elsewhere by the money managers. Some $11.7 million in commissions were paid under this arrangement between January 1973 and June 1978, with about half — $5.8 million — remitted to III for the credit of the money managers' accounts. III retained a fee of between 10 and 17 percent of the gross commissions paid. The complaint alleged that the money managers also had the option of directing III to pay the related portion of the commission to the beneficial owner of the securities whose account paid the original commission instead of paying for goods and services purchased by the money manager.

The complaint alleged that III prepared and sent to money managers a suggested customer consent form which made inadequate and incomplete disclosure concerning the arrangement, in that the consent form erroneously stated that the arrangement operated at "no cost" to the customer, and failed to disclose that III in some cases returned

cash to the beneficial owner of the securities rather than pay for goods and services acquired by money managers.

III and Oman were ordered by the District Court to comply with their undertakings to refrain from engaging in any business activity which involves the provision of cash, goods or services to fiduciary money managers in return for directing brokerage transactions for accounts under their management to any particular broker unless such business activity specifically conforms with a general Commission rule, release or specific Commission interpretive letter to Oman or III. However, III may arrange for a partial return in cash of commissions charged on directed brokerage transactions provided that such rebate is directly returned to the account of the beneficial owner of the securities involved in the transaction and provided that adequate disclosure is made to the beneficial owner of securities.

In addition to the civil action, the Commission issued a Report of Investigation pursuant to Section 21(a) of the Exchange Act, detailing the conduct of seven investment advisers, five banks, and twelve broker-dealers, all of whom undertook remedial actions. The investment advisers and banks agreed to reduce commissions on certain transactions for a period of time. The Commission has also filed complaints against two banks alleging violations of Section 10(b) of the Exchange Act and Rule 10b–5 thereunder in connection with the III and other similar arrangements. Both cases are currently in litigation.

Energy and Tax Benefit Related Cases

Due to the tax consequences of certain investments such as those in energy-related products or real estate, such investments may be inherently attractive to many investors. As a result, the Commission devotes substantial enforcement resources to the control of fraudulent offerings in these fields. With the advent of the nation's energy crisis, fraudulent offerings of energy-related securities (and the Commission's response to them) have intensified.

Investors in these offerings are often initially contacted by salesmen as part of a nationwide, long-distance telephone solicitation campaign. These campaigns are typified by offerings which fail to comply with the registration requirements of the Securities Act of 1933 (Securities Act) and fraudulent solicitation statements. Individuals are often persuaded to make an investment on the basis of false statements or omissions concerning, among other things, the amount of business to be conducted by the issuer;[140] the risks associated with the investment; the experience of the issuers' princpals; and the use of investors' funds.[141] One of the major inducements to investors is the purported availability of special tax benefits.[142]

SEC v. Stewart Energy Systems of Idaho, Inc., A. Lamont Nibarger, et al.[143] — On October 23, 1979, the Commission filed a complaint seeking to enjoin Stewart Energy Systems of Idaho, Inc. (Stewart of Idaho), A. Lamont Nibarger, President of Stewart of Idaho, and a number of other entities and individuals related to Stewart of Idaho, from violations of the registration and antifraud provisions of the Federal securities laws. In addition, the Commission sought disgorgement and other ancillary relief.

The Commission's complaint alleged, among other things, that in the offer and sale of notes, royalty interests and dealerships, the defendants made untrue statements of material fact and failed to state material facts relating to the use of investor funds for the personal benefit of Nibarger, his relatives, and companies owned or controlled by him.

In addition, it alleged that no working prototype of the Stewart cycle engine system had ever been tested in an applied working situation and, therefore, that statements regarding the time frame in which the Stewart engine system would pay for itself and provide a return on investments could not be made with any accuracy. The complaint further alleged that the defendants failed to tell investors that in order for them to obtain any return on their investment, it would be necessary to have engine sales ranging from $100 million to $1 billion.

The entry of a decree of permanent injunction on October 23, 1979, enjoined all defendants, except Robert C. Stewart, from further violations of the registration and antifraud provisions, with such defendants agreeing to certain ancillary relief. On June 3, 1980, the court entered to a decree of permanent injunction prohibiting defendant Robert C. Stewart from further violations.[144]

Nibarger agreed to resign as president of the company and to relinquish control of Stewart of Idaho. Stewart of Idaho agreed to appoint a new board of directors, the majority of which will be independent of past management. In addition, Stewart of Idaho and Nibarger have agreed to the appointment of an independent special agent to report and make recommendations on the amount of disgorgement to Stewart of Idaho to be made by Nibarger and companies owned and controlled by him. The special agent will also recommend to the court the extent to which investors should receive an equity position in Stewart of Idaho, and Nibarger agreed to make an accounting to the court, the Commission, and the special agent. The company further agreed to employ an accounting firm to conduct a certified audit, and to make full and fair disclosure to investors as to all activities of Stewart of Idaho and related corporations.

SEC v. CAL-AM Corp., et al.[145] — On August 11, 1980, the District Court issued final judgments of permanent injunction against the various remaining defendants in this action which was filed in 1977. The Commission's complaint charged that CAL-AM Corporation and various individuals violated the registration, antifraud, and reporting provisions of the Federal securities laws by engaging in a massive nationwide scheme, beginning in January 1975, to solicit and obtain money from the investing public in return for unregistered securities. The complaint alleged that, in 1975, the defendants sold unregistered securities in the form of limited partnerships allegedly formed to obtain tax and other economic benefits from the operation of resort condominiums in Hawaii, and raised over $2.5 million from 400 public investors. The complaint also alleged that the defendants offered and sold over $30 million worth of unregistered securities to public investors through false and misleading materials which offered interests in approximately 3,000 limited partnerships allegedly formed to obtain tax and economic benefits from the mining of coal and the operation of oil wells. The complaint further alleged that, in 1977, defendants offered and sold over $5 million worth of unregistered securities to 500 public investors through false and misleading materials which described interests in leases and related agreements allegedly designed to obtain tax and other economic benefits from coal mining and the sale of coal.

The Commission had obtained several final judgments of permanent injunction in 1978.[146] Under the terms of the final judgment entered by the District Court in 1980 the remaining defendants were enjoined from violating certain antifraud and registration provisions.

SEC v. The International Mining Exchange, Inc. et al.[147]—On September 12, 1980, the Commission filed a complaint against the International mining Exchange, Inc. (Mining), Trenton H. Parker & Associates, Inc., Mansion Properties Corporation, Mansion Properties Management Corporation, and Trenton H. Parker, an individual, alleging violations of the registration and antifraud provisions of the Securities Act and certain of the antifraud, filing and reporting provisions of the Exchange Act.

The complaint alleged that, in connection with the offer and sale of Mining's securities, namely investment contracts in the form of a "gold tax shelter investment program," Mining and Parker made untrue statements of material fact to the effect that: (1) investors in Mining would acquire a leasehold interest in mining concessions; (2) investors would profit from gold to be mined; and (3) investors could take a 500 percent Federal income tax deduction based on mining developmental expenses incurred on the investor's behalf. The complaint also alleged that Parker and Mining omitted to inform investors that: (1) some purchasers of the investment contracts acquired no interest in any gold concession; (2) no payments were made on behalf of the purchasers for mining developmental expenses; and (3) the purchaser's investments were diverted by Mining and Parker to uses unrelated to mining developmental expenses.

The complaint further alleged that Trenton H. Parker & Associates, Inc., Mansion Properties Corporation, Mansion Properties Management Corporation, and Parker, in connection with the offer and sale of interests in limited partnerships organized by Parker to purchase and renovate historical mansions, made untrue statements of material fact. The statements claimed that: (1) purchasers could reasonably expect a 25 to 50 percent annual cash return on their investments; (2) could reasonably expect approximately 100 to 200 percent capital appreciation in six to nine months; and (3) could reasonably expect to recover their investments by the end of the following year. The complaint alleged that the defendants omitted to disclose that the investments involved a high degree of risk, and that the funds would be diverted to Parker's own use and benefit.

As of the close of the fiscal year, a date for hearing has not been set.

SEC v. Murphy[148]—In 1975, the Commission brought suit against Stephen Murphy and other defendants charging violations of the registration and antifraud provisions of the securities laws and seeking injunctive relief. On March 5, 1978, the District Court granted summary judgment for the Commission on the registration count and issued a permanent injunction. On September 19, 1978, the Court entered judgment for the Commission on the antifraud counts and enjoined Murphy from future violations. In addition, the District Court directed Murphy to send copies of the Court's order to: (1) each investor in a limited partnership that had a relationship with Intertie, a corporation he formed and controlled; (2) all present and future officers and directors of Intertie and another related corporation, Xanadex; (3) the general partner of any limited partnership which leases equipment or assets to Intertie or Xanadex; and (4) any securities brokerage firm engaged by Murphy, Intertie, or Xanadex to sell interests in limited partnerships which have relationships with Intertie or the related corporation.

Murphy appealed all of the Court's decisions. In a substantial opinion reviewing all the issues, the Court of Appeals of the Ninth Circuit affirmed the judgments of the District Court.

Coordination with Other Authorities; Effective Commission Response to Discovery of Problems

The ever increasing international nature of commerce continually causes the Commission to coordinate with authorities of foreign countries, such as Canadian authorities, as one summarized case illustrates. In other situations, the discovery of imminent loss to investors requires that the Commission act quickly if it is to effectively preserve investor's assets.

SEC v. Alexander Kasser[149] — The Commission originally filed a complaint against Alexander Kasser in 1974. This complaint and a later amended complaint were both dismissed by the District Court, and pursuit of the action was halted until reversal of the decision of the District Court by the Court of Appeals in 1977.

The Commission had alleged violations of various antifraud provisions of the Federal securities laws through a scheme to defraud the Manitoba Development Fund, a corporation owned by the Province of Manitoba, Canada, and engaged in the business of financing industrial resources development.

Kasser had fled the United States in the early 1970's and his exact whereabouts in Austria, where he became a citizen, was unknown until 1977, at which time letters rogatory for service of the complaint were filed in Austria. The Austrian courts obtained service of process on Kasser in 1979.

Kasser entered into a coordinated settlement with the Commission and Canadian prosecutors. In settlement, Kasser agreed to pay approximately $9 million (Canadian) to the Manitoba Development Fund. In addition, Kasser consented to a permanent injunction in the Commission's action which was entered on August 4, 1980. The Canadian provincial authorities also accepted the settlement.

SEC v. Philip R. Cohn and David E. Lyon[150] — On March 12, 1980, the Commission filed a complaint against Philip R. Cohn and David E. Lyon alleging that, on or about March 1, 1976 to the present, Cohn and Lyon offered for sale and sold over $8 million in unregistered securities in the form of evidences of indebtedness, "buy back" agreements, and promissory notes in connection with certain real estate transactions, and investment contracts in the form of interests and participations in multi-family housing projects. In addition, the Commission alleged violations of the antifraud provisions of the securities laws based upon misrepresentations of material fact and omissions of material facts concerning commingling, conversion and diversion of proceeds, the source of funds used to pay off investors, profits to be realized by investors, the guaranteed return of investors' funds and the placing of proceeds in escrow. The complaint also alleged that in furtherance of the conduct described therein, defendants Cohn and Lyon engaged in transactions, practices and a course of business which operated, or would operate as a fraud, including paying off prior investors with the proceeds of the sale of securities to subsequent investors, and soliciting new investors by citing the profits realized by earlier investors without informing them that such profits were paid from the proceeds of sales of securities to subsequent investors.

On April 22, 1980, and July 3, 1980, the District Court entered orders permanently enjoining Cohn and Lyons, respectively, from further violations of the registration and antifraud provisions of the Federal securities laws. In addition, on April 22, 1980, the Court ordered various assets frozen and ordered various books and records frozen. On July 3, 1980, the Court ordered an accounting of all proceeds from the sale

of securities in connection with certain multi-family housing projects and monies received from the period March 1, 1976, to present.

Other Significant Enforcement Cases

SEC v. The Fundpack, Inc., et al.[151] — On March 21, 1979, the Commission filed a complaint against the Fundpack, Inc. (Fundpack), Holding Trust (Trust) and Holdings of U.S. Government Securities, Inc., a complex of mutual funds (the Funds), together with the Funds' investment adviser, Fundpack Management, Inc. (Management), its two broker-dealer subsidiaries and several individuals. The complaint alleged violations of the antifraud, registration, reporting, proxy and fiduciary obligation provisions of the Federal securities laws, based principally on the implementation in the Funds of an investment arrangement known as "switching" which imposed largely undisclosed costs and performance burdens on Fundpack. These burdens have included borrowing expenses, high transaction costs, and investment losses due to a leveraged condition in the Fundpack portfolio during stock market declines. The switching program permitted and encouraged the Funds' shareholders to transfer their investments among the Funds immediately upon placing a telephone order to that effect. It resulted in frequent fluctuations in the assets of Fundpack which had, on some occasions, reduced its net assets by as much as approximately 70 percent in a single day. The total operating costs and investment losses as a result of the switching program had on occasion been as high as 12 percent of Fundpack's average net assets on an annualized basis.

Additionally, the complaint alleged self-dealing practices by Management and breach of fiduciary duty by the Fundpack directors. The complaint also alleged that the Funds' prospectuses, annual and periodic reports, proxy materials and other literature were materially false and misleading with respect to the above matters and that Fundpack and Trust offered and sold unregistered securities to the public. Five major actions have been taken by the Court in this litigation.

On August 10, 1979, an order of preliminary injunction was entered, appointing an independent master to oversee and approve certain of the operations of the Funds and Management, providing that proxies, solicited for the Funds' annual meeting of shareholders on June 28, 1978, were void, and ordering the Funds to resolicit proxies in compliance with the Federal securities laws under the supervision of the independent master.[152]

Following the preliminary injunction, the action was settled as to the Funds, Management and its subsidiaries, and Victor H. Polk, former president and chairman of each of the defendant corporations. On September 29, 1979, the Funds consented to a Final Order pursuant to which the Funds were required, among other things, to appoint and thereafter nominate and recommend for election to their respective boards of directors four individuals satisfactory to the Commission. The order of the Court also required that the Funds report to shareholders concerning the Commission's complaint, the history of the litigation, and the actions taken pursuant to the final order.[153]

On December 13, 1979, the Court entered into a final judgment of permanent injunction against Polk, Management, and its subsidiaries[154] which permanently enjoined them from engaging in conduct violative of the antifraud, proxy, reporting, registration, and fiduciary obligation provisions of the Federal securities laws. In addition, the final judgment ordered Polk and Manage-

ment to liquidate an unregistered investment company established by Polk and Management following the institution of the Commission's action.

On March 5, 1980, former controlling stockholders, officers and employees of Management consented to final judgments which permanently enjoined them from engaging in conduct violating certain of the antifraud, registration and fiduciary obligation provisions of the Federal securities laws.[155]

On August 6, 1980, several former "disinterested" directors of the funds consented to a final judgment which prohibited them from engaging in conduct violating certain of the registration and fiduciary obligation provisions of the Federal securities laws, and ordered them to take all steps reasonably necessary to cause any investment company with which they become affiliated to file with the Commission and disseminate to shareholders complete and accurate prospectuses, proxy materials and periodic reports.[156]

The Commission's action continues against another former officer and director of Management and its subsidiaries.

SEC v. First Independent Stock Transfer Agent, Inc. and Terry E. Kirchner[157] — On August 4, 1980, the Commission filed a complaint against First Independent Stock Transfer Agent, Inc. (Transfer) and Terry E. Kirchner, the company's president. The Commission sought to enjoin Transfer and Kirchner from violating, among other things, provisions of the Exchange Act relating to: (1) recordkeeping requirements; (2) the time during which turnaround must be made of all securities classified as routine items; (3) notice required to be given to the defendants' issuer clients for failure to meet turnaround requirements; and (4) limitations on business expansion when failing to comply with turnaround requirements.

The Court entered a final judgment of permanent injunction which required the defendants, in substance, to: (1) establish and keep current recordkeeping and other procedures designed to ensure compliance with transfer agent rules; (2) retain independent public acccountants in order to review the defendants' recordkeeping system and transfer agent procedures; (3) furnish the Commission with written certifications with respect to the establishment and implementation of recommended recordkeeping and transfer agent procedures; (4) give notice to the Commission and to the defendants' clients of past failures of the defendants to comply with the Commission's turnaround requirements; (5) refrain temporarily from an expansion in business; and (6) furnish to the Commission semimonthly reports about the time required by the defendants to turnaround items presented for transfer.

Staff Report of the Securities and Exchange Commission on Proxy Solicitations in Connection with Compass Investment Group[158] — On November 15, 1979, the Commission issued a report, pursuant to Section 21(a) of the Exchange Act, with respect to the Compass Investment Group. The report was the result of a staff inquiry into proxy solicitations made in connection with the annual meeting of Compass Investment Group (Compass).

Proxy solicitation materials were issued primarily on behalf of two individuals who had amassed 48 percent of the outstanding shares of Compass. They represented that there were no future arrangements or understandings with respect to future employment with Compass, nor any transactions or proposed transactions with the company in which these individuals had any direct or indirect material interest. After the

proxy materials were issued, but prior to the shareholder meeting, these individuals had determined that one would serve as chairman and that he would receive compensation in the amount of $60,000 per annum in the form of a consulting contract. These individuals made other determinations concerning the company as well. These individuals took no action either prior to or at the annual meeting to advise the shareholders of the proposed arrangements. After the staff commenced its inquiry, the participants determined to solicit the shareholders for approval of the compensation arrangements. The individual who was to serve as chairman agreed not to receive any compensation for the period from the shareholder meeting until the date of shareholder approval of the compensation arrangements.

In the report, the staff restated the obligations upon those who solicit proxies to take appropriate steps to disseminate material information with respect to events which occur between the time of the mailing of a proxy solicitation regarding a shareholder meeting and the date of the shareholder meeting, particularly when, as a result of such events, material statements contained in the proxy are rendered false and misleading.

In the Matter of Philadelphia Stock Exchange, Inc.[159] — On March 17, 1980, the Commission issued an Order Instituting Administrative Proceedings pursuant to Section 19(h) of the Exchange Act and Findings and Order of the Commission against the Philadelphia Stock Exchange, Inc. (Phlx), a registered national securities exchange located in Philadelphia, Pennsylvania.

In its Order, the Commission found that the Phlx had violated Section 11A(c)(1) of the Exchange Act, the Commission's quotation rule, and Section 19(g) of the Exchange Act, by its failure without reasonable justification or excuse, to enforce compliance by its members and persons associated with its members with: (1) the Commission's quotation rule and the exchange's own quotation reporting rule; (2) the exchange's option position limit rule; (3) the exchange's options spread parameter rules; and (4) the exchange's rules regarding registered options traders' quarterly trading requirements.

The Commission censured the Phlx and ordered it to fully comply with certain undertakings made in its Offer of Settlement. In its undertakings, among other things, the Phlx represented that it has made, and has undertaken to make, extensive revisions in organizational structure, personnel commitment of resources, programs, policies and procedures designed to strengthen its market surveillance and enforcement capabilities.

In the Matter of Boston Stock Exchange, Inc., Boston Stock Exchange Clearing Corporation, Inc.[160]—On the first day of the 1981 fiscal year, October 1, 1980, the Commission issued an Order Instituting Administrative Proceedings pursuant to Section 19(h) of the Exchange Act against the Boston Stock Exchange, Inc. (BSE) a registered national securities exchange and the Boston Stock Exchange Clearing Corporation Inc. (Clearing Corporation), a wholly-owned subsidiary and member of the BSE, and which is registered with the Commission.

In its order, the Commission found that the BSE without reasonable justification or excuse failed to employ adequate surveillance procedures for monitoring the activity of its specialists, and failed to discover on a timely basis violations by its members of Commission, BSE and Federal Reserve Board regulations, which continued over a thirteen month period. Although the Commis-

sion noted that the BSE retained special counsel to investigate the violations and ultimately sanctioned various members, the Commission found that the failure to maintain adequate surveillance procedures and to detect and terminate the violative conduct constituted a failure to enforce Commission and BSE regulations in violation of Section 19(g) (1) of the Exchange Act. In addition, the Commission found that the Clearing Corporation extended credit to specialists in violation of Section 7(c) (1) of the Exchange Act and Federal Reserve Board Regulation T.

The Commission censured the BSE and the Clearing Corporation and ordered the BSE to fully comply with certain undertakings made in its Offer of Settlement. In its undertakings, among other things, the BSE represented that the Board of Governors of the BSE would appoint a Special Management Review Committee composed of persons who are not officers of the BSE and who shall review, among other things: procedures for nominating members for the BSE Board of Governors; and, the Board of Governor's oversight of the management of the BSE, including adequacy of internal controls and integrity of the BSE disciplinary process. The Special Management Review Committee was to be formed within 30 days of the date of the Commission's Order and the Committee was to deliver a final report to the BSE Board and to the staff of the Commission.

SEC v. Ian T. Allison, et al.[161] — On September 29, 1980, the Commission filed a complaint against Ian T. Allison and a number of other entities and individuals for violations of the antifraud and registration provisions of the securities laws and the periodic reporting, stock ownership reporting, and antimanipulative provisions of the Exchange Act. The Commission's complaint alleged that Allison and other defendants participated in a scheme to defraud by promoting two corporations which had no substantial operations. The complaint also alleged that the defendants: (1) made false and misleading statements in registration statements concerning shareholder ownership and contribution of assets by the new majority owners of the companies; (2) manipulated the markets in two securities at the time of the opening of over-the-counter trading; (3) made false and misleading statements during television interviews and in press releases and research reports; and (4) made false and misleading statements in filings of both companies with the Commission, certain of which included balance sheets in which assets were presented at inflated values, and income statements in which sales and cost of sales were overstated.

Several of the defendants were permanently restrained and enjoined from violating the antifraud, registration, and reporting provisions of the Exchange Act. In addition, the Court ordered one of the corporations to make corrective filings and appoint two independent directors satisfactory to the Commission. As of the close of the fiscal year, the case was pending against the remaining defendants. The Commission sought both preliminary and final relief againt all of the remaining defendants including injunctive relief and orders freezing assets and requiring disgorgement of profits.

Programmatic Litigation and Legal Work

The Commission, through its Office of the General Counsel, participates in a substantial amount of litigation in addition to its enforcement actions. This litigation includes numerous appellate cases before the Supreme Court and Federal circuit courts of appeals where the Commission appears as a party or as *amicus curiae,* and district court litigation where the Commission, its Commissioners, or its employees are party defendants. Commission litigation, whether as a party or an *amicus,* often involves questions of great significance concerning the proper interpretation and scope of the Fderal securities laws. The Commission's participation in this litigation has worked to strengthen the investor protections afforded by the securities laws and the enforcement and regulatory programs it has undertaken to achieve that goal. The Office of the General Counsel is also involved in important legislative and regulatory work. The following is a summary of some of the important actions which were litigated in the past year, and the status of other projects of significance to the Commission and the public.

Significant Litigation

Scope of the Antifraud Provisions of the Federal Securities Laws — The antifraud provisions are the principal statutory basis through which the Commission seeks to protect the public against deception in securities transactions. The proper scope of these statutory provisions is a continuing program of importance to the Commission's litigation efforts. For example, the Commission has worked with the Department of Justice in connection with *Rubin* v. *United States,* a criminal case presently before the Supreme Court which raises the question of whether a pledge of securities is a sale under Section 17(a), the general antifraud provision of the Securities Act of 1933 (Securities Act). Resolution of that question will determine whether Section 17(a) affords protection against deception which occurs in the pledge of securities.

In this case, the United States did not oppose the granting of Rubin's petition for certiorari on the pledge/sale question, in view of the conflict among the Federal courts of appeals on the issue, and the importance of that issue to enforcement of the Federal securities laws. The Supreme Court granted the petition, limiting its review to the pledge/sale question, and the case was pending at the close of the fiscal year. In addressing the merits, the United States urged that the plain meaning of the statute encompasses pledges within the term "sale," which is defined to include the disposition of a security or interest in a security for value. That interpretation, the United States argued, is also supported by legal principles well recognized at the time the Securities Act was enacted by Congress, as shown by the legislative history and by the policies and purposes underlying the statute.

In another facet of this Program, the Commission has addressed in a different context the important question of whether the securities laws will protect a person who is deceived into parting with money in exchange for an interest in a security. The Commission filed an *amicus* brief in the United States Court of Appeals for the Fifth Circuit in *First National Bank of Las Vegas* v. *Estate*

of Russell, urging that a transaction is covered by Section 10(b), the general antifraud provision of the Securities Exchange Act of 1934 (Exchange Act), where a brokerage firm's agreement to sell United States Treasury notes was coupled with an agreement to repurchase them. The Commission is concerned that a holding to the contrary would leave a large class of public investors — those who invest in United States Government securities under these circumstances — without the protections provided by the antifraud provisions. This case is currently pending before the Court of Appeals for the Fifth Circuit.

The question of whether the basic antifraud provisions of Section 10(b) and Rule 10b-5 thereunder of the Exchange Act prohibit securities transactions by a person who knows material, nonpublic information with respect to an issuer, but not as a result of any relationship with that issuer, was addressed by the Supreme Court in *Chiarella* v. *United States.* In that criminal case, an employee of a financial printer, by virtue of the fact that prospective tender offerors would provide his employer with confidential information about forthcoming bids, gained access to such information and, prior to the public announcement of the bid, purchased shares in the subject companies for quick resale. The Department of Justice, assisted by the Commission, argued that, in trading on the basis of this nonpublic information, Chiarella engaged in a fraudulent act or practice in violation of Section 10(b) and Rule 10b-5. But the Court reversed his conviction, holding that a duty to either disclose or refrain from trading does not arise from the mere possession of nonpublic market information — the theory, the Court believed, on which he had been convicted. The Court did not reach the question of whether the defendant committed a violation by trading while in possession of information that was misappropriated or otherwise obtained by unlawful means, finding that the jury had not been properly charged on these theories. In its decision, however, the Court clearly appeared to recognize that in cases where a fiduciary relationship is present between the person trading on confidential information and the class of defrauded buyers or sellers — as in the traditional insider trading case — then liability for nondisclosure under the antifraud provisions is appropriate.

Application of the antifraud provisions where a securities transaction has both domestic and foreign elements is another significant aspect of this program. For example, the Commission participated *amicus* before the United States Court of Appeals for the Second Circuit in *IIT* v. *Cornfeld,* urging that the district court had erred in holding that the antifraud provisions of Section 10(b) of the Exchange Act and Rule 10b-5 did not apply to the transnational transactions at issue. The Commission believed that the potential adverse consequences of the district court's decision could be grave in light of the increasingly international character of securities transactions and securities frauds. The Commission expressed the view that the antifraud provisions were applicable because, as to certain of the transactions, the sale of securities occurred within the United States and the alleged fraud, which involved securities that were American in every meaningful sense, was furthered by substantial activity within this country. In its decision, the Court of Appeals upheld the applicability of Section 10(b) and Rule 10b-5, finding that prior cases dealing with this subject were not dispositive. As to transactions involving sales of American securities which were consummated in this Country, the court

stated that the presence of both factors weighed heavily in favor of applying United States law. As to transactions involving foreign securities, the court upheld jurisdiction, pointing to such facts as the convertability of the securities into American securities, that they were guaranteed by an American company, and that they were issued by a foreign subsidiary of that company which had no operating assets. The court also relied on the relative dominance of American (compared to foreign) activity.

Also within this program is the Commission's participation *amicus curiae* in *Weiss* v. *Marshall Field & Co.* and *Panter* v. *Marshall Field & Co.,* two related cases pending before the United States Court of Appeals for the Seventh Circuit. The *Marshall Field* cases involve claims by present and former shareholders of Marshall Field that the company's management made fraudulent statements in response to a publicly announced tender offer proposal. The Commission participated *amicus curiae* because the Seventh Circuit's resolution of certain legal issues concerning application of the antifraud provisions to takeover contests may have a significant impact on the goal of investor protection embodied in the Federal securities laws. Thus, the Commission urged that the district court erred in apparently restricting Section 10(b) of the Exchange Act and Rule 10b-5 to situations where the defendant purchased or sold securities or acted with the intent to manipulate the price of securities. In addition, the Commission urged that Section 14(e) of the Exchange Act, an antifraud provision applicable to deception in tender offer transactions, applies to deception during the entire tender offer process — at least from the time of the public announcement of a tender offer proposal — and applies to a tender offer, whether conditional or unconditional. With respect to the scope of the disclosure obligation imposed by Section 14(e), the Commission urged that facts concerning management's actions which may have a significant bearing on the likelihood that a particular tender offeror, or any tender offeror, will successfully consummate a tender offer proposal, are not so obviously unimportant to an investor that they are immaterial as a matter of law.

Private Rights of Action Under the Federal Securities Laws — The Commission's participation in the *Marshall Field* cases discussed above is also within another program of continuing importance to the Commission — availability to injured parties of private causes of action under various provisions of the Federal securities laws. Such actions provide a vehicle through which injured investors can obtain redress for violations of the securities laws. Moreover, since the Commission's staff can bring only a limited number of enforcement actions, and may not normally recoup investor losses in those actions, private actions must serve as a necessary supplement to Commission enforcement actions. In the *Marshall Field* cases, the Commission submitted a supplemental brief in which it urged that there is an implied right of action for damages in favor of shareholders under Section 14(e) of the Exchange Act, a right of action that exists regardless of whether a tender offer proposal is defeated before shareholders are given an opportunity to tender.

During the fiscal year, the Commission also participated *amicus* before the United States Court of Appeals for the Third Circuit in *Zeffiro* v. *First Pennsylvania Bank,* the first Federal appellate case to address whether the Trust Indenture Act provides injured debenture holders with a Federal cause of action for the breach of indenture terms mandated by the Act. The Commission

urged that, because of the unique structure of the Act, the question was not whether an implied right of action existed, but whether the existing private right of action for breach of contract presented a Federal question so that the action could be brought in Federal court. In reaching its decision that debenture holders have a Federal cause of action, the Third Circuit utilized many of the factors emphasized by the Commission, but under an implied right of action analysis. Among other things, the court reasoned that the interpretation of indenture provisions required by the Trust Indenture Act depends on an interpretation of that statute, and, thus, Federal court jurisdiction is necessary to achieve the uniform standards intended by Congress.

In *Transamerica Mortgage Advisors, Inc.* v. *Lewis,* where the issue was whether a private cause of action was implied for violations of the antifraud provision of the Investment Advisors Act of 1940 (Investment Advisers Act), the Supreme Court held that a private cause of action for equitable relief was implied under Section 215 of the Investment Advisers Act (governing the validity of contracts), but not under Section 206 of the Act (the antifraud provision) for equitable relief or damages.

The Commission has continued to monitor appellate cases concerning implied causes of action in the wake of *Transamerica,* as well as district court opinions which have considered whether a private cause of action for equitable relief is implied for violations of Section 13(d) of the Exchange Act. This provision requires that a report containing certain information be filed with an issuer and the Commission by any person who acquires more than five percent of the issuer's securities, so that an issuer can consider the impact of such potential shifts of control upon the company and its shareholders. Prior to *Transamerica,* each of the courts of appeals that had considered the issue had concluded that a private action could be maintained for a violation of that section. The Commission filed a brief, *amicus curiae,* with the Court of Appeals for the Seventh Circuit in *Gateway Industries, Inc.,* v. *Agency Rent-a-Car, Inc.,* urging that an action could be maintained subsequent to *Transamerica,* and has filed copies of its brief with district courts considering that issue. The appeal was withdrawn before a decision was rendered by the Court.

Standard of Culpability —Aaron v. *SEC* raised the important issue of whether the Commission must prove scienter in injunctive actions brought to restrain further violations of Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act, and Rule 10b-5 thereunder, the principal antifraud provisions of those statutes. In light of the importance of this issue, the uncertainty as to its resolution, and the frequency of litigation concerning the question, the Commission had urged the Supreme Court to grant Aaron's petition for certiorari. The Supreme Court, based primarily on analysis of the statutory language, ruled unanimously that the Commission need not prove scienter under the broad antitrust provisions found in Sections 17(a) (2) and 17(a) (3) of the Securities Act, but ruled six to three that proof of scienter is required under Section 17(a) (1), Section 10(b), and Rule 10b-5. The *Aaron* decision, read in combination with an earlier Supreme Court decision (*United States* v. *Naftalin*) concerning the coverage of Sections 17(a) (2) and 17(a) (3), provides the Commission with effective enforcement tools. Those statutory provisions should provide protection against most deceptive conduct.

The standard of culpability program also involves much litigation with respect to other provisions of the Federal

securities laws. In *Adams* v. *Standard Knitting Mills, Inc.,* the Commission filed a memorandum *amicus curiae* in support of plaintiffs' suggestion for rehearing *en banc* and petition for rehearing, which was denied by the United States Court of Appeals for the Sixth Circuit. The Commission had urged that the Sixth Circuit panel erred in defining scienter as a desire to deceive, defraud, or manipulate, in searching the record for evidence of a "motive" for deception, and in concluding that scienter must be shown to recover damages from the defendant accounting firm under Section 14(a) of the Exchange Act and Rule 14a-9, which prohibit deception in connection with proxy solicitations.

Protection of the Shareholder's Franchise — The proxy provisions at issue in *Adams* play a singular role in ensuring that shareholders asked to vote on important corporate decisions can do so in an informed fashion. This issue is within the Commission's litigation program in which the Commission seeks to ensure that shareholders are provided with accurate disclosure in making such decisions. For example, *SEC* v. *Falstaff Brewing Corp.* involved the issuance by Falstaff's management of a misleading proxy statement soliciting shareholder approval of the sale of control of the company to Paul Kalmanovitz, and the election of Kalmanovitz to the board of directors. At the time of the proxy statement, Kalmanovitz was a nominee director of Falstaff, but not part of its management.

The United States Court of Appeals for the District of Columbia Circuit concluded, as the Commission had urged, that Falstaff and Kalmanovitz violated the proxy provisions, and the Court enjoined both from future violations of Section 14(a) of the Exchange Act, as well as Sections 10(b), 13(a), and 13(d) of that Act. The principal significance of this case is that it is the first reported appellate decision to hold a nominee director liable under Section 14(a), and it will be an important precedent in the future, both for the Commission and private plaintiffs, where a person who is responsible for deception is a nominee director of the company issuing the proxy, but not then a director. In holding that Kalmanovitz was liable for proxy violations, the Court applied a substantial connection test between the use of a person's name in a proxy statement and the solicitation effort, and it found that the connection between the use of Kalmanovitz's name and the solicitation of approval of his taking control was pivotal. The Court flatly rejected the argument that Kalmanovitz should not be held liable because the material misrepresentations and omissions in the proxy statement were known to Falstaff's management.

Scope of Commission's Investigatory Authority — The proper scope of the Commission's investigation authority has been challenged unsuccessfully in several forums in the past year. For example, *Dresser Industries, Inc.* v. *SEC* involved a challenge to the Commission's authority to enforce an administrative subpoena issued pursuant to a Commission investigation, where a grand jury independently investigating Dresser also had sought documents from the company.

The district court had ordered that Dresser comply with the Commission's subpoena, and a panel of the United States Court of Appeals for the District of Columbia Circuit affirmed, but modified the order to prohibit the Commission from transmitting the fruits of its investigation to the Department of Justice. Upon rehearing sought by the Commission, the United States Court of Appeals for the District of Columbia, *en banc,* unanimously affirmed the district court's order requiring Dresser to com-

ply with the Commission's investigative subpoena and struck down the modification placed on transmittal of evidence by the Commission to the Attorney General. In so doing, the Court broadly defined the scope of the Commission's appropriate investigatory authority, emphasized the importance of expeditious investigation of violations of the Federal securities laws by both the Commission and the Department of Justice, and approved close interagency cooperation in this area. Adopting the position urged by the Commission, the Court held that an earlier Supreme Court decision, which precluded the Internal Revenue Service from using its summons authority in a civil investigation after it had determined to refer the matter to the Department of Justice for criminal prosecution, has no applicability to the Commission, given its distinctive statutory authority to investigate and enforce the Federal securities laws. A petition for certiorari to the Supreme Court has been filed by Dresser and the Commission has filed an opposition thereto, urging the correctness of the decision by the Court of Appeals and the absence of any conflict in the Federal courts of appeals on this issue.

Petitions for certiorari to the Supreme Court have been filed in at least two other instances, with regard to the Commission's investigative authority. In *SEC* v. *OKC Corp.*, the United States Court of Appeals for the Fifth Circuit rejected a challenge to the Commission's authority to utilize, in the course of its investigation, a report prepared by OKC Corporation's directors by an outside law firm and upheld the Commission's investigation. In *SEC* v. *Blackfoot Bituminous, Inc.*, the United States Court of Appeals for the Tenth Circuit held that the Commission need not show the likelihood of a violation before seeking enforcement of its subpoenas. The Commission's broad authority was also upheld by the United States Court of Appeals for the Third Circuit in *SEC* v. *Wheeling Pittsburgh Co.*, despite an allegation by the targets of the Commission's investigation that the person submitting information to the Commission had been politically motivated. That decision was vacated by the *en banc* court, however, when it granted a petition for rehearing *en banc*.

Standard of Proof in Adjudicatory Administrative Proceedings Before the Commission — The question of which standard of proof should be utilized in Commission administrative proceedings was another important litigation program area during the past year. For example, in *Collins Securities Corp.* v. *SEC*, the United States Court of Appeals for the District of Columbia Circuit held that the Commission had erred in utilizing the "preponderance of the evidence" standard of proof in this broker-dealer proceeding. The Court believed that "clear and convincing evidence" is required in administrative proceedings involving charges of fraud, at least where the sanction is expulsion from the securities industry.

But, the United States Court of Appeals for the Fifth Circuit later disagreed in *Steadman* v. *SEC*. The Fifth Circuit held, among other things, that the Commission properly utilized the preponderance standard in an administrative proceeding brought against an investment adviser and broker-dealer for violations of the antifraud provisions of the securities laws, even where one of the sanctions imposed was a permanent bar from association with any registered investment adviser or investment company. In *Steadman*, the Court accepted the Commission's argument that, applying the balancing test for determining the proper standard of proof announced by the Supreme Court in *Addington* v. *Texas*, the risk of injury to Steadman did not significantly out-

weigh the interest of the investing public, who might be inadequately protected if the Commission's ability to police the securities industry were impaired by requiring the higher "clear and convincing evidence" standard of proof.

On April 28, 1980, the Supreme Court granted certiorari in *Steadman* in order to resolve the conflict between the Fifth Circuit's decision and the decision of the District of Columbia Circuit in *Collins*. In its brief to the Supreme Court, the Commission argued that the standard of proof prescribed by the Administrative Procedures Act is satisfied by a preponderance of the evidence, and the determination whether to employ a higher standard of proof is the responsibility of the Commission, as it is the agency entrusted by Congress with the administration of the securities laws, which responsibility includes the promulgation of fair procedures in connection therewith. The Commission further argued that under the balancing test of *Addington,* neither the potential injury to the investment adviser, nor the fact that the antifraud provisions are involved, justifies a departure from the traditional preponderance standard, in view of the commission's need to protect the investing public from dishonest fiduciaries entrusted with their money.

Since the decision of the United States Court of Appeals for the Fifth Circuit in *Steadman,* the question of which standard of proof should be utilized in Commission administrative proceedings has arisen in a number of other contexts. For example, in *Investors Research Corp.* v. *SEC,* the District of Columbia refused to extend its own *Collins* "clear and convincing evidence" standard to a Commission proceeding where an affiliate of an investment company was censured for violations of Section 17(e) (1) of the Investment Company Act. The Court explained that, since there was neither a finding of fraud nor a severe sanction, use of the higher standard was not required. Shortly thereafter, in *Decker* v. *SEC,* a case involving the same type of violation and sanction as *Investors Research,* the United States Court of Appeals for the Tenth Circuit, applying the *Addington* balancing test, followed the lead of the District of Columbia Circuit and held that the proper standard of proof in such a proceeding was the "preponderance of the evidence" standard.

Tender Offer Litigation — The Commission's adoption, in December 1979, of extensive and detailed rules governing the conduct of tender offers subject to the Williams Act, has resulted in litigation concerning the effect of these rules on state takeover statutes. The Commission has participated as *amicus curiae* or as a party in a number of these lawsuits, which generally arise in the context of hostile takeover attempts, and which focus upon the preemptive effect of Rule 14d-2(b) (the rule concerning the early commencement date of a tender offer) on state law provisions requiring extended precommencement delay. The rule requires a tender offer to commence shortly after a public announcement of its material terms. It was designed to thwart a developing practice by which bidders would make public announcements about their offers without actually commencing these offers for purposes of the Williams Act, which contains various provisions designed to afford investors protection in tender offer situations.

The Commission recognized when it adopted Rule 14d-2(b) that it might conflict with certain state laws, and in litigation the Commission has supported the position of tender offerors challenging these laws as unconstitutional due to such conflict. However, the

Commission has also recognized that states may have a valid interest in regulating tender offers for truly local companies, and it has therefore supported the efforts of state securities laws administrators to harmonize the operation of their statutes with Rule 14d-2(b).

In actions in which the Commission has participated and where a court has reached the merits of the substantive preemptive issue, the results have been uniformly favorable for the Commission. In *Eure* v. *Grand Metropolitan, Ltd.,* the North Carolina Superior Court found Rule 14d-2(b) and the state 30-day pre-commencement waiting requirement to be in diirect conflict, making compliance with both a physical impossibility. The Court therefore held the state provision preempted and unenforceable.

In *Sun Life Group, Inc.* v. *Standard Life Insurance Co.* of *Indiana,* the United States District Court for the Southern District of Indiana upheld the state's interpretation of its takeover statute, which permitted commencement of the tender offer in compliance with Rule 14d-2(b), but provided for post-commencement review of the transaction by state officials. The court noted that absent such a harmonizing interpretation, the state law could not survive constitutional challenge.

In a Delaware case, *GM Sub Corp.* v. *Liggett Group, Inc.,* the Chancery Court entered an injunction against the conduct of a tender offer that had already commenced under Federal law. On appeal, the Delaware Supreme Court stated that Rule 14d-2(b) is entitled to a presumption of validity, and the principles of Federal supremacy militated against the continuation of injunctive relief that had the effect of precluding a tender offeror from complying with the rule.

Other Significant Projects

ALI Code — Over the past ten years, the American Law Institute (ALI) has sponsored the drafting of a Federal Securities Code, under the direction of Professor Louis Loss of the Harvard Law School. In May 1978, the ALI's membership approved a 766-page "Proposed Official Draft" of the Code, which is designed to replace the six separate Federal statutes administered by the Commission with a single comprehensive and unified piece of legislation.

The Commission and its staff have spent a great deal of time and effort during the fiscal year analyzing and studying the proposed Code in preparation for its expected introduction in Congress. The task of evaluating the benefits the Code would offer and the possible difficulties it might create, in terms of maintaining an effective scheme of investor protection, is exceedingly complex. While in many respects the ALI draft seeks simply to codify existing law, in other respects it would make significant substantive changes.

During the initial review of the proposed Code, members of the Commission staff held a series of meetings with Professor Loss and his group of advisers to discuss concerns about both substantive positions taken in the Code and the drafting of various Code provisions. In response, Professor Loss made a substantial number of technical amendments to the Code. In September 1979, the Commission itself began meeting with the Code's drafters, in sessions open to the public, to discuss the larger issues raised by the staff. Further discussions followed these meetings, culminating in an agreement between Professor Loss and a group of his advisers and the Commission as to a series of further, more substantive amendments that would be made to the

Code prior to its introduction. As a result of these agreements, the Commission issued a release on September 18, 1980, supporting enactment of the Code as so revised.

Right to Financial Privacy — When Congress enacted the Right to Financial Privacy Act of 1978, it included a two-year exemption for the Commission, to allow time to study how best to reconcile privacy interests of bank customers with the need of the Commission for access to the account records of such customers in the course of its investigations. With that exemption about to expire, the Commission staff began working with members of various Congressional staffs to develop a permanent legislative proposal.

The resulting bill provides that the Commission will be subject to the Right to Financial Privacy Act, except in specified cases where it is important to afford the Commission prompt access to financial records in order to exercise its responsibilities under the Federal securities laws. In such cases, and subject to prior *ex parte* court approval, the Commission would be entitled to subpoena financial records of a customer from a financial institution without prior notice to the customer. After obtaining these records, the Commission would be required to afford the customer in question notice that access to his records had been obtained, and the customer would be entitled to bring suit against the Commission for appropriate civil penalties and injunctive relief if the Commission's access was not for purposes authorized by the Federal securities laws. In addition, the bill contains provisions governing the transfer of financial records by the Commission to other governmental authorities, and requires the Commission to report annually when it obtains access to financial records. (Subsequent to the close of the fiscal year, on October 10, 1980, this bill was signed into law.)

"Ginnie Mae" Study — During the past year, the Commission, along with the Department of the Treasury and the Federal Reserve Board, undertook a study of the government-related securities markets which, among other things, detailed abusive trading practices in such markets. The participants in the Ginnie Mae study concluded that increased regulation of these markets is necessary to correct the abuses, and attached to their reports proposed legislation which would establish a new regulatory structure applicable to forward trading and other transactions with maturities of 30 days or longer in Government National Mortgage Association and Federal Home Loan Mortgage Corporation securities. The proposed legislation was drafted so that its provisions could be extended, as necessary, to other government-related securities.

Under the proposed legislation, a self-regulatory organization (SRO), composed primarily of industry representatives, would exercise rulemaking authority, subject to governmental oversight by a "Council" composed of the Secretary of the Treasury, the Chairman of the Federal Reserve Board and the Chairman of the Securities and Exchange Commission, or their respective designees. The SRO would have authority to establish fair practice standards that would provide for, among other things, suitability rules, record-keeping requirements, professional qualification and competency requirements, and financial responsibility rules. The legislation would also require the registration of brokers and dealers effecting transactions in those government securities subject to regulation. In addition, investors would receive greater protection by the establishment of margin requirements by the Federal Reserve. At the close of the fiscal year, the proposed legislation was under review by the Office of Management and Budget.

Public Utility Holding Companies

Composition

Under the Public Utility Holding Company Act of 1935 (Holding Company Act), the Commission regulates interstate public utility holding company systems engaged in the electric utility business or in the retail distribution of gas. The Commission's jurisdiction also covers natural gas pipeline companies and nonutility companies which are subsidiaries of registered holding companies.

There are presently 14 registered holding company systems with aggregate assets, as of June 30, 1980, of $52.5 billion. Total holding company system assets increased by over $5.0 billion in the twelve-month period ended June 30, 1980. The increase was attributable to several coal and nuclear fired generating plants entering service. Total operating revenues, as of June 30, 1980, were $22 billion, a $4.1 billion increase over the previous year. In the 14 systems, there are 60 electric and/or gas utility subsidiaries, 68 nonutility subsidiaries and 22 interactive companies, or a total of 168 system companies, including the top parent and subholding companies. Table 37 in the Appendix lists the systems and Table 38 lists their aggregate assets and operating revenues.

Financing

During fiscal year 1980, approximately $3.5 billion of senior securities and common stock financing of the 14 registered systems was approved by the Commission. Of this amount, approximately $2.6 billion was long-term debt financing, and over $900 million was for equity financing. These amounts represent a 56 percent increase in long-term financing over fiscal year 1979, and a 10 percent decrease in the sale of common and preferred stock. In addition, the Commission approved over $4.9 billion of short-term debt financing and $291 million of pollution control financing for the 14 registered holding company systems. Table 39 in the Appendix presents the amount and types of securities issued under the Holding Company Act by these holding company systems.

Fuel Programs

During fiscal year 1980, the Commission authorized $597.9 million of fuel exploration and development capital expenditures for the holding company systems. These expenditures cover annual fuel programs subject to regulation under the Holding Company Act defined on geographical and functional terms. Table 40 in the Appendix lists the authorization by holding company system for each fuel program.

Largely as a result of radical changes in the cost and availability of fuel, utility companies, including registered systems, have embarked on major programs to acquire control of part of their fuel supply. Generally, the arrangements involve formation of subsidiaries or entry into joint ventures for producing, transporting and financing fuel supplies or the supply of capital for the exploration of and development drilling for mineral reserves with a right to share in the product. Since 1971, the Commission has authorized expenditures of over $3.2 billion for fuel programs of holding companies.

Service Company Operations

At the end of calendar year 1979, there were 11 subsidiary service companies providing managerial, accounting, administrative and engineering services to 11 of the 14 holding companies registered under the Holding Company Act. The billings for services rendered to the holding company systems amount to $497.8 million or 2.26 percent of the total revenues generated by the electric and gas operating utilities, with several systems including a return on capital invested by the parent holding company. Because the subsidiary service companies are service oriented, they are heavily labor intensive having 11,762 employees and assets of over $306 million. During February 1980, the Commission approved a proposed amendment to the Annual Report Form U-13-60 for Subsidiary Service Companies Subject to the Holding Company Act. The revised report will conform to the amended Uniform System of Accounts for Service Companies adopted by the Commission in February 1979.

The revised Annual Report will: (1) simplify the preparation of service company financial data; (2) more clearly disclose financial, accounting, and operational information needed by Federal and state authorities which regulate the affiliated public utility companies served by the service companies; and (3) facilitate the conduct of audit and account inspection programs. The amended Annual Report form is effective not later than January 1, 1981, for the 11 subsidiary service companies.

General Public Utilities Corporation/Three Mile Island

During fiscal year 1980, the Commission continued to monitor the financial and operational impact to the General Public Utilities (GPU) System of the March 28, 1979, nuclear accident at Three Mile Island Unit No. 2 (TMI-2). Prior to fiscal year 1980, the Commission approved for GPU $500 million of short-term debt bank financing for the GPU system to assist payment of replacement power cost incurred as a result of the accident. The GPU system has estimated the cost to decontaminate and restore TMI-2 at $855 million over the next five years. As of June 30, 1979, approximately $148 million of this amount had been expended. The GPU system has $300 million of property insurance coverage for TMI-2.

Acquisition of Columbus & Southern Ohio Electric Company By American Electric Power Company

On July 21, 1978, the Commission approved the acquisition, by tender offer, of the common stock of the Columbus and Southern Ohio Electric Company (CSOE). On February 13, 1980, the Commission approved an American Electric Power Company (AEP) offering of 1.3 shares of its common stock for each share of CSOE. An exchange offer was subsequently made and 88.45 percent of CSOE stock was acquired on May 9, 1980, the closing date of the tender offer.

CSOE's consolidated assets were $1.3 billion at December 31, 1979, with operating revenues of $417 million. The Commission stated in its February 1980 order that the existence of a minority interest is contrary to the standards of Section 11(b)(2) of the Holding Company Act. AEP has filed a plan, jointly with CSOE, to retire any such minority interest pursuant to a plan under Section 11(e) of the Holding Company Act. This is still pending before the Commission.

Corporate Reorganizations

Reorganization proceedings in the United States District and Bankruptcy Courts are not initiated by the Commission, but are commenced by a debtor, voluntarily, or by its creditors. Federal bankruptcy law allows a debtor in reorganization to continue to operate under the court's protection while it attempts to rehabilitate its business and work out a plan to pay its debts. Where a debtor corporation has outstanding publicly issued securities, the reorganization process raises many issues that materially affect the right of its public investors. In addition, the issuance of new securities to creditors and shareholders pursuant to a plan are exempt from registration under Section 5 of the Securities Act of 1933. Therefore, the Commission enters its appearance and participates in corporate reorganization proceedings to protect the interests of public investors holding the debtor's securities and to render independent, expert assistance to the courts and parties in a complex area of law and finance.

The Bankruptcy Reform Act of 1978, which became effective at the beginning of the fiscal year, represents a comprehensive revision of Federal bankruptcy law and, in particular, of the business reorganization provisions of the prior Bankruptcy Act. The reorganization provisions of the new Bankruptcy Code, set forth in Chapter 11 thereof, will apply only to cases commenced on or after October 1, 1979. Cases commenced prior to October 1, 1979, will continue under the appropriate provisions of the prior Bankruptcy Act.

Chapter 11 of the Bankruptcy Code authorizes the Commission to enter its appearance in any reorganization case and to raise, or present its views on, any issue in a Chapter 11 case. Although Chapter 11 applies to all types of business reorganizations, the Commission will not consider it necessary or appropriate to participate in every case. Many cases will involve only small enterprises with uncomplicated capital structures or minimal public investor interest. In its forty years of participation in cases under Chapter X of the prior Bankruptcy Act, the Commission generally limited its participation to proceedings in which a substantial public investor interest was involved.

During the past fiscal year, 64 debtors with publicly issued securities outstanding entered Chapter 11 reorganization proceedings. The Commission entered its appearance in 18 of these cases, which involved an aggregate of $1.46 billion in assets and 97,000 public investors. (A list of these proceedings is set forth in Table 42 in the Appendix to this Report). In these cases the Commission presented its views, in court and informally in consultation with other participants, on a variety of issues including: (1) conflicts of interests of members of creditors' and equity security holders' committees; (2) issues concerning the debtor's operations and sales of assets; (3) the need for appointment of a trustee or examiner to conduct an investigation into the debtor's affairs, questions concerning the validity and effect of the terms of the securities held by public investors, the classification of their claims, and proposed treatment in reorganization plans; (4) the adequacy of disclosure in the disclosure statement required to be transmitted to public investors when

their votes on a plan are being solicited; (5) the reasonableness of fees sought by counsel and other professionals; and (6) interpretive questions concerning the Bankruptcy Code's exemption from the securities laws.

The Commission continues to play a similar role in pending cases under Chapter X, the reorganization of the prior Bankruptcy Act. In addition, in Chapter X cases where the scheduled indebtedness of a debtor corporation exceeds $3 million, the court is required, before approving any plan of reorganization, to submit it to the Commission for an examination and report on the fairness and feasibility thereof. If the indebtedness does not exceed $3 million, the court may, if it deems it advisable to do so, submit the plan to the Commission before deciding whether to approve it. When the Commission files a report, copies or summaries must be sent to all security holders and creditors when they are asked to vote on the plan. The Commission has no authority to veto a plan of reorganization or to require its adoption. During the fiscal year, the Commission prepared and filed such reports in five large reorganization cases.

At the beginning of the 1980 fiscal year, there were 87 cases pending under Chapter X of the prior Bankruptcy Act in which the Commission was participating. During the fiscal year, 20 proceedings were closed, leaving 67 Chapter X cases in which the Commission was a party at fiscal year end. (A list of these cases is set forth in Table 41 in the Appendix to this Report).

Administration and Management

General Management and Program Developments

During the 1980 fiscal year, a restructuring of the Division of Corporation Finance was carried out in accordance with recommendations made by the Office of the Executive Director and a Corporation Finance Task Force. In conjunction with faculty from the Harvard Business School, the Division undertook implementation of workload distribution by industry specialization. The developing expertise in specific industries will facilitate more informed and efficient review of filings by Commission staff and should produce operational economies.

Management reviews were also conducted and recommendations provided for a number of offices and divisions during fiscal 1980. These reviews are part of a continuing effort to evaluate the Commission's management practices and to help upgrade them whenever appropriate.

Also during fiscal 1980, a number of enhancements were made to information systems, the personnel program, and in other areas. The objective, throughout, has been more efficient use of the Commission's limited resources.

Information Systems Management

The Commission made substantial progress in 1980 in furthering the objectives of its automatic data processing (ADP) enhancement program. Results of the many initiatives undertaken in the last two years in the areas of facilities improvement, processing techniques, computer system development technologies, and external services are beginning to manifest themselves through qualitative and quantitative improvements in the Commission's information processing capabilities. These initiatives will insure that at the beginning of the next fiscal year the Commission will have at its disposal an ADP capability as close to being "state-of-the-art" as any similar sized computer installation in the Federal government.

Facilities Improvement — In the area of facilities improvement, the Commission replaced its obsolete IBM 360/65 computer system with an IBM 370/158—a machine of much greater computing speed, power, and storage capacity that should provide sufficient processing capabilities for all of the Commission's ADP requirements over the next five years. In addition, the Commission's nationwide telecommunications network was completed this year, providing all regional and branch offices access to computer files maintained at the headquarters location. Further enhancements to the telecommunications net will include the acquisition of replacement computer terminals at the headquarters locations and the installation of more efficient transmission techniques for the regional and branch offices.

In order to maximize use of the new computer system and telecommunications network, the Commission recently introduced several "state-of-the-art" techniques in its program development and implementation processes. The first of these utilizes "structured analysis, design, and programming," a relatively new analytical technique which leads to more clearly defined and formalized system requirements and information relationships, and which can significantly reduce the number of

changes to a system that might otherwise be necessary subsequent to its implementation. A second new efficiency technique implemented this year—referred to as interactive programming—allows the programming staff to enter programs, make changes to data and existing programs, and issue command statements for the processing of jobs directly into the computer via terminals. A related capability given much more emphasis this past year involves the expanded use of an on-line data base analysis, query, and retrieval facility which will allow the Commission staff to obtain data and information directly from the computer on an ad hoc basis, without the need for submitting service requests to the ADP staff. This facility will make management information available where it is needed on a much more timely basis.

As a complement to the ADP services and information systems provided by the in-house facility, the Commission has acquired several proprietary software services for use by its staff. One such service is an on-line information retrieval system which provides access to abstracts of newspaper and periodical articles. Publications included in the system are major general-circulation newspapers, major international affairs, and scientific publications, as well as other business and related news services. The proprietary legal research system being used by the Commission has been enhanced, giving the staff on-line access to company profiles and extracts of various financial reports for companies required to file with the Commission. In addition, the Commission is currently investigating the utility of a corporate financial statement analysis package which could be of significant research value.

Information Systems — In addition to the foregoing facilities and services enhancements, a number of major new information systems were implemented during 1980. Among these are several systems for which developmental work was initiated in prior years: the Case Activity Tracking System (CATS), an on-line system which is used to monitor the current status of events relating to all active investigation and litigation activities and which also provides extensive information for use in resource allocation decisions; and the N-1R System, which facilitates detailed analysis of data from Investment Company Act Form N-1R to aid in the evaluation and regulatory surveillance of all registered investment companies required to file these annual reports. Also implemented during this past year were the on-line Position and Employee Reporting and Tracking System (PERTS), used to monitor temporary and permanent authorized positions and to forecast personnel related budgetary impacts; and the Document Control Register (DCR), used to record and monitor incoming invoices and travel vouchers and their payment.

In addition to these implementation activities, several major system developmental efforts were initiated in fiscal 1980, including the requirements definition and systems analysis phases of an enhanced Delinquent Filings Reporting System; the development of an integrated filings workload and registrant data base, which is part of an on-line system that provides the staff the capability to directly enter and receive information relating to the receipt and distribution of required filings; and the creation of an integrated employee data base which will efficiently maintain all required Commission personnel information. In addition to the initiation of major new systems, several critical existing systems were enhanced this year, including the Name and Relationship Search teleprocessing system, the Broker-Dealer/Investment Adviser Di-

rectory System, the Commission's payroll system, the Rules of Conduct system, and the Complaint Processing System. The Commission was also heavily involved in coordination of the development by a private ADP contractor of the SEC Docket Index System — an on-line system for retrieving information relating to releases published in the Commission's SEC Docket.

Other ADP Activities — Other significant measures were also taken in fiscal 1980 to enhance the Commission's in-house ADP facility. An exhaustive assessment of the vulnerables of the Commission ADP facility was completed in December 1979. Based on individual loss potentials and existing ADP security control measures, the risk assessment report recommended a series of safeguards designed to mitigate identified weaknesses. A task team of computer hardware, systems software, and applications software specialists reviewed the findings and recommendations of the risk assessment and prepared a prioritized list of recommendations for implementation. In addition, in order to fully support the specialized needs of the Directorate of Economic and Policy Analysis (DEPA), arrangements are currently being made to install a remote job entry and time sharing capability which will substantially enhance DEPA's capabilities in the areas of interactive programming and statistical analysis and problem solving.

Financial Management

In fiscal year 1980,, the Commission collected a record $48 million in fees for the registration of securities, securities transactions on national securities exchanges and miscellaneous filings, reports, and applications. The fees collected represented approximately 66 percent of the total funds appropriated by Congress for Commission operations. In fiscal year 1979, the Commission had collected $33 million which represented 47 percent of the funds appropriated by Congress for Commission operations. Nearly $14 million of the increase in collections was attributed to Securities Act registration fees resulting from money market fund registrations. Higher stock exchange volumes accounted for $1 million of the increase.

In fiscal 1980, the Office of the Comptroller continued the implementation of an automated integrated financial management system. During the fiscal year, a new system was implemented to track invoice payments. This system resulted in faster responses to questions and payments and insured that payments can be made when due, as required by revised cash management directives.

Fiscal year 1980 also saw partial implementation of an organizational cost accounting system. Reports generated by this system present selected costs for management review and control. This effort should result in greater organizational unit financial management responsibility.

The position tracking system developed in fiscal year 1979 and implemented in the first quarter of fiscal year 1980 was enhanced and evolved into a position/employee reporting and tracking system (PERTS). In fiscal year 1981, this system will provide management with current position and employee data, staff year utilization, and comprehensive cost projection throughout the fiscal year. This system was tested in fiscal year 1980 and implemented on the first day of fiscal year 1981.

Initiatives intended to improve or conserve resources completed in fiscal year 1980 included the issuance of a comprehensive budget handbook, simplification of budget call procedures, issuance of a detailed time and attendance handbook, the completion of phase one of the Comptroller's microfiche project involving two million cur-

rent documents, and establishment of uniform policies on the use of overtime and the employment of temporaries. In addition, major automation efforts continue in payroll, fee collection, budget call procedures, and the integrated financial management system, which will be carried on in fiscal year 1981.

Internal Audit

The Office of Internal Audit is a new organization within the Office of the Chairman. Formed in the middle of fiscal year 1980, the Office of Internal Audit has the responsibility to perform operational and financial audits of Commission functions and to report its findings and recommendations directly to the Chairman. The staff will function as an independent feedback mechanism to the Chairman on the progress of operations in achieving the Commission's long-term management goals. In previous years, required financial internal audits were performed by the Office of the Chief Accountant.

Initially, the Office was composed of a director and a program analyst. Since the close of the fiscal year, an additional program analyst and a secretary have been added.

In fiscal year 1980, the Office of Internal Audit issued two audit reports: "Review of Gasoline Credit Card Practice" and "Review of the Assistant Regional Administrator (Regulation) Position." Currently, the Office is conducting reviews of the security of the data processing center and telecommunications systems and their usage.

Personnel Management

At the close of the fiscal year, the Commission's total strength was approximately 1,940 persons. This was somewhat lower than in previous years, largely because of the extended hiring freeze imposed by the President in March 1980. About two-thirds of these individuals were employed in Washington, D.C., while the remainder were employed in regional and branch offices located in fifteen major financial centers throughout the United States.

Significant resources were devoted to developing programs to implement the Civil Service Reform Act. Recognizing the importance of personnel management as an integral part of overall management effectiveness, the Commission developed innovative management-oriented programs designed to improve productivity and enhance the agency's effectiveness in fulfilling its obligations to the investing public. While the full benefit of these initiatives may not be realized for some time, significant progress was made on several fronts during the past year:

Senior Executive Service — The Executive Resources Board, comprised of six top executives, became fully operational during the fiscal year. Functioning in an advisory capacity to the Chairman, the board has provided direction and oversight in the development and administration of a personnel management system for senior executives.

The Performance Review Board also became operational. Its charter is to review performance appraisals for all senior executives and to recommend pay levels, bonuses, and ranks.

An internal SES candidate development program is being planned. High potential managers at the GS–14 and GS–15 levels will be competitively selected for an intensive developmental program consisting of an assessment center to identify executive strengths and weaknesses, formal classroom training, residential training, executive seminars, and inter- and intra-agency developmental assignments. Upon successful completion of the program, these individuals will be placed in the Executive Resources Pool and will be

eligible for non-competitive appointment to future SES vacancies.

Performance Appraisals — As reported in last year's annual report, the Commission has devoted substantial resources to the development of a new performance appraisal system. To ensure that the system would be valid and objective, the Commission utilized the services of a major consulting firm, as well as those of the Office of Personnel Management. These consultants assisted the agency staff in gathering and evaluating information and in developing criteria to evaluate employee performance. The evaluative studies have been completed and, based on the findings, a new performance evaluation system has been developed to cover all employees through GS–15. This system which, at the close of fiscal 1980, was awaiting approval at OPM, incorporates a goal-setting and review process for higher grade positions; at the lower grades, a more traditional performance standard approach is used. The system was implemented in November 1980 for GS–15 positions, with lower grades to be phased in over a period of several months. All employees will be under the new system by July 1981.

Merit Pay — The Commission developed and submitted for OPM approval a merit pay program to cover supervisors and management officials in grades GS–13 through GS–15. This program links within-grade pay increases to level of performance as evaluated by the performance appraisal system. It is designed to provide financial incentives for superior performance, and at the same time to encourage improvement by less effective employees. The merit pay program will be implemented by the Commission in October 1981.

A key feature of this plan enables managers to exercise discretion in the awarding of merit pay increases to their subordinates. Most merit pay plans in the Federal government use "direct linkage" models, i.e., an employee's performance rating is translated directly into a merit pay adjustment by application of a fixed mathematical formula. By contrast, the Commission's plan uses a "variable linkage." While the plan is closely linked to the performance rating, the variable linkage gives managers the option to adjust the size of an employee's increase either upward or downward if there is a valid reason for such an adjustment. This feature is consistent with the philosophy underlying the Civil Service Reform Act: that decisionmaking authority for personnel matters should be deregulated and delegated to the lowest practicable management level.

Another feature of the Commission's merit pay program seeks to encourage group performance and teamwork by basing merit pay adjustments, in part, on organizational accomplishments. This, too, was authorized by the Civil Service Reform Act.

While the foregoing initiatives to implement the Civil Service Reform Act had high visibility, other, more traditional efforts carried on the Commission's commitment to improve human resource management. Among these were:

Delegation of Authority — The Commission negotiated agreeements with the Office of Personnel Management which authorize this agency to examine and recruit applicants for certain occupations. This authority covers hiring of accountants and, in selected regional offices, Securities Compliance Examiners. Past experience indicates that this type of authority enables the Commission to obtain higher quality applicants, largely because recruitment efforts can be focused on factors that are specific to the needs of the agency.

Merit Promotion — A comprehensive evaluation was made of the agency's

merit promotion program. Employee attitudes toward the program were sought through the use of an extensive employee survey. The results of this survey, along with an analysis of management needs, were used to identify weaknesses and deficiencies in the current system. As a result of this analysis, the merit promotion program will be revised to streamline procedures, ensure their validity, and relate them more closely to employee performance.

Incentive Awards — A comprehensive study is being made of the incentive awards program. As a result of recent findings, guidelines for granting awards will be substantially revised to better ensure that awards are based upon employee performance or other valid criteria, and that monetary awards are made in proportion to the value of the contributions made by receipients.

Equal Employment Opportunity — The Commission developed an equal employment opportunity recruiting program. Designed to be integrated with the Uniform Employee Selection Guidelines and the affirmative action program, this effort is intended to identify under-representation by minority group and sex in all occupations and grade levels, and to target recruitment sources for minorities and females for the various job categories. The Commission's Second Annual Job Fair was very successful in attracting minority law students to the Commission, and a third such recruiting program was sponsored in November 1980, after the close of the fiscal year.

Part-time employment — The Commission has also developed procedures for implementing the Part-time Employment Act. These procedures, when fully operational, will seek to tap sources in the labor market that are not available for full-time work by encouraging the employment of such individuals on a part-time basis. "Job sharing", whereby the duties of a single position are shared by more than one individual, each on a part-time basis, will also be tried on an experimental basis. Agency managers are developing goals for the implementation of this program.

Upward Mobility — In view of previous highly successful experience with the upward mobility program (INTERSECT) during the past two years, the Commission has determined to continue the effort. Accordingly, five staff spaces were allocated for the "INTERSECT III" program. This will allow lower grade clerical and technical personnel to compete for entry into administrative/professional positions with career ladder promotion potential to the GS–9 or 11 levels. It is noteworthy that most of the persons selected for the original INTERSECT Program in 1978 have completed their formal development assignments and have "graduated" from the program. These individuals have now taken their place in the work-force as successful administrative and professional employees.

The Commission has maintained its initiatives in other areas of personnel management as well. An exemplary employment program for handicapped individuals has been continued and further refined. Attorney recruitment continues to be of major significance as the agency seeks to attract and retain premium quality legal talent in the face of austere resources. A forward-looking employee counselling effort seeks to provide positive counselling services to employees on career-related matters, especially in the development of realistic career objectives and helping employees prepare to attain those objectives.

Space Management

Numerous problems continue to exist due to inadequate and scattered office space. The Commission's headquarters

personnel remain dispersed among three locations, requiring costly, time consuming, and inefficient movement of personnel, equipment, furniture, and files. In fiscal year 1980, a joint effort was made by Congress, GSA, and the Commission to obtain a consolidated headquarters building by fiscal year 1981, or early fiscal year 1982.

The Commission has made important progress in making existing facilities accessible to the handicapped. Building alterations and special facilities have been completed, thus improving the working environment both for the Commission's handicapped population and for visitors.

Consumer and Public Affairs

In November 1979, in response to the President's Executive Order No. 12160 entitled "Providing for Enhancement and Coordination of Federal Consumer Programs", the Commission published a statement to explain its consumer affairs activities, and to solicit public comment concerning the effectiveness of its consumer affairs efforts. After reviewing and analyzing the comments received, on May 23, 1980 the Commission issued its final statement concerning its consumer affairs activities (Securities Exchange Act Release No. 16840, May 23, 1980; 20 SEC Docket 128).

In connection with "National Consumer Education Week," interested members of the public received briefings and printed material at the Commission's headquarters office. The Denver Regional Office and Philadelphia Branch Office also provided similar materials and information for visitors. In addition, representatives of the Office of Consumer Affairs, the Office of Public Affairs, and the Houston Branch Office participated in the annual convention of the National Association of Investment Clubs.

Investor Complaints — During the 1980 fiscal year the Office of Consumer Affairs received, analyzed, and answered approximately 3,000 complaints and inquiries concerning broker-dealers. Most of the complaints involved operational problems, such as failure to deliver securities or funds, or the alleged mishandling of accounts. In addition, there were approximately 5,000 complaints and inquiries regarding issuers, transfer agents, banks, mutual funds and investment advisers.

The Office also reviews the operation of the arbitration facilities and complaint-handling systems of the SROs, and reviews the complaint-handling systems of broker-dealers. During fiscal year 1980 the Office inspected the arbitration facilities of three SROs and the complaint-handling system of one broker-dealer.

In addition, the Office of Consumer Affairs conducted a survey of registered broker-dealers during fiscal 1980 to gather data concerning abandoned customer accounts. The purpose of the survey was to determine when a firm considers a customer's account to be abandoned, and what, if anything, the firm does with the securities and/or funds in the account. The Office is presently reviewing and analyzing the responses received and will report its findings to the Commission during the 1981 fiscal year.

Consumer Education and Public Information — During the fiscal year, the Office of Consumer Affairs and the Office of Public Affairs began distributing to newspapers a series of weekly columns entitled "Information for Investors." The columns are designed to provide information about topics that are frequently of concern to investors. They may also include discussions of proposals likely to affect individual investors, about which the Commission is soliciting public comment.

The Commission continued, during 1980, to make informational and educational material directly available to investors and other interested members of the public, both through its own facilities and through the national Consumer Information Center in Pueblo, Colorado. A new brochure entitled, *Q &A: Small Business and the SEC,* was developed and published during the year and 50,000 copies were distributed to the public. Work began during the year on a comprehensive handbook for novice investors, which is expected to be published during fiscal 1981. Altogether, 163,000 copies of Commission brochures were distributed during fiscal 1980 to persons who requested them from the Consumer Information Center.

Also during the fiscal year, the Office of Public Affairs completed production of a multi-media, audiovisual presentation on the Commission, the securities laws, and the securities markets generally. The 22-minute program, entitled *Eagle on the Street,* may be purchased or rented in 16mm film version through the National Audiovisual Center.

Footnotes

[1]Securities Exchange Act Release No. 16888 (June 11, 1980), 20 SEC Docket 334.

[2]Securities Exchange Act Release No. 16889 (June 11, 1980), 20 SEC Docket 353.

[3]Securities Exchange Act Release No. 13662 (June 23, 1977), 12 SEC Docket 947; *withdrawn* in Securities Exchange Act Release No. 16889 (June 11, 1980), 20 SEC Docket 353.

[4]Securities Exchange Act Release No. 16410 (December 5, 1980), 18 SEC Docket 1306.

[5]Securities Exchange Act Release No. 16589 (February 19, 1980), 19 SEC Docket 659.

[6]Securities Exchange Act Release No. 16590 (February 19, 1980), 19 SEC Docket 659.

[7]Securities Exchange Act Release No. 16924 (June 24, 1980), 20 SEC Docket 497.

[8]Securities Exchange Act Release No. 15770 (April 26, 1979), 17 SEC Docket 369.

[9]590 F.2d 1085 (D.C. Cir. 1978).

[10]Securities Exchange Act Release No. 15640 (March 14, 1979), 16 SEC Docket 1318.

[11]File Nos. SR-PDTC-79-3, approved in Securities Exchange Act Release No. 16352 (November 19, 1979), 18 SEC Docket 905; and SR-DTC-79-5, approved in Securities Exchange Act Release No. 16354 (November 20, 1979), 18 SEC Docket 996.

[12]File No. SR-BSECC-80-1, approved in Securities Exchange Act Release No. 17045 (August 4, 1980), 20 SEC Docket 886.

[13]44th Annual Report at 6.

[14]House Comm. on Interstate and Foreign Commerce, 96th Cong., 1st Sess., *Report of the Special Study of the Options Markets to the Securities and Exchange Commission* (Comm. Print 1978).

[15]Securities Exchange Act Release No. 15575 (February 22, 1979), 16 SEC Docket 1163.

[16]Securities Exchange Act Release No. 16701 (March 26, 1980), 19 SEC Docket 998.

[17]Securities Exchange Act Release No. 16696 (March 26, 1980), 19 SEC Docket 994. In addition, on May 15, 1980, the Commission approved the NASD's rule proposal in response to the Options Study recommendations. Securities Exchange Act Release No. 16807 (May 15, 1980), 20 SEC Docket 13.

[18]Securities Exchange Act Release No. 16701 (March 26, 1980), 19 SEC Docket 998.

[19]Id.

[20]Securities Exchange Act Release No. 16788 (May 6, 1980), 19 SEC Docket 1381.

[21]Securities Exchange Act Release No. 16793 (May 8, 1980), 19 SEC Docket 1385; Securities Exchange Act Release No. 16848 (May 28, 1980), 20 SEC Docket 141; Securities Exchange Act Release No. 16851 (May 28, 1980), 20 SEC Docket 142; Securities Exchange Release No. 16861 (May 30, 1980), 20 SEC Docket 234; Securities Exchange Act Release No. 16996 (July 23, 1980), 20 SEC Docket 767.

[22]Securities Exchange Act Release No. 16863 (May 30, 1980), 20 SEC Docket 237.

[23]Securities Exchange Act Release No. 16892 (June 13, 1980), 20 SEC Docket 398.

[24]Securities Exchange Act Release No. 16979 (July 15, 1980), 20 SEC Docket 718.

[25]Securities Exchange Act Release No. 16801 (May 12, 1980), 20 SEC Docket 6.

[26]Securities Act Release No. 6248 (October 17, 1980), 21 SEC Docket 212.

[27]Securities Exchange Act Release No. 17138 (September 9, 1980), 20 SEC Docket 1377.

[28]Securities Exchange Act Release No. 16977 (July 10, 1980), 20 SEC Docket 640.

[29]Securities Exchange Act Release No. 16495 (January 15, 1980), 19 SEC Docket 332.

[30]Securities Exchange Act Release No. 17100 (September 5, 1980), 20 SEC Docket 1266.

[31]Securities Exchange Act Release No. 17111 (September 2, 1980), 20 SEC Docket 1277.

[32]15 U.S.C. §78aaa-78*lll*, *as amended* by the Securities Investor Protection Act Amendments of 1978, Pub. L. No. 95-283, 92 Stat. 249.

[33]Securities Exchange Act Release No. 16422 (December 12, 1979), 18 SEC Docket 1323.

[34]Securities Exchange Act Release No. 17085 (August 22, 1980), 20 SEC Docket 1033.

[35]Securities Exchange Act Release No. 16390 (November 31, 1979), 18 SEC Docket 1197; MSE, Securities Exchange Act Release No. 16503 (January 16, 1980), 19 SEC Docket 327; Amex, Securities Exchange Act Release No. 16502 (January 16, 1980), 19 SEC Docket 326; CSE, Securities Exchange Act Release No. 16472 (January 8, 1980), 19 SEC Docket 148; MSRB, Securities Exchange Act Release No. 16570 (February 13, 1980), 19 SEC Docket 573; CBOE, Securities Exchange Act Release No. 16606 (February 25, 1980), 19 SEC Docket 759; BSE, Securities Exchange Act Release No. 16671 (March 17, 1980), 19 SEC Docket 922; PSE, Securities Exchange Act Release No. 16767 (April 28, 1980), 19 SEC Docket 1297; NASD, Securities Exchange Act Release No. 16860 (May 30, 1980), 20 SEC Docket 233; and Phlx, Securities Exchange Act Release No. 16906 (June 19, 1980), 20 SEC Docket 437.

[36]Securities Exchange Act Release No. 17132 (September 8, 1980), 20 SEC Docket 1372.

[37]Securities Exchange Act Release No. 16650 (March 13, 1980), 19 SEC Docket 881.

[38]Securities Exchange Act Release No. 16970 (July 9, 1980), 20 SEC Docket 636.

[39]Securities Exchange Act Release No. 16722 (April 3, 1980),19 SEC Docket 1106.

[40]Securities Exchange Act Release No. 17038 (August 1, 1980), 20 SEC Docket 876.

[41]Securities Exchange Act Release No. 16781 (May 5, 1980), 19 SEC Docket 1372.

[42][1976–77] Fed. Sec. L. Rep. (CCH) ¶ 95,627 (S.D.N.Y. 1976).

[43]Securities Exchange Act Release No. 16959 (July 3, 1980), 20 SEC Docket 608.

[44]Securities Exchange Act Release No. 17129 (September 8, 1980), 20 SEC Docket 1371.

[45]Securities Exchange Act Release No. 16936 (June 26, 1980), 20 SEC Docket 513.

[46]Securities Exchange Act Release No. 16960 (July 7, 1980), 20 SEC Docket 615.

[47]Securities Exchange Act Release No. 16967 (July 8, 1980), 20 SEC Docket 627.

[48]Securities Exchange Act Release No. 16858 (May 30, 1980), 20 SEC Docket 225.

[49]Securities Exchange Act Release No. 16630 (March 6, 1980), 19 SEC Docket 816.

[50]Securities Exchange Act Release No. 16707 (March 28, 1980), 19 SEC Docket 1092, Securities Exchange Act Release No. 16844 (May 27, 1980), 20 SEC Docket 137.

[51]Securities Exchange Act Release No. 17150 (September 12, 1980), 20 SEC Docket 1518.

[52]Securities Exchange Act Release No. 17030 (July 31, 1980), 20 SEC Docket 851, 875.

[53]Securities Exchange Act Release No. 16735 (April 10, 1980), 19 SEC Docket 1164.

[54]Securities Exchange Act Release No. 16900 (June 17, 1980), 20 SEC Docket 415.

[55]Securities Exchange Act Release No. 16443 (December 20, 1979), 19 SEC Docket 8.

[56]SEC, *Final Report of the Securities and Exchange Commission on the Practice of Recording the Ownership of Securities in the Records of the Issuer in Other than the Name of the Beneficial Owner of Such Securities* (December 3, 1976).

[57]Securities Exchange Act Release No. 15838 (May 18, 1979), 17 SEC Docket 678.

[58]Securities Exchange Act Release No. 17258 (October 30, 1980), 21 SEC Docket 347.

[59]Securities Act Release No. 6231 (September 2, 1980), 20 SEC Docket 1059.

[60]Securities Act Release No. 6230 (August 27, 1980), 20 SEC Docket 1014.

[61]Securities Act Release No. 6234 (September 2, 1980), 20 SEC Docket 1156.

[62]Securities Act Release No. 6233 (September 2, 1980), 20 SEC Docket 1115.

[63]Securities Act Release No. 6232 (September 2, 1980), 20 SEC Docket 1092.

[64]Securities Act Release No. 6235 (September 2, 1980), 20 SEC Docket 1175.

[65]Securities Act Release No. 6236 (September 2, 1980), 20 SEC Docket 1226.

[66]Securities Act Release No. 6151 (November 19, 1979), 18 SEC Docket 984.

[67]Securities Act Release No. 6190 (February 22, 1980), 19 SEC Docket 747.

[68]Securities Act Release No. 6202 (April 2, 1980), 19 SEC Docket 1056.

[69]Securities Exchange Act Release No. 16371 (November 29, 1979), 18 SEC Docket 1118; Securities Exchange Act Release No. 16372 (November 29, 1979), 18 SEC Docket 1128; Securities Act Release No. 6156 (November 29, 1979), 18 SEC Docket 1050; and Securities Act Release No. 6157 (November 29, 1979), 18 SEC Docket 1052.

[70]Securities Act Release No. 6203 (April 2, 1980), 19 SEC Docket 1072.

[71]Securities Exchange Act Release No. 16806 (May 14, 1980), 20 SEC Docket 11.

[72]Securities Exchange Act Release No. 17080 (August 21, 1980), 20 SEC Docket 976.

[73]Securities Act Release No. 6188 (February 1, 1980), 19 SEC Docket 465.

[74]Securities Exchange Act Release No. 16833 (May 23, 1980), 20 SEC Docket 124.

[75]Securities Act Release No. 6240 (September 10, 1980), 20 SEC Docket 1358.

[76]Securities Exchange Act Release No. 13482 (April 28, 1977), 12 SEC Docket 239.

[77]Securities Act Release No. 6166 (December 12, 1979), 18 SEC Docket 1279; Securities Act Release No. 6027 (February 22, 1979), 16 SEC Docket 1138.

[78]Securities Act Release No. 6210 (May 6, 1980), 19 SEC Docket 1352.

[79]Securities Act Release No. 6261 (November 14, 1980), 21 SEC Docket 590.

[80]Securities Act Release No. 6163 (December 5, 1979), 18 SEC Docket 1188.

[81]Securities Act Release No. 6115 (August 30, 1979), 18 SEC Docket 220.

[82]Securities Act Release No. 6221 (July 8, 1980), 20 SEC Docket 600.

[83]Securities Act Release No. 6049 (April 3, 1979), 17 SEC Docket 153.

[84]Securities Act Release No. 6180 (January 17, 1980), 19 SEC Docket 295.

[85]Securities Act Release No. 6214 (June 19, 1980), 20 SEC Docket 390.

[86]Securities Exchange Act Release No. 16866 (June 2, 1980), 20 SEC Docket 241.

[87]Securities Act Release No. 6158 (November 29, 1979), 18 SEC Docket 1053.

[88]Securities Act Release No. 6159 (November 29, 1980), 18 SEC Docket 1092.

[89]Securities Act Release No. 6230 (September 4, 1980), 20 SEC Docket 1241.

[90]45th Annual Report at 26.

[91]*Report of the Subcommittee on Reports, Accounting and Management of the Committee on Governmental Affairs, United States Senate,* "Improving the Accountability of Publicly Owned Corporations and Their Auditors" (November 1977) at 17.

[92]45th Annual Report at 28.

[93]45th Annual Report at 30.

[94]Securities Act Release No. 6229 (August 25, 1980), 20 SEC Docket 1005.

[95]Securities Act Release No. 6243 (September 30, 1980), 21 SEC Docket 1.

[96]Investment Company Act Release No. 10891 (October 4, 1979), 18 SEC Docket 637.

[97]Investment Company Act Release No. 10890 (October 4, 1979), 18 SEC Docket 635.

[98]Investment Company Act Release No. 11053 (February 19, 1980), 19 SEC Docket 733.

[99]Investment Company Act Release No. 11005 (January 2, 1980), 19 SEC Docket 132.

[100]Investment Company Act Release No. 11086 (March 14, 1980), 19 SEC Docket 953.

[101]Investment Company Act Release No. 10937 (November 13, 1979), 18 SEC Docket 948.

[102]Investment Company Act Release No.

10943 (November 16, 1979), 18 SEC Docket 1024.

[103]Investment Company Act Release No. 10944 (November 16, 1979), 18 SEC Docket 1027.

[104]Investment Company Act Release No. 10938 (November 13, 1979), 18 SEC Docket 957.

[105]Investment Company Act Release No. 11136 (April 21, 1980), 19 SEC Docket 1268.

[106]Investment Company Act Release No. 11193 (June 2, 1980), 20 SEC Docket 274.

[107]Investment Company Act Release No. 11414 (October 28, 1980), 21 SEC Docket 324.

[108]Investment Company Act Release No. 11421 (October 31, 1980), 21 SEC Docket 488.

[109]Investment Company Act Release No. 11391 (October 10, 1980), 21 SEC Docket 183.

[110]Investment Company Act Release No. 8959 (September 26, 1975), 7 SEC Docket 1002.

[111]SEC v. Alexander Kasser, Civ. Act. No. 74-90 (D.C.N.J. 1974). Litigation Release No. 9167 (August 28, 1980), 20 SEC Docket 1352.

[112]SEC v. Ian T. Allison, et al., Civ. Act. No. 80-899 PHX-EHC (Ariz. September 29, 1980), 21 SEC Docket 61.

[113]Id.

[114]SEC v. Jack M. Catain, Jr., et al., Civ. Act. No. 80-02947 (C.D. Cal. January 3, 1979).

[115]Id.

[116]SEC v. Continental Advisers, et al., Civ. Act. No. 78-0066 (D.D.C. January 16, 1978), Litigation Release No. 9204 (October 16, 1980), 21 SEC Docket 208.

[117]45th Annual Report at 44, 46.

[118]SEC v. Lerner, David, Littenberg & Samuel, et al., Civ. Act. No. 80-0845 (D.D.C.), Litigation Release No. 9094 (April 2, 1980), 19 SEC Docket 1153.

[119]Litigation Release No. 9049 (April 2, 1980), 19 SEC Docket 1153.

[120]SEC v. National Kinney Corp., Civ. Act. No. 80-3683 (S.D.N.Y.), Litigation Release No. 9118 (June 30, 1980), 20 SEC Docket 595.

[121]SEC v. David H. Hall, Civ. Act. No. 80-0504, (D.D.C.), Litigation Release No. 9013 (February 22, 1980), 19 SEC Docket 788.

[122]SEC v. Samuel E. Wyly, Raymond E. Shea and Eldon Vaughan, Civ. Act. No. 79-3275 (D.D.C.), Litigation Release No. 8943 (December 6, 1979), 18 SEC Docket 1272.

[123]44th Annual Report at 32; 45th Annual Report at 45.

[124]Wellman v. Dielcesson [current] CCH Fed. Sec. L. Rep. ¶97,604 (S.D.N.Y. 1980).

[125]SEC v. Eurrell V. Potts, et al., Civ. Act. No. 80-0900 (D.D.C.), Litigation Release No. 9057 (April 9, 1980), 19 SEC Docket 1200.

[126]Securities Exchange Act Release No. 16728 (April 9, 1980), 19 SEC Docket 1162.

[127]Securities Exchange Act Release No. 16950 (July 2, 1980), 20 SEC Docket 567.

[128]Securities Exchange Act Release No. 16938 (June 27, 1980), 20 SEC Docket 559.

[129]SEC v. Textron, Civ. Act. No. 80-0326 (D.D.C. January 31, 1980), Litigation Release No. 8993 (January 31, 1980), 19 SEC Docket 463.

[130]Civ. Act. No. 79-1760 (D.D.C. July 9, 1979), Litigation Release No. 8815 (July 9 1979), 17 SEC Docket 1302.

[131]SEC 1979 Annual Report at 41.

[132]45th Annual Report at 43-44.

[133]SEC v. G. Weeks Securities, Inc., Civ. Act. No. 79-2711 (W.D. Tenn.), Litigation Release No. 9000 (February 12, 1980), 19 SEC Docket 611.

[134]SEC v. Harwell, Civ. Act. No. H-78-1916 (S.D. Tex. October 5, 1978), Litigation Release No. 8559 (October 5, 1978), 15 SEC Docket 1341.

[135]45th Annual Report at 42.

[136]Securities Exchange Act Release No. 16554 (February 1, 1980), 19 SEC Docket 501.

[137]SEC v. Jack M. Catain, Jr. and Rusco Industries, Inc., Civ. Act. No. 80-02947 (C.D. Cal.), Litigation Release No. 9129 (July 8, 1980), 20 SEC Docket 683.

[138]SEC v. General Resources Corporation, et al., Civ. Act. No. 79-2026A (U.S. Assit. Ct., N.D. Ga., filed October 31, 1979), Litigation Release No. 8934 (November 27, 1979), 18 SEC Docket 1183.

[139]SEC v. Investment Information, Inc., et

al., Civ. Act. No. 80-0701 (D.C. filed March 19, 1980), Litigation Release No. 9039 (March 19, 1980), 19 SEC Docket 972.

[140]SEC v. Irving Cohen, et al., C.A. No. 80-0853 (D.D.C. April 2, 1980), Litigation Release No. 9050 (April 2, 1980), 19 SEC Docket 1154.

[141]SEC v. Edward G. Heller, et al., Civ. Act. No. 80-2608 (D.D.C. October 14, 1980).

[142]SEC v. Gerald L. Rogers, et al., Civ. Act. No. 80-04841 (C.D. Cal. October 29, 1980), Litigation Release No. 9224 (October 30, 1980), 21 SEC Docket 411.

[143]SEC v. Stewart Energy Systems of Idaho, Inc., A Lamont Nibarger, et al., Civ. Act. No. 79-372 (E.D. Wa. October 23, 1979), Litigation Release No. 8900 (October 23, 1979), 18 SEC Docket 796.

[144]SEC v. Stewart Energy Systems of Idaho, Inc., et al., Civ. Act. No. C79-372 (E.D. Wash. June 3, 1980), Litigation Release No. 9119 (July 1, 1980), 20 SEC Docket 596.

[145]SEC v. Cal-AM Corp., et al., Civ. Act. No. 77-4586-AAH (C.D. Cal.), Litigation Release No. 9158 (August 11, 1980), 20 SEC Docket 963. See also Litigation Release Nos. 8521, 8602, 8216.

[146]See Litigation Release No. 8602.

[147]SEC v. The International Mining Exchange, Inc., et al., Civ. Act. No. 80-1198 (D.C. Col.), Litigation Release No. 9181 (September 17, 1980), 20 SEC Docket 1546.

[148]SEC v. Murphy, Civ. Act. No. 76-2299 and 78-3300 (9th Cir., 1980) Fed. Sec. L. Rep. (CCH) ¶97,588 (Current).

[149]SEC v. Alexander Kasser, Civ. Act. No. 74-90, (D.C.N.J.), Litigation Release No. 9167 (August 28, 1980), 20 SEC Docket 1352.

[150]SEC v. Philip R. Cohn and David E. Lyon, Civ. Act. No. 80-0052F (D.C. Mass.), Litigation Release Nos. 9042 (March 20, 1980), 19 SEC Docket 975; 9066 (April 22, 1980), 19 SEC Docket 1287.

[151]SEC v. The Fundpack, Inc., et al., Civ. Act. No. 79-0859 (D.D.C.) Litigation Release No. 8698 (March 22, 1979), 17 SEC Docket 72.

[152]Litigation Release No. 8838 (August 13, 1979), 18 SEC Docket 147.

[153]Litigation Release No. 8880 (October 1, 1979), 18 SEC Docket 602.

[154]Litigation Release No. 8949 (December 13, 1979), 18 SEC Docket 1366.

[155]Litigation Release No. 9026 (March 5, 1980), 19 SEC Docket 847.

[156]Litigation Release No. 9155 (August 6, 1980), 20 SEC Docket 912.

[157]SEC v. First Independent Stock Transfer Agent, Inc. and Terry E. Kirchner, Civ. Act. No. 80-177-1026 (U.S.D.C. Colo. August 4, 1980), Litigation Release No. 9157 (August 11, 1980), 20 SEC Docket 963.

[158]Securities Exchange Act Release No. 16343 (November 15, 1979), 18 SEC Docket 927.

[159]Securities Exchange Act Release No. 16668 (March 17, 1980), 19 SEC Docket 921.

[160]Securities Exchange Act Release No. 17183 (October 1, 1980), 21 SEC Docket 22.

[161]SEC v. Ian T. Allison, et al., Civ. Act. No. 80-2465 (D.D.C.), Litigation Release No. 9188 (September 29, 1980), 21 SEC Docket 61.

Appendix

Appendix

THE SECURITIES INDUSTRY

Income, Expenses and Selected Balance Sheet Items

Registered broker-dealers reported total revenues of $14.6 billion in 1979, 30 percent above the level of 1978. Securities commission income increased 8 percent in 1979 and represented 33 percent of total revenues. Trading profits rose 60 percent in 1979 and comprised 22 percent of aggregate revenues. Underwriting revenues remained virtually unchanged from the level of the previous year, while accounting for 6 percent of total revenues in 1979.

Pre-tax income increased by $1.1 billion or 168 percent in 1979 due to the more rapid growth of revenues relative to expenses. Ownership equity at the end of 1979 was $6,359 million, reflecting an increase of $570 million or 10 percent during the year.

Table 1
FINANCIAL INFORMATION FOR BROKER-DEALERS
1975-1979
(Millions of Dollars)

	1975	1976	1977	1978[R]	1979[P]
A *Revenues*					
1 Securities Commissions	$ 3,378	$ 3,657	$ 3,334	$ 4,480	$ 4,825
2 Gain (Loss) in Trading	1,202	1,828	1,691	1,993	3,183
3 Gain (Loss) in Investments	132	269	353	391	742
4 Profit (Loss) From Underwriting and Selling Groups	930	1,035	991	949	943
5 Revenue from Sale of Investment Company Securities	140	165	161	162	197
6 All Other Revenues	1,591	1,961	2,401	3,222	4,662
7 Total Revenues	$ 7,373	$ 8,915	$ 8,931	$ 11,197	$ 14,552
B *Expenses*					
8. All Employee Compensation and Benefits (Except Registered Representatives' Compensation)	$ 1,413	$ 1,664	$ 1,769	$ 2,143	$ 2,493
9 Commissions and Clearance Paid to Other Brokers	524	535	585	793	868
10 Interest Expenses	668	900	1,246	1,964	3,060
11 Regulatory Fees and Expenses	76	81	69	72	76
12 Compensation to Partners and Voting Stockholder Officers	488	572	553	608	679
13 All Other Expenses (Including Registered Representatives' Compensation	3,084	3,658	4,118	4,980	5,668
14 Total Expenses	$ 6,253	$ 7,410	$ 8,340	$ 10,560	$ 12,844
15 Pre-Tax Income	$ 1,120	$ 1,505	$ 591	$ 637	$ 1,707
C *Assets, Liabilities and Capital*					
16 Total Assets	$31,851	$48,983	$54,670	$66,470	$87,544
17 Liabilities					
a Total liabilities (excluding subordinated debt)	26,352	42,842	48,794	59,500	79,914
b. Subordinated debt	836	858	948	1,181	1,271
c Total liabilities (17a + 17b)	$27,188	$43,700	$49,743	$60,681	$81,185
18 Ownership Equity	$ 4,663	$ 5,283	$ 4,927	$ 5,789	$ 6,359
19 Total Liabilities and Ownership Equity	$31,851	$48,983	$54,670	$66,470	$87,544
Number of Firms	4,079	4,315	4,484	4,998	4,876

R = Revised
P = Preliminary

Sources FORM X-17A-10 and FOCUS Reports
Directorate of Economic and Policy Analysis
Securities and Exchange Commission

Historical Financial Information Of Broker-Dealers With Securities Related Revenues of $500,000 Or More

Aggregate revenues of broker-dealers having securities-related revenues of $500,000 or more increased 20 percent in 1979 on a 15 percent rise in share volume. While trading profits increased, commission revenues and underwriting revenues declined slightly from 1978. Investment profits, commodity revenue and revenue from all other sources each rose relative to the previous year. Pre-tax income increased 56 percent.

Firms that reported securities-related revenue of $500,000 or more comprised 21 percent of all firms, held approximately 86 percent of the industry's assets and reported 83 percent of all revenue in 1979. Balance sheet data for the most recent three years are not comparable with earlier years because of changes made in the broker-dealer reporting system.

Table 2

HISTORICAL CONSOLIDATED REVENUE AND EXPENSES OF BROKER-DEALERS WITH SECURITIES RELATED REVENUE OF $500,000 OR MORE

(Millions of Dollars)

	1970	1971	1972	1973	1974	1975	1976	1977	1978[R]	1979[P]
Revenues										
1 Securities Commissions	$2,267	$3,287	$3,404	$2,816	$2,438	$3, 220	$3,516	$2,984	$3,964	$3,852
2 Gain (Loss) on Firm Securities Trading and Investment Accounts										
a Gain (loss) in trading	824	1,056	994	590	722	1,143	1,757	1,512	1,773	2,728
b Gain (loss) in investments	75	243	209	−3	55	131	253	326	356	693
c Total gain (loss)	898	1,299	1,203	587	777	1,274	2,010	1,838	2,129	3,421
3 Profit (loss) from Underwriting and Selling Groups	601	957	914	494	496	914	1,021	929	838	800
4 Revenue from Sale of Investment Company Securities	184	196	151	149	79	120	146	138	138	159
5 Fees for Account Supervision, Investment Advisory and Administrative Services	64	82	99	83	85	156	207	176	232	246
6 Commodity Revenue	88	98	125	178	168	187	236	266	346	366
7 All Other Revenues	645	664	833	943	1,022	1,142	1,441	1,901	2,476	3,271
8 Total Revenues	$4,747	$6,583	$6,729	$5,250	$5,065	$7,013	$8,577	$8,232	$10,123	$12,115
Expenses										
9 All Employee Compensation and Benefits (Except Registered Representatives' Compensation)	$1,086	$1,300	$1,392	$1,184	$1,097	$1,376	$1,668	$1,593	$1,925	$2,014
10 Commissions Paid to Other Brokers[1]	128	182	186	188	151	209	168	530	707	620
11 Interest Expense	540	520	634	796	750	582	839	1,149	1,787	2,675
12 All Other Expenses (Including Registered Representatives' Compensation	2,259	2,960	3,153	2,703	2,657	3,796	4,487	4,274	4,762	5,332
13 Total Expenses	$4,013	$4,962	$5,365	$4,871	$4,655	$5,963	$7,162	$7,546	$9,181	$10,641
Pre-Tax Income										
14 Pre-Tax Income	$ 734	$1,621	$1,365	$ 378	$ 410	$1,050	$1,415	$ 686	$ 942	$1,474
Number of Firms	655	788	817	652	609	764	930	857	962	1,018

[1] Includes clearance paid to others beginning in 1977

R = Revised

P = Preliminary

Sources Form X-17A-10 and FOCUS Reports
Directorate of Economic and Policy Analysis
Securities and Exchange Commission

Table 3
HISTORICAL BALANCE SHEET FOR BROKER-DEALERS WITH SECURITIES RELATED REVENUE OF $500,000 OR MORE

(Millions of Dollars)

	1970	1971	1972	1973	1974	1975	1976	1977[1]	1978[R]	1979[P]
A *Assets*										
1 Cash, clearing funds and Other deposits	$ 1,162	$ 1,221	$ 1,281	$ 1,139	$ 940	$ 925	$ 1,135	$ 979	$ 1,108	$ 1,569
2. Receivables from other broker-dealers and non-customers	3,382	3,547	4,314	3,270	3,014	3,883	5,399	5,364	6,131	7,757
3. Receivables from customers	7,077	9,644	13,373	9,056	7,450	8,464	12,804	13,728	15,431	14,394
4. Market value or fair value of long positions in securities and commodities	10,261	11,667	11,870	9,722	10,789	12,901	21,392	28,521	33,036	47,451
5 Exchange memberships at market value	210	200	208	123	101	118	142	117	121	163
6. Other assets	1,392	1,646	1,704	1,879	1,493	4,535	7,203	3,038	3,488	4,217
7. Total assets	$23,484	$27,925	$32,750	$25,189	$23,787	$30,826	$48,075	$51,747	$59,315	$75,551
B. *Liabilities*										
8 Money borrowed	$ 8,994	$11,286	$14,398	$ 9,878	$10,421	$ 9,488	$11,802	$26,503	$27,565	$33,945
9. Payables to other broker-dealers and non-customers	3,740	3,749	4,370	2,936	2,919	3,568	4,785	5,460	5,481	6,843
10. Payables to customers	4,242	4,736	5,228	4,978	3,986	4,696	6,174	5,158	7,691	8,250
11. Short positions in securities and commodities	707	907	1,525	1,158	1,038	1,165	2,555	4,834	7,097	14,310
12. Subordinated borrowings	641	728	774	642	594	767	799	840	973	1,007
13. Other liabilities	2,343	2,859	2,505	2,550	2,099	7,203	17,178	4,837	5,849	6,005
14. Total liabilities	20,667	24,264	28,802	22,142	21,056	26,887	43,293	47,632	54,656	70,360
C. *Ownership Equity*										
15. Ownership equity	2,818	3,661	3,948	3,047	2,731	3,939	4,782	4,115	4,659	5,191
16 Total liabilities and capital	$23,484	$27,925	$32,750	$25,189	$23,787	$30,826	$48,075	$51,747	$59,315	$75,551
Number of Firms	655	788	817	652	609	770	932	857	962	1,018

R = Revised
P = Preliminary
[1] The balance sheet for 1977 is not comparable with previous years' data because of changes in the reporting form
Sources Form X-17A-10 and FOCUS Reports
Directorate of Economic and Policy Analysis
Securities and Exchange Commission

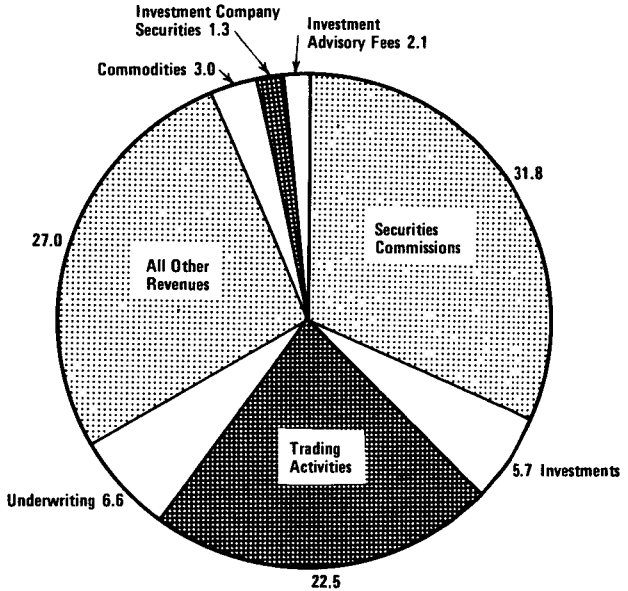
Securities Industry Dollar: 1979

Securities commissons accounted for 31.8 cents of each dollar produced by the securities industry. Trading gains and underwriting profits contributed 22.5 cents and 6.6 cents, respectively. These three sources combined accounted for 60.9 cents of each revenue dollar, a decline of 6 percent from the 1978 figure of 65.0 cents. All other revenues—a new category comprised of margin interest, other revenue related to the securities business and revenue from all other sources—represented 27.0 cents of the total revenue dollar, an increase of 10 percent over the 1978 figure of 24.5 cents.

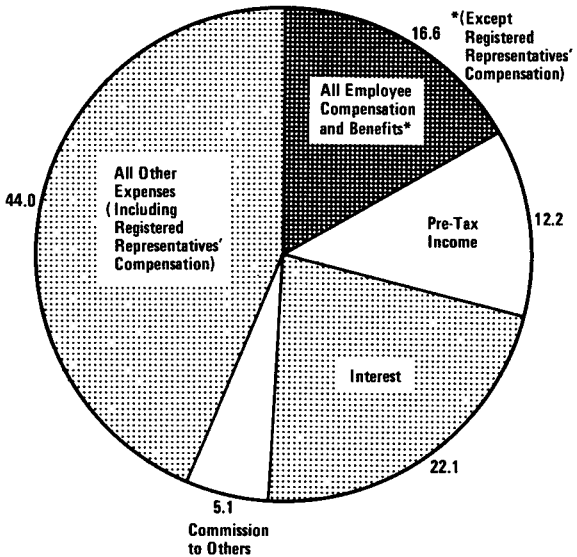
Total expenses amounted to 87.8 cents of each revenue dollar, a decrease of 3 percent from 1978, as the industry's pre-tax profit margin increased 31 percent from 9.3 cents per revenue dollar to 12.2 cents. All employee compensation and benefits (except registered representatives' compensation) accounted for 16.6 cents of each revenue dollar; interest expense amounted to 22.1 cents; and all other expenses, a new classification, consumed 44.0 cents. The all other expenses category includes registered representatives' compensation and expenses for communications, data processing, occupancy, advertising and miscellaneous items. Registered representatives' compensation could not be reported separately for the securities industry as a whole because firms filing Part IIA of the FOCUS Report are required to include registered representatives' compensation in the "all other expenses" category.

Securities Industry Dollar: 1979

SOURCES OF REVENUE



EXPENSES AND PRE-TAX INCOME



NOTE. Includes information for firms with securities related revenues of $500,000 or more in 1979

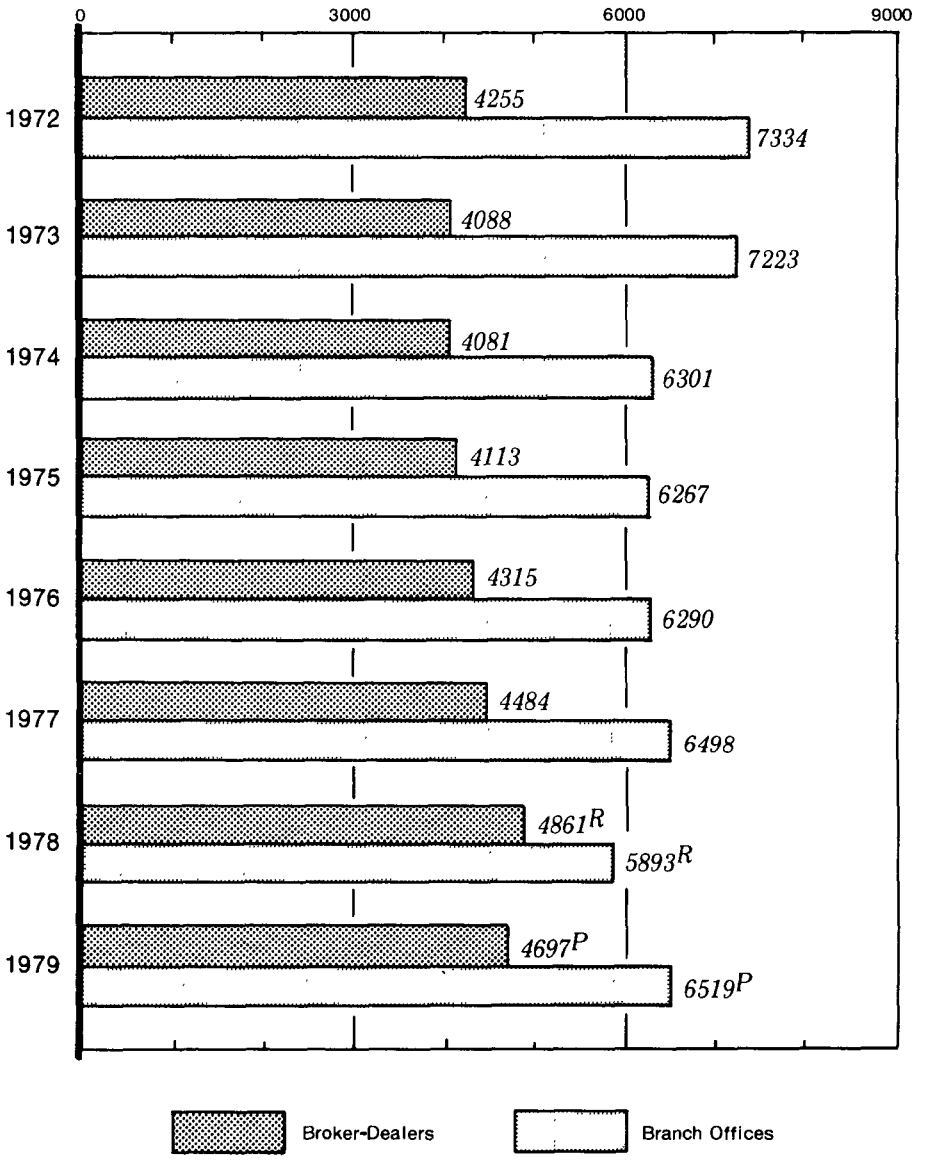
SOURCE X-17A-5 FOCUS REPORTS

Broker-Dealers, Branch Offices, Employees

The number of broker-dealers decreased from 4,816 in 1978 to 4,697 in 1979. During the same period, the number of branch offices increased from 5,893 to 6,519.

At the end of 1979, 47,157 full-time registered representatives were associated with members of the New York Stock Exchange ("NYSE") and 67,683 full-time registered representatives were employed in the securities industry. The total of full-time personnel employed in the securities business in 1979 was 165,948, an increase of 3 percent from 161,216 in 1978. NYSE member firms accounted for 78 percent of the industry's full-time employees.

Broker-Dealers and Branch Offices



P=Preliminary *R=Revised*

SOURCE: FORM X-17A-10 AND FOCUS REPORTS

Table 4

BROKERS AND DEALERS REGISTERED UNDER THE SECURITIES ACT OF 1934— EFFECTIVE REGISTRANTS AS OF SEPTEMBER 30, 1980 CLASSIFIED BY TYPE OF ORGANIZATION AND BY LOCATION OF PRINCIPAL OFFICE

	Number of Registrants				Number of Proprietors Partners, Officers, Etc.[1,2]			
	Total	Sole Proprietorships	Partnerships	Corporations	Total	Sole Proprietorships	Partnerships	Corporations
Alabama	25	2	0	23	131	2	0	129
Alaska	0	0	0	0	0	0	0	0
Arizona	26	3	2	21	91	3	7	81
Arkansas	22	2	0	20	87	2	0	85
California	591	173	61	357	2,603	173	274	2,156
Colorado	80	2	4	74	412	2	60	350
Connecticut	76	9	10	57	386	9	53	324
Delaware	12	3	0	9	37	3	0	34
District of Columbia	33	1	5	27	274	1	25	248
Florida	175	12	12	151	572	12	33	527
Georgia	58	3	3	52	334	3	7	324
Hawaii	17	1	1	15	80	1	2	77
Idaho	9	2	0	7	27	2	0	25
Illinois	2,039	1,445	177	417	3,788	1,446	833	1,509
Indiana	47	5	1	41	255	5	2	248
Iowa	33	3	1	29	170	3	2	165
Kansas	28	1	2	25	150	1	9	140
Kentucky	10	1	0	9	63	1	0	62
Louisiana	25	5	4	16	180	5	16	159
Maine	10	0	3	7	45	0	19	26
Maryland	46	5	3	38	270	4	70	196
Massachusetts	166	28	15	123	1,034	28	96	910
Michigan	66	8	4	54	392	8	105	279
Minnesota	79	1	0	78	617	1	0	616
Mississippi	19	0	3	16	80	0	7	73
Missouri	64	2	4	58	679	2	107	570
Montana	3	0	0	3	22	0	0	22
Nebraska	14	0	0	14	121	0	0	121
Nevada	3	1	1	1	6	1	2	3
New Hampshire	7	1	0	6	19	1	0	18
New Jersey	203	33	22	148	738	33	60	645
New Mexico	6	1	0	5	24	1	0	23
New York (excluding NY City)	288	82	25	181	1,092	82	195	815
North Carolina	31	4	0	27	137	4	0	133
North Dakota	4	0	0	4	16	0	0	16
Ohio	84	4	11	69	556	4	178	374
Oklahoma	34	4	0	30	153	4	0	149
Oregon	29	1	0	28	118	1	0	117
Pennsylvania	232	25	51	156	1,140	25	201	914
Rhode Island	18	5	3	10	45	5	10	30
South Carolina	8	2	1	5	19	2	2	15
South Dakota	2	0	0	2	14	0	0	14
Tennessee	46	2	2	42	313	2	29	282
Texas	177	16	7	154	1,094	16	31	1,047
Utah	31	3	2	26	133	3	7	123
Vermont	4	1	1	2	21	1	2	18
Virginia	30	4	4	22	288	4	15	269
Washington	64	5	1	58	325	5	6	314
West Virginia	7	2	0	5	21	2	0	19
Wisconsin	47	8	0	39	404	8	0	396
Wyoming	6	1	0	5	22	1	0	21
Total (excluding NY City)	5,134	1,922	446	2,766	19,598	1,922	2,465	15,211
New York City	1,596	610	265	721	8,408	610	1,958	5,840
Subtotal	6,730	2,532	711	3,487	28,006	2,532	4,423	21,051
Foreign	21	0	2	19	141	0	9	132
Grand Total	6,751	2,532	713	3,506	28,147	2,532	4,432	21.183

[1] Includes directors, officers, trustees and all other persons occupying similar status or performing similar functions.
[2] Allocations made on the basis of location of principal offices of registrants, not actual locations of persons.
[3] Includes all forms of organizations other than sole proprietorships and partnerships.
[4] Registrants whose principal offices are located in foreign countries or other jurisdictions not listed

Table 5
PRINCIPAL BUSINESS OF SECO BROKER-DEALERS

	Fiscal year-end		
	1978	*1979*	*1980*
Exchange member primarily engaged in exchange commission business	25	6	1
Exchange member primarily engaged in floor activities	18	8	5
Broker or dealer in general securities business	65	33	41
Mutual fund underwriter	11	7	8
Mutual fund distributor	4	2	2
Broker or dealer selling variable annuity contracts	12	8	9
Solicitor of savings and loan accounts	6	5	4
Real estate syndicator and mortgage broker and banker	35	32	32
Real estate condominium interests	5	1	3
Limited partnership interests	25	71	89
Broker or dealer selling oil and gas interests	20	19	27
Put and call broker or dealer or option writer (non-exchange options)	5	4	8
Broker or dealer selling securities of only one issuer or associated issuers (other than mutual funds)	23	33	27
Broker or dealer selling church securities	11	9	10
Government bond dealer (other than municipal)	3	0	1
Broker or dealer in municipal bonds	5	4	6
Broker or dealer in other securities business	28	38	42
No securities business	25	25	28
Totals	326*	305**	353***

* Based on data provided by 326 of the 346 broker-dealers
** Based on data p rovided by 305 of the 387 broker-dealers.
*** Based on data provided by 353 of the 400 broker-dealers.

Table 6

APPLICATIONS AND REGISTRATIONS OF BROKERS AND DEALERS AND INVESTMENT ADVISERS

Fiscal Year 1980

BROKER-DEALER APPLICATIONS		
Applications pending at close of preceding year		891
Applications received during fiscal 1980		1,522
Total applications for disposition		2,413
Disposition of Applications		
Accepted for filing	1,120	
Returned	360	
Withdrawn	0	
Denied	0	
Total applications disposed of		1,480
Applications pending as of September 30, 1980		933
BROKER-DEALER REGISTRATIONS		
Effective registrations at close of preceding year		6,246
Registrations effective during fiscal 1980		1,118
Total registrations		7,364
Registrations terminated during fiscal 1980		
Withdrawn	555	
Revoked	0	
Cancelled	58	
Total registrations terminated		613
Total registration at end of fiscal year 1980		6,751
INVESTMENT ADVISER APPICATIONS		
Applications pending at close of preceding year		1,049
Applications received during fiscal 1980		938
Total applications for disposition		1,987
Disposition of applications		
Accepted for filing	654	
Returned	252	
Withdrawn	0	
Denied	0	
Total applications disposed of		906
Applications pending as of September 30, 1980		1,081
INVESTMENT ADVISER REGISTRATIONS		
Effective registrations at close of preceding year		5,664
Registrations effective during fiscal 1980		641
Total registrations		6,305
Registrations terminated during fiscal 1980		
Withdrawn	610	
Revoked	2	
Cancelled	13	
Total registrations terminated		625
Total registrations at end of fiscal 1980		5,680

Table 7

APPLICATIONS AND REGISTRATIONS OF MUNICIPAL SECURITIES DEALERS AND TRANSFER AGENTS

Fiscal Year 1980

MUNICIPAL SECURITIES DEALERS APPLICATIONS		
Applications pending at close of preceding year		21
Applications received during fiscal 1980		6
Total applications for disposition		27
Disposition of Applications		
Accepted for filing	4	
Returned	0	
Withdrawn	0	
Denied	0	
Total applications disposed of		4
Applications pending as of September 30, 1980		23
MUNICIPAL SECURITIES DEALERS REGISTRATIONS		
Effective registrations at close of preceding year		346
Registrations effective during fiscal 1980		4
Total registrations		350
Registrations terminated during fiscal 1980		
Withdrawn	0	
Cancelled	0	
Suspended	0	
Total registrations terminated		0
Total registrations at end of fiscal 1980		350
TRANSFER AGENTS APPLICATIONS		
Applications pending at close of preceding year		18
Applications received during fiscal 1980		56
Total applications for disposition		74
Disposition of applications		
Accepted for filing	44	
Returned	7	
Withdrawn	0	
Denied	0	
Total applications disposed of		51
Applications pending as of September 30, 1980		23
TRANSFER AGENTS REGISTRATIONS		
Effective registrations at close of preceding year		891
Registrations effective during fiscal 1980		44
Total registrations		935
Registrations terminated during fiscal 1980		
Withdrawn	0	
Cancelled	0	
Suspended	0	
Total registrations terminated		0
Total registrations at end of fiscal 1980		935

Self-Regulatory Organizations: Revenues, Expenses and Balance Sheet Structure

In 1979, revenues of self-regulatory organizations ("SROs") amounted to $247.2 million—an increase of 12 percent from the level obtained in 1978. Total expenses increased by 17 percent, from $192.6 million to $225.6 million. Thus, pre-tax income declined from $27.4 million in 1978 to $21.6 million in 1979.

Total share volume traded on the nation's stock exchanges continued to rise in 1979, although the rate of increase was less than that of 1978. Revenues generated from volume-related activities are an important component of SRO revenues. Commission fees and transaction revenues, for example, increased from $52.1 million in 1978 to $57.7 million in 1979 while communication fees rose by 15 percent and totaled $32.6 million in 1979. SRO aggregate revenues from listing fees increased by nine percent to $47.1 million in 1979 from $43.1 million in 1978. The largest increase in revenues occurred in the "other" revenue category which increased by 25 percent and aggregated $47.5 million in 1979. This primarily consists of income from interest and/or investments.

The individual organizations are quite different in their dependence on particular sources of revenues. The distribution of revenues among SROs is set forth in the accompanying tables.

Employee costs continued to represent the largest component of expenses for SROs in 1979. These costs, which increased by 18 percent to $102.4 million during the year, accounted for almost 50 percent of the SROs' total expenses. Communication, data processing and collection costs totaled $56.1 million in 1979, an increase of 16 percent. The largest increase in expenses was professional and legal services which rose by 31 percent and totaled $11.2 million in 1979.

During the period 1975-1979, financial decisions of major self-regulatory organizations were influenced by at least two developments: (1) the evolution of the National Market System; and (2) increases in costs associated with capital expenditures. In an effort to combat escalating overhead expenses, some SROs stepped up investments in automated transaction systems and others reduced costs through joint ownership of clearing facilities. In situations where capital reserves for new investment were limited, innovative money management techniques were introduced to improve or maintain desired asset levels.

The NYSE, with assets in excess of $125 million (or, one-third of aggregate SRO assets), has the largest SRO asset base. The NYSE is followed by the MSE ($74.6 million), and the NASD ($44.4 million). Although two line items (property/equipment and short-term investments) each accounted for more than 35 percent of NYSE assets, a single line item (investment securities) accounted for 59 percent of NASD asssets. The difference in asset distribution between the NYSE and the NASD is principally attributable to the type of market served. For example, in the case of the NYSE, an "auction" market, members of the exchange meet in a geographically centralized location (the Exchange) to effect transactions. Relatively large fixed overhead costs (e.g., property/equipment) are generally associated with this type of market. In contrast, the nature of the "dealer" market, as serviced by NASDAQ, is such that large, fixed cost outlays for business-related property are unnecessary. The chief component of the liabilities portion of the major self-regulatory organizations' balance sheets is accounts payable.

At year-end 1979, net worth (or,

member's equity) for all SROs totalled $190.7 million. The NYSE, with $87 million, accounted for approximately 46 percent of this figure. Although individual SROs experienced large percentage increases in net worth over the five year period, the net worth of all SROs as a group increased by 48 percent.

The MSRB income of $744,712 during fiscal 1980 was derived primarily from three fees established by rules adopted under authority granted in the Exchange Act. Municipal securities brokers and municipal securities dealers are assessed (1) an initial fee of $100, (2) an underwriting assessment fee equal to .001% of the face value of all municipal securities they purchase from an issuer as part of a new issue which has a final stated maturity date of not less than two years from the date of the securities and which has an aggregate par value of $1,000,000 or more,[1] and (3) an annual fee of $100 which, as of October 1, 1979, is due by February 15 of the fiscal year for which the fee is paid.[2] The underwriting assessment fees accounted for 65% of the MSRB income during fiscal 1980. The balance of MSRB income was from other fees and interest income.

During fiscal 1980, the MSRB had total expenses of $1,096,186. The major expense items were staff salaries and employee benefits, including contribution to an employee retirement plan (38 percent); meetings and travel (31 percent); and mailing list, rule manual, postage and other printing (16 percent). Expenses exceeded income by $351,474. As of September 30, 1980, the MSRB had a surplus of $281,349.

1979 clearing agency revenues from clearing services decreased by $10.1 million while revenues from depository services increased by $8.6 million and revenues from interest and other sources increased by $6 million. Thus, aggregate clearing agency revenues increased by $4.5 million in 1979 to approximately $123 million. This increase is net of refunds by some clearing agencies of fee revenues which exceeded their current needs. National Securities Clearing Corporation's ("NSCC's") 1979 refund of $17 million, however, was exceptional and accounts for the 1979 decrease in aggregate clearing revenues. NSCC's refund in 1978 was $2 million when its fee revenues were the largest of all registered clearing agencies. Its substantial 1979 refund was due principally to cost reductions of $9.5 million and to a $2 million reduction in its rate of pre-tax earnings retention.

Aggregate clearing agency expenses increased by $6 million in 1979 to approximately $118 million. NSCC cost reductions of $9.5 million discussed *supra* resulted principally from a $8.9 million reduction in operating costs through a consolidation of its facilities management arrangements.

1979 was a relatively stable year with changes in aggregate clearing agency revenues and expenses approximately offsetting each year.

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[1] From November 1, 1977, to December 31, 1979, this fee was equal to .001% of all sales regardless of aggregate par value. Since December 31, 1979, the assessment changed to .001% of all sales with an aggregate par value of $1,000,000 or more. Effective October 1, 1980, the rate was changed to .003%.

[2] In prior years, the annual fee could be offset by payment within the calendar year of underwriting assessment fees. Effective November 29, 1979, the annual fee could no longer be offset. The result was a substantial increase in revenue from annual fees.

Table 8
ASSETS, LIABILITIES AND NET WORTH OF SELF-REGULATORY ORGANIZATIONS
1975–1979

(Thousands of Dollars)

	ASE	BSE	CBOE	CSE	ISE[1]	MSE[2]	NASD[3]	NYSE	PSE	PHLX	SSE	Total
Total Assets												
1975	20,062	4,215	20,060	218	36	76,209	34,037	252,567	4,536r	28,779	11	440,730r
1976	22,554	8,608	21,991	374	39	63,871r	39,997p	404,203	5,330r	23,112	11	590,090p
1977	26,996	10,627	23,331	383	39	53,149r	31,195p	107,465	5,493r	30,514	10	289,202p
1978	30,084	9,413	25,605	320r	43	76,192r	38,214p	124,674	7,607r	34,627	12	346,791p
1979	31,855	19,503	25,294	450	37	74,560	44,402p	125,089	19,279p	35,395	16	375,880p
Total Liabilities												
1975	2,487	2,356	1,450	40	1	67,556	23,444	185,108	2,741	26,334	—	311,517
1976	3,591	6,950	2,328	256	2	56,465	26,696p	331,736	2,195	20,363	—	450,582p
1977	5,729	6,424	1,632	124	1	47,636	15,506p	30,540	2,238	27,814	—	137,645p
1978	7,234	7,368	2,331	57	2	69,849	13,534p	41,568	4,189	31,196	1	177,329p
1979	7,710	17,352	1,504	222	6	67,007	9,081p	38,074	13,262p	30,923	1	185,140p
Net Worth												
1975	17,575	1,859	18,610	178	35	8,653	10,593	67,459	1,795	2,445	11	129,213r
1976	18,963	1,658	19,663	118	37	7,406r	13,301p	72,467	3,135	2,749	11	139,508p
1977	21,267	4,203	21,699	259	38	5,513r	15,689p	76,925	3,255	2,700	9	151,557p
1978	22,850	2,045	23,274	263r	41	6,343r	24,680p	83,106	3,418	3,431	11	169,462p
1979	24,145	2,151	23,790	228	31	7,553	35,321p	87,015	6,017p	4,472	16	190,740p

r = revised
p = preliminary

[1] Figures revised to comply with annual audited financial statements.
[2] Includes MST System balances
[3] Preliminary figures include data for NASDAQ as of its fiscal year-end (September 30)

Source: Survey of Self-Regulatory Organizations
Directorate of Economic and Policy Analysis
Securities and Exchange Commission

Table 9
REVENUES AND EXPENSES OF SELF-REGULATORY ORGANIZATIONS
1975-1979

(Thousands of Dollars)

	1975[R]	1976[R]	1977[R]	1978[R]	1979
REVENUES					
Commission Fees/Transaction Revenues	32,844	38,602	37,230	52,086	57,699
Listing Fees	31,709	40,756	42,275	43,109	47,136
Communication Fees	21,794	25,193	30,214	28,265	32,560
Clearing Fees	35,451	41,185	8,886	10,332	11,707
Depository Fees	27,792	36,227	6,737	8,678	10,201
Tabulation Services	13,553	16,537	16,029	5,429	3,724
Membership Dues	11,267	13,054	14,437	15,554	16,572
Registration Fees	5,130	4,222	4,361	6,246	7,649
Floor Usage Revenues	6,966	9,022	10,653	11,074	11,229
Corporate Finance Fees	1,111	1,047	922	1,127	1,236
All Other Revenues	13,999	23,416	34,256	38,087	47,498
Total Revenues	201,618	249,262	205,998	219,986	247,212
EXPENSES					
Employee Costs	84,276	99,782	84,016	86,491	102,428
Occupancy Costs	12,885	14,687	11,097	11,568	13,294
Equipment Costs	3,504	4,423	8,250	7,956	8,213
Professional and Legal Services	8,001	8,676	8,150	8,539	11,194
Depreciation and Amortization	4,824	8,425	8,526	8,441	8,240
Advertising, Printing and Postage	3,338	3,445	3,252	3,861	5,496
Communication, Data Processing and Collection	54,694	64,742	52,372	48,407	56,071
All Other Expenses	15,861	27,982	16,761	17,304	20,685
Total Expenses	187,383	232,163	192,422	192,569	225,621
PRE-TAX INCOME	14,235	17,099	13,576	27,417	21,591

R = Revised

Note Extensive revisions have been made in 1975–1978 data to comply with annual audited financial statements

Source: Survey of Self-Regulatory Organizations and Subsidiaries
Directorate of Economic and Policy Analysis
Securities and Exchange Commission

Table 10
USES OF SELF-REGULATORY ORGANIZATION FUNDS
1975–1979
(Thousands of Dollars)

	ASE[1]	BSE	CBOE	CSE	ISE[2]	MSE	NASD[3]	NYSE[4]	PSE	PHLX	SSE	Total
Employee Costs												
1975	8,584	1,565	2,780	36	10	9,271	9,088	44,751	6,069	2,115	7	84,276
1976	10,168	1,897	4,294	33	10	12,293	10,282	50,632	7,718	2,449	6	99,782
1977	11,502	1,935	5,600	37	10	13,073	10,370	32,899	5,983	2,601	6	84,016
1978	13,834	2,279	6,469	31	10	7,372	11,331	36,447	5,809	2,901	7	86,499
1979	15,602	2,917	8,480	66	10	7,742	13,622	42,899	7,732	3,351	7	102,428
Occupancy Costs												
1975	1,839	212	651	14	9	1,468	1,098	6,836	573	182	3	12,885
1976	1,917	250	985	16	11	1,682	1,193	7,631	705	294	3	14,687
1977	1,739	276	1,168	26	11	1,994	1,221	3,681	684	293	4	11,097
1978	1,677	288	1,283	36	10	898	1,541	4,881	642	307	5	11,568
1979	1,983	295	1,284	19	4	1,285	1,565	5,682	799	373	5	13,294
Equipment Costs												
1975	379	113	826	21	*	76	—	437	1,552	98	2	3,504
1976	500	138	747	17	1	153	49	652	2,048	115	3	4,423
1977	547	93	691	18	1	286	62	5,682	577	149	4	8,250
1978	858	164	477	15	1	368	—	5,744	131	194	4	7,956
1979	972	272	169	310	1	203	—	5,910	173	200	4	8,213
Professional and Legal Services												
1975	819	74	438	5	1	507	732	5,029	284	111	1	8,001
1976	1,246	172	601	12	3	766	787	4,543	449	95	2	8,566
1977	1,410	280	1,019	16	2	1,014	990	2,682	600	135	2	8,150
1978	1,275	364	1,098	32	2	932	1,231	2,840	627	137	1	8,539
1979	1,304	315	1,628	38	1	618	1,766	4,327	934	262	1	11,194
Depreciation and Amortization												
1975	1,057	100	429	—	2	274	338	2,388	178	58	—	4,824
1976	1,107	148	1,032	—	2	373	3,063	2,394	243	63	—	8,425
1977	1,127	122	1,138	—	2	489	2,990	2,279	258	121	—	8,526
1978	1,977	144	1,284	—	2	325	1,713	2,569	202	224	1	8,441
1979	1,353	215	1,676	—	1	243	1,644	2,559	267	282	—	8,240
Advertising, Printing and Postage												
1975	925	107	797	5	*	43	24	994	316	123	4	3,338
1976	1,008	122	742	7	—	122	34	868	427	105	6	3,441
1977	982	128	739	6	—	336	—	570	393	92	6	3,252
1978	1,214	260	532	4	—	259	—	1,119	387	80	6	3,861
1979	1,663	245	1,046	6	*	262	—	1,659	491	116	7	5,496

Table 10—Continued
USES OF SELF-REGULATORY ORGANIZATION FUNDS
1975–1979
(Thousands of Dollars)

	ASE[1]	BSE	CBOE	CSE	ISE[2]	MSE	NASD[3]	NYSE[4]	PSE	PHLX	SSE	Total
Communication, Data Processing and Collection												
1975	5,796	524	335	10	1	7,667	6,478	31,960	1,498	425	—	54,694
1976	7,348	580	741	13	*	8,436	7,452	37,206	2,432	534	—	64,742
1977	5,235	657	1,163	14	*	9,642	—	28,192	6,842	627	—	52,372
1978	5,274	707	1,533	12	1	1,267	1,971	28,605	8,374	663	—	48,407
1979	7,299	877	2,911	11	*	1,218	2,465	32,699	7,902	685	4	56,071
All Other Expenses												
1975	594	237	615	3	4	2,179	2,427	7,618	1,579	599	2	15,857
1976	690	500	1,239	4	3	2,552	6,950	13,701	1,622	721	—	27,982
1977	935	482	1,357	10	3	1,843	9,005	1,556	743	827	—	16,761
1978	2,474	782	1,264	78	3	2,533	7,495	316	999	1,352	8	17,304
1979	2,074	1,033	1,232	18	1	3,459	7,266	2,902	1,202	1,488	11	20,685
Total Expenses												
1975	19,993	2,993	6,872	94	27	21,484	20,185	100,014	12,049	3,712	20	187,383
1976	23,984	3,806	10,380	103	30	26,377	29,810	117,628	15,645	4,379	21	232,163
1977	23,477	3,971	12,875	126	29	28,677	24,638	77,681	16,080	4,845	23	192,422
1978	28,583	4,989	13,941	208	30	13,953	25,282	82,521	17,171	5,859	32	192,569
1979	32,250	6,168	18,427	469	18	15,030	28,328	98,637	19,500	6,758	39	225,621
Pre-Tax Income												
1975	419	356	1,286	35	3	982	1,310	9,935	(175)	84	—	14,235
1976	1,498	150	1,339	(18)	2	745	2,334	11,507	(686)	227	1	17,099
1977	1,246	34	(580)	20	3	(1,040)	3,340	10,205	216	132	—	13,576
1978	2,087	332	2,557	(7)	3	720	3,994	14,270	2,572	885	4	27,417
1979	2,610	127	494	13	(4)	787	6,467	8,053	1,306	1,736	2	21,591

*Less than $500
[1]Excludes expenses associated with the SECTOR (Securities Telecommunications Organization) network
[2]Figures revised to comply with annual audited financial statements
[3]Preliminary figures include data for NASDAQ as of its fiscal year-end (September 30)
[4]Real estate and occupancy taxes were included in Equipment Costs for 1978 and 1979. In prior years, these costs are reported under the "All Other Expense" category.

Source: Survey of Self-Regulatory Organizations
Directorate of Economic and Policy Analysis
Securities and Exchange Commission

Table 11

SOURCES OF SELF-REGULATORY ORGANIZATION FUNDS
1975–1979

(Thousands of Dollars)

	ASE[1]	BSE	CBOE	CSE	ISE[2]	MSE	NASD[3]	NYSE	PSE	PHLX	SSE	Total
Commission Fees/Transaction Revenues												
1975	4,016	362	4,853	11	*	1,437	—	20,518	991	656	—	32,844
1976	6,517	494	6,765	—	*	1,765	—	20,204	1,590	1,266	—	38,602
1977	6,514	468	6,502	—	1	1,844	—	18,094	2,265	1,543	—	37,230
1978	10,183	747	10,407	—	1	2,908	—	22,587	3,118	2,136	—	52,086
1979	11,848	825	12,111	—	—	2,358	—	23,822	3,596	3,139	—	57,699
Listing Fees												
1975	4,898	90	—	10	4	532	2,581	22,688	822	82	2	31,709
1976	5,298	70	—	13	4	603	2,761	31,002	901	103	2	40,756
1977	5,027	87	—	11	3	640	2,644	32,770	958	132	2	42,275
1978	5,905	67	—	16	3	699	2,961	32,392	958	99	9	43,109
1979	6,163	64	—	13	5	712	3,298	35,811	934	126	11	47,136
Communication Fees												
1975	6,928r	—	840	8	—	3,474	—	10,543	—	—	—	21,794r
1976	7,838r	—	1,370	6	—	3,892	—	11,987	59	41	—	25,193r
1977	9,502r	—	1,637	13	—	4,157	—	13,922	787	197	—	30,214r
1978	10,345r	—	1,582	59	—	284	—	14,943	821	231	—	28,265r
1979	11,796	—	1,341	394	—	503	—	17,191	953	383	—	32,560
Clearing Fees												
1975	2,103	1,316	—	—	—	2,646	8,166	16,023	3,012	2,184	—	35,451
1976	3,181	1,456	—	—	—	3,180	9,461	18,650	3,000	2,257	—	41,185
1977	—	1,150	—	—	—	3,050	—	—	2,559	2,127	—	8,886
1978	1r	1,402	—	—	—	3,163	—	—	2,683	3,083	—	10,332r
1979	—	1,622	—	—	—	3,486	—	—	3,195	3,404	—	11,707
Depository Fees												
1975	—	—	—	—	—	1,393	—	25,259	1,133	7	—	27,792
1976	—	109	—	—	—	3,838	—	30,190	2,050	40	—	36,227
1977	—	639	—	—	—	3,948	—	—r	2,063	86	—	6,737r
1978	—	925	—	—	—	4,470	—	—r	3,055	228	—	8,678r
1979	—	1,007	—	—	—	5,074	—	—	3,748	372	—	10,201
Tabulation Services												
1975	36	676	—	3	—	9,197	—	—	3,642	—	—	13,553
1976	—	866	—	10	—	11,133	—	—	4,524	—	3	16,537
1977	—	808	—	19	—	11,168	—	—	4,030	—	4	16,029
1978	—	1,173	287	30	—	—	—	—	3,937	—	3	5,429
1979	—	1,196	858	19	—	—	—	—	1,647	—	3	3,724
All Other Revenues												
1975	2,431	845	2,464	98	24	3,787	10,748	14,918	2,274	867	18	38,473r
1976	2,648	961	3,583	55	27	2,711	19,922r	17,103	2,835	900	16	50,762r
1977	3,680	854	4,156	103	28	2,831	25,334r	23,100r	3,634	892	18	64,629r
1978	4,237	1,007	4,223	97	29	3,148	26,315r	26,869r	5,172	967	24	72,087r
1979	5,053	1,581	4,611	55	9	3,684	31,496	29,866	6,732	1,070	27	84,184

Table 11—Continued

SOURCES OF SELF-REGULATORY ORGANIZATION FUNDS
1975–1979

(Thousands of Dollars)

	ASE[1]	BSE	CBOE	CSE	ISE[2]	MSE	NASD[3]	NYSE	PSE	PHLX	SSE	Total
Total Revenues												
1975	20,413r	3,289	8,157	130	29	22,466	21,495	109,949	11,874	3,796	20	201,618
1976	25,482r	3,956	11,719	84	32	27,122	32,144r	129,135	14,959	4,606	21	249,262
1977	24,723r	4,006	12,295	146	32	27,637	27,978r	87,886r	16,297	4,977	23	205,998
1978	30,670r	5,321	16,498	201	33	14,672	29,276r	96,791r	19,744	6,744	36	219,986
1979	34,860	6,295	18,921	482	14	15,817	34,794	106,690r	20,805	8,494	41	247,212

*Less than $500
r = revised

[1]Excludes revenues associated with the SECTOR (Securities Telecommunication Organization) network
[2]Figures revised to comply with annual audited financial statements.
[3]Preliminary figures include data for NASDAQ as of close of each fiscal year (September 30)
Source: Survey of Self-Regulatory Organizations
Directorate of Economic and Policy Analysis
Securities and Exchange Commission

Table 12

SELF-REGULATORY ORGANIZATIONS—CLEARING AGENCIES REVENUES AND EXPENSES[1]—FISCAL YEAR 1979

(Thousands of Dollars)

	Boston Clearing Corporation 9/30/79	Bradford Securities Processing Service Inc. 12/31/79	Depository Trust Company 12/31/79	Midwest Clearing Corporation 12/31/79	Midwest Securities Trust Company 12/31/79	National Securities Clearing Corporation 12/31/79	New England Securities Depository Trust Company 9/30/79	Options Clearing Corporation 6/30/80	Pacific Clearing Corporation 12/31/79[2]	Pacific Securities Depository Trust Company 12/31/79	Stock Clearing Corporation of Philadelphia 12/31/79[3]	Total
Revenues												
Clearing services[4]	$ 1,705	$ 10.754		$ 3,513		$ 26,746		$ 3,834	$ 3,835		$ 1,993	$ 52,380
Depository services[4]			$ 38,746		$ 5,255		$ 1,031			$ 3,882	1,459	50,373
Interest and other revenue	625	2,722	10,550	506	518	907	189	3,240	465	673	175	20,570
Total revenues[5]	$ 2,330	$ 13,476	$ 49,296	$ 4,019	$ 5,773	$ 27,653	$ 1,220	$ 7,074	$ 4,300	$ 4,555	$ 3,627	$123,323
Expenses												
Employee costs	$ 979	$ 5,170	$ 29,221	$ 1,970	$ 3,817	$ 1,376	$ 684	$ 3,235	$ 2,386	$ 1,589	$ 1,750	$ 52,177
Data processing and communication costs	432	535	8,067	528	1,122	16,595	193	1,685	1,139	1,309	660	32,265
Company costs	108	1,044	4,328	299	594		79	553	231	145	195	7,576
Contracted services cost						3,849						3,849
Regulatory fee[6]						4,581						4,581
All other expenses	489	3,216	7,208	678	404	1,132	415	1,521	904	910	462	17,339
Total expenses	$ 2,008	$ 9,965	$ 48,824	$ 3 ,475	$ 5,937	$ 27,533	$ 1,371	$ 6,994	$ 4,660	$ 3,953	$ 3,067	$117,787
Excess of revenues over expenses[7]	$ 322	$ 3,511	$ 472	$ 544	$ (164)	$ 120	$ (151)	$ 80	$ (360)	602	$ 560	$ 5,536

[1] Any single revenue or expense category may not be completely comparable between any two particular clearing agencies because of (i) the varying classification methods employed by the clearing agencies in reporting operating results and (ii) the grouping methods employed by the Commission staff due to these varying classification methods. Additionally, because of the changing methods of classifying and reporting various revenues and expenses and because of changing operations, these figures may not be completely comparable to prior year figures

[2] Interest income of $2,741,000 before income tax effect was earned on excess Clearing and Securities Collection Funds and was recorded as income on Pacific Clearing Corporation's parent company's books, the Pacific Stock Exchange. This interest income is not included in Pacific Clearing Corporation's revenues.

[3] On December 3, 1979 Philadelphia Depository Trust Company ("Philadep") commenced operations as a registered clearing agency and assumed the functions formerly performed by the Stock Clearing Corporation of Philadelphia ("SCCP") depository division. For purposes of this presentation, the operations of Philadep for the month of December, 1979 have not been segregated from that of SCCP who acted as Philadep's agent for December. Combined SCCP and Philadep 1979 depository operations generated approximately $1 5 million in revenues and $1 5 million in expenses

[4] Clearing and depository services revenue items reported in this table may differ from clearing and depository fees revenues reported in the statistical table "Consolidated Revenues and Expenses of Self-Regulatory Organizations" contained herein. This difference results from, among other things, differences in classification of revenue items.

[5] Revenues are net of refunds which have the effect of reducing a clearing agency's base fee rates.

[6] This figure represents amounts billed by the New York and American Stock Exchanges and the National Association of Securities Dealers ($3,184,000, $550,000 andd $847,000 respectively for services provided to the National Securities Clearing Corporation. These services consisted principally of examination, monitoring and investigation of financial and operating conditions of existing and prospective clearing members and, notification of unusual market conditions which may affect securities cleared.

[7] Before the effect of income taxes, which may significantly impact a clearing agency's net income.

Table 13

REVENUE AND EXPENSES OF MUNICIPAL SECURITIES RULEMAKING BOARD

	Years Ended September 30 1980	1979
Revenues:		
Assessment fees	$484,391	$413,841
Annual fees	190,202	95,554
Initial fees	15,900	17,600
Interest income	36,833	62,328
Other	17,386	1,637
	744,712	590,960
Expenses:		
Salaries and employee benefits	412,636	355,721
Meetings and travel	340,882	232,738
Mailing list, Board manual and other printing and postage	171,687	129,667
Rent, telephone and other occupancy costs	70,875	65,939
Professional and other services	61,209	42,436
Payroll taxes	20,072	17,620
Depreciation and amortization	11,366	13,669
Other	7,459	8,533
	1,096,186	866,323
Excess of expenses over revenues	(351,474)	(275,363)
Fund balance, beginning of year	632,823	908,186
Fund balance, end of year	$281,349	$632,823

EXEMPTIONS

Section 12(h) Exemptions

Section 12(h) of the Exchange Act authorizes the Commission to grant a complete or partial exemption from the registration provisions of Section 12(g) or from other disclosure and insider trading provisions of the Act where such exemption is consistent with the public interest and the protection of investors.

For the year beginning October 1, 1979, 52 applications were pending, and an additional 42 applications were filed during the year. Of these 94 applications, 59 were granted, 19 were withdrawn and one was denied. Fifteen applications were pending at the close of the year.

Rule 10b-6 Exemptions

Exchange Act Rule 10b-6 imposes certain prohibitions upon trading in securities by persons interested in a distribution of such securities. During the fiscal year, the Commission granted approximately 400 exemptions pursuant to paragraph (f) of Rule 10b-6 under circumstances indicating that proposed purchase transactions did not appear to constitute manipulative or deceptive devices or contrivances comprehended within the purposes of the rule.

Exemptions for Foreign Private Issuers

Rule 12g3-2 provides various exemptions from the registration provisions of Section 12(g) of the Exchange Act for the securities of foreign private issuers. Perhaps the most important of these is that contained in subparagraph (b) which provides an exemption for certain foreign issuers which submit on a current basis material specified in the rule. Such material includes that information about which investors ought reasonably to be informed and which the issuer: (1) has made public pursuant to the law of the country of domicile or in which it is incorporated or organized; (2) has filed with a foreign stock exchange on which its securities are traded and which was made public by such exchange and/or (3) has distributed to its security holders. Periodically, the Commission publishes a list of those foreign issuers which appear to be current under the exemptive provision. The most current list is as of August 31,

1980, and contains a total of 227 foreign issuers.[1]

FINANCIAL INSTITUTIONS

Stock Transactions of Selected Financial Institutions

During 1979, private noninsured pension funds, open-end investment companies, life insurance companies, and property-liability insurance companies purchased $57.9 billion of common stock and sold $47.1 billion, resulting in net purchases of $10.8 billion. In 1978 purchases were $47.7 billion, sales $42.7 billion, and net purchases $5.0 billion. Their 1979 common stock activity rate was 27.2 percent as compared to 26.1 percent one year earlier.

[1]Securities Exchange Act Release No. 17169 (September 29, 1980), 21 SEC Docket 8.

Table 14

COMMON STOCK TRANSACTIONS AND ACTIVITY RATES OF SELECTED FINANCIAL INSTITUTIONS

(Millions of Dollars)

	1972	1973	1974	1975	1976	1977	1978	1979
Private Noninsured Pension Funds[1]								
Purchases	23,222	20,324	11,758	17,560	20,329	20,147	24,173	30,976
Sales	15,651	14,790	9,346	11,846	13,089	15,625	18,947	17,955
Net Purchases (Sales)	7,571	5,534	2,412	5,714	7,240	4,522	5,226	13,021
Activity Rate	19.7	17 2	14 1	18 2	16 4	17 3	21 0	21.1
Open-End Investment Companies[2]								
Purchases	20,943	15,561	9,085	10,949	10,633	8,704	12,833	13,089
Sales	22,552	17,504	9,372	12,144	13,279	12,210	14,454	15,923
Net Purchases (Sales)	(1,609)	(1,943)	(287)	(1,195)	(2,646)	(3,506)	(1,621)	(2,834)
Activity Rate	44.8	38 9	30 4	35 8	32 4	32 2	43 9	44.5
Life Insurance Companies—Total								
Purchases	6,912	6,492	3,930	4,920	6,158	5,473	6,307	8,382
Sales	4,427	4,216	2,439	3,630	3,924	4,703	6,478	8,914
Net Purchases (Sales)	2,485	2,276	1,491	1,290	2,234	770	(171)	(532)
Activity Rate	29 5	25 9	18 7	22 3	21.0	20 9	26 1	32 8
Life Insurance Co —General Accts.								
Purchases	3,750	3,079	1,770	1,963	2,839	2,716	2,943	4,040
Sales	2,532	2,053	1,286	1,758	1,840	2,240	3,054	3,993
Net Purchases (Sales)	1,218	1,026	484	205	999	476	(111)	47
Activity Rate	27.0	20.6	15 0	17 4	18 6	19 0	22 5	28 1
Life Insurance Co —Separate Accts								
Purchases	3,162	3,413	2,160	2,957	3,319	2,757	3,364	4,342
Sales	1,895	2,163	1,153	1,872	2,084	2,463	3,424	4,921
Net Purchases (Sales)	1,267	1,250	1,007	1,085	1,235	294	(60)	(579)
Activity Rate	33.4	33 7	24 1	28 5	23 6	23 1	30 3	38 5
Property-Liability Insurance Companies								
Purchases	5,128	4,519	2,400	2,193	3,446	2,605	4,369	5,427
Sales	2,738	2,856	3,223	3,196	2,836	1,955	2,785	4,290
Net Purchases (Sales)	2,390	1,663	(823)	(1,003)	610	650	1,584	1,137
Activity Rate	23.7	20 8	21.2	24 0	24 7	17 1	24 6	27 3
Total Selected Institutions								
Purchases	56,205	46,896	27,173	35,622	40,566	36,929	47,682	57,874
Sales	45,368	39,366	24,380	30,816	33,128	34,493	42,664	47,082
Net Purchases (Sales)	10,837	7,530	2,793	4,806	7,438	2,436	5,018	10,792
Activity Rate	27 7	23.6	19 0	23.2	21 0	20 6	26 1	27 2
Foreign Investors[3]								
Purchases	14,360	12,768	7,634	15,316	18,228	14,139	20,060	22,640
Sales	12,173	9,977	7,094	10,637	15,475	11,475	17,700	21,016
Net Purchases (Sales)	2,187	2,791	540	4,679	2,753	2,664	2,360	1,624

[1] Includes deferred profit sharing and pension funds of corporations, unions, multiemployer groups and nonprofit organizations

[2] Mutual funds reporting to the Investment Company Institute, a group whose assets constitute about ninety percent of the assets of all open-end investment companies

[3] Transactions of foreign individuals and institutions in domestic common and preferred stocks. Activity rates for foreign investors are not calculable

NOTE: Activity rate is defined as the average of gross purchases and sales divided by the average market value of holdings

SOURCE Pension funds and property-liability insurance companies, SEC; investment companies, Investment Company Institute; life insurance companies, American Council of Life Insurance, foreign investors, Treasury Department

Stockholdings of Institutional Investors and Others

At year-end 1979, the ten institutional groups listed below held $415.8 billion of total corporate stock outstanding (both common and preferred). In comparison, they accounted for $359.9 billion of the stock held a year earlier. This resulted in a 15.5 percent increase in the value of the stockholdings of these institutions compared to a 20.0 percent upswing in the aggregate market value of all stock outstanding. Thus, the share of total stock outstanding that was held by these institutions was 35.0 percent at year-end 1979. During 1979, the shares held by other domestic investors, which consist of individuals, broker-dealers and institutions not listed, rose to 58.3 percent from 56.8 percent a year earlier. Foreign investors' share of stockholdings decreased to 6.7 percent.

Table 15

MARKET VALUE OF STOCKHOLDINGS OF INSTITUTIONAL INVESTORS AND OTHERS

(Billions of Dollars, End of Year)

	1972	1973	1974	1975	1976	1977	1978	1979
1 Private Noninsured Pension Funds	115.2	90.5	63.3	88.6	109.7	101.9	107.9	123.7
2 Open-End Investment Companies	58.0	43 3	30.3	38.7	43.0	36.2	34.1	34.8
3 Other Investment Companies	7.4	6 6	4.7	5 3	5.9	3.1	2.7	1 8
4. Life Insurance Companies	26.8	25.9	21.9	28.1	34 2	32 9	35 7r	40.5
5. Property-Liability Ins. Co's[1]	21 8	19.7	12 8	14.2	16.9	17 1	19 4	24.8
6. Personal Trust Funds[2]	117 6	101.3	72.0	86 9	100.8	97.1r	95.1	106.4
7. Mutual Savings Banks	4.5	4.2	3.7	4.4	4.4	4.8	4.8	4 7
8. State and Local Retirement Funds	22.2	20.2	16.4r	24.3	30.1	30.0	33.3	37.1
9. Foundations	28.5	24.5	18.4	22.7	27.1	26 1	27 0	40.3
10. Educational Endowments	10 7	9.6	6.7	8.8	10 4	9.8	10.2	10.2
11. Subtotal	412.7	345.8	250.2r	322.0	382.5	359.0r	370.2r	424.3
12. Less: Institutional Holdings of Investment Company Shares[3]	6 5	6.7	6.5	8.6	10.0	10.5	10.3	8.5
13. Total Institutional Investors	406.2	339.1	243.7r	313.4	372 5	348.5r	359.9r	415.8
14. Foreign Investors[4]	41.3	37.0	28.4	52.6	63.9	60.1	68.0r	80 2
15. Other Domestic Investors[5]	690.6	525.3	369 6r	483.5	569.2r	537 2r	562 4r	652.6
16. Total Stock Outstanding[6]	1138.1	901.4	641 7r	849.5	1005.6r	945 8r	990.3r	1188 6

r = revised

[1] Excludes holdings of insurance company stock.

[2] Excludes Common Trust Funds

[3] Excludes institutional holdings of money market funds.

[4] Includes estimates of stock held as direct investment.

[5] Computed as residual (line 15=16–14–13). Includes both individuals and institutional groups not listed above.

[6] Includes both common and preferred stock Excludes investment company shares but includes foreign issues outstanding in the U.S.

Table 16
COMPANIES REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940 AS OF SEPTEMBER 30, 1981

	Number of Registered Companies			Approximate Market Value of Assets of Active Companies (Millions)
	Active	Inactive[a]	Total	
Management open-end (Mutual Funds")	907	46	953	$130,453
Variable annuity-separate accounts	59	1	60	1,674
All other load funds	848	45	893	128,779
Management closed-end	163	56	219	7,920
Small business investment companies	36	6	42	304
All other closed-end companies	127	50	177	7,616
Unit investment trust	386	24	410	17,556[b]
Variable annuity-separate accounts	83	0	83	1,644
All other unit investment trusts	303	24	327	15,912
Face-amount certificate companies	5	4	9	52
Total	1,461	130	1,591	$155,981

[a] Inactive refers to registered companies which as of September 30, 1980, were in the process of being liquidated or merged, or have filed an application pursuant to Section 8(f) of the Act for deregistration, or which have otherwise gone out of existence and remain only until such time as the Commission issues order under Section 8(f) terminating their registration

[b] Includes about 4.4 billion of assets of trusts which invest in securities of other investment companies, substantially all of them mutual funds.

Table 17
COMPANIES REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940

Fiscal year ended September 30	Registered at beginning of year	Registered during year	Registration terminated during year	Registered at end of year	Approximate market value of assets of active companies (millions)
1941	0	450	14	436	$ 2,500
1942	436	17	46	407	2,400
1943	407	14	31	390	2,300
1944	390	18	27	371	2,200
1945	371	14	19	366	3,250
1946	366	13	18	361	3,750
1947	361	12	21	352	3,600
1948	352	18	11	359	3,825
1949	359	12	13	358	3,700
1950	358	26	18	366	4,700
1951	366	12	10	368	5,600
1952	368	13	14	367	6,800
1953	367	17	15	369	7,000
1954	369	20	5	384	8,700
1955	384	37	34	387	12,000
1956	387	46	34	399	14,000
1957	399	49	16	432	15,000
1958	432	42	21	453	17,000
1959	453	70	11	512	20,000
1960	512	67	9	570	23,500
1961	570	118	25	663	29,000
1962	663	97	33	727	27,300
1963	727	48	48	727	36,000
1964	727	52	48	731	41,600
1965	731	50	54	727	44,600
1966	727	78	30	775	49,800
1967	755	108	41	842	58,197
1968	842	167	42	967	69,732
1969	967	222	22	1,167	72,465
1970	1,167	187	26	1,328	56,337
1971	1,328	121	98	1,351	78,109
1972	1,351	91	108	1,334	80,816
1973	1,334	91	64	1,361	73,149
1974	1,361	106	90	1,377	62,287
1975	1,377	88	66	1,399	74,192
1976	1,399	63	86	1,376	80,564
1977	1,403	91	57	1,437	76,904
1978	1,437	98	64	1,471	93,921
1979	1,471	83	47	1,507	108,572
1980	1,507	136	52	1,591	155,981

*Began Fiscal Year Ending September 30, 1977

Table 18
NEW INVESTMENT COMPANY REGISTRATIONS

	1980
Management open-end	
Variable Annuities	7
All others	100
Sub-total	107
Management closed-end	
SBIC's	0
All others	7
Sub-total	7
Unit investment trust	
Variable annuities	14
All others	8
Sub-total	22
Face amount certificates	0
Total Registered	136

Table 19
INVESTMENT COMPANY REGISTRATIONS TERMINATED

	1980
Management open-end	
Variable annuities	1
All others	39
Sub-total	40
Management closed-end	
SBIC's	0
All others	9
Sub-total	9
Unit investment trust	
Variable annuities	1
All others	2
Sub-total	3
Face amount certificates	0
Total terminated	52

Private Noninsured Pension Funds: Assets

The assets of private noninsured pension funds totaled $223.5 billion at book value and $225.2 billion at market value on December 31, 1979. A year earlier their comparable asset totals were $202.2 billion and $201.5 billion. The book value of common stock holdings increased to $110.9 billion at year-end 1979 from $100.4 billion the previous year. Valued at market, those holdings also increased to $122.7 billion, or 54.5 percent of total assets, at the end of 1979 from $106.7 billion, or 53.0 percent of total assets, one year earlier.

Table 20
ASSETS OF PRIVATE NONINSURED PENSION FUNDS
(Millions of Dollars)

	1972	1973	1974	1975	1976	1977	1978	1979
	Book Value, End of Year							
Cash and Deposits	1,857	2,336	4,286	2,962	2,199	3,721	8,100	8,609
U.S. Government Securities	3,689	4,404	5,533	10,764	14,713	20,138	19,695	22,459
Corporate and Other Bonds	28,207	30,334	35,029	37,809	39,070	45,580	53,824	59,537
Preferred Stock	1,481	1,258	1,129	1,188	1,250	1,168	1,274	1,350
Common Stock	74,585	80,593	79,319	83,654	93,359	96,984	100,424	110,934
Own Company	3,868	4,098	4,588	5,075	N.A	N.A	N A	N.A.
Other Companies	70,717	76,495	74,731	78,579	N.A.	N.A.	N.A.	N.A.
Mortgages	2,728	2,377	2,372	2,383	2,369	2,497	2,789	3,091
Other Assets	4,983	5,229	6,063	6,406	7,454	11,421	16,121	17,476
Total Assets	117,530	126,531	133,731	145,166	160,414	181,509	202,237	223,46 5
	Market Value, End of Year							
Cash and Deposits	1,857	2,336	4,286	2,962	2,199	3,721	8,100	8,609
U S. Government Securities	3,700	4,474	5,582	11,097	14,918	20,017	18,767	21,516
Corporate and Other Bonds	26,232	27,664	30,825	34,519	37,858	42,754	48,633	51,261
Preferred Stock	1,869	985	703	892	1,212	1,009	1,162	1,099
Common Stock	113,369	89,538	62,582	87,669	108,483	100,863	106,732	122,703
Own Company	8,750	6,947	5,230	6,958	N A.	N.A	N.A.	N.A.
Other Companies	104,619	82,591	57,352	80,711	N A.	N A.	N.A.	N A
Mortgages	2,427	2,108	2,063	2,139	2,160	2,362	2,554	2,664
Other Assets	4,908	5,140	5,681	6,341	7,073	10,838	15,585	17,336
Total Assets	54,363	132,247	111,724	145,622	173,906	181,564	201,545	225,188

N.A. Not Available.

NOTE. Includes deferred profit sharing funds and pension funds of corporations, unions, multiemployer groups, and nonprofit organizations

SECURITIES ON EXCHANGES

Exchange Volume

Dollar volume of all equity securities transactions on registered exchanges totaled $323.9 billion in 1979. Of this total, $300 billion or $92.6 percent represented stock trading, $22.7 billion or 7.0 percent, option trading, and the balance, trading in rights and warrents. The value of New York Stock Exchange transactions was $251.6 billion in 1979. NYSE share volume increased 14.8 percent from the 1978 total. On the American Stock Exchange, value of shares traded increased 43.9 percent to $27.3 billion. The AMEX volume of 1.2 billion was up 17 percent from the 1978 figure.

The Chicago Board Options Exchange contract volume for 1979 was 35.2 million, up 4.5 percent from 33.7 million in 1978. The market value of option contracts traded in 1979 was $13.8 billion, an increase of less than one percent from the 1978 total. The American Stock Exchange option volume was 17.5 million contracts in 1979, a slight decrease from the level obtained in 1978. The value of AMEX options trading in 1979 was $6.0 billion. Philadelphia Stock Exchange option volume was 4.3 million in 1979, up 34.4 percent from the 1978 figure of 3.2 million. Pacific Stock Exchange contract volume in 1979 was 4.1 million with a value of $899 million. The Midwest Stock Exchange contract volume was 2.6 million contracts with a value of $758 million in 1979.

Table 21

MARKET VALUE AND VOLUME OF SALES ON REGISTERED SECURITIES EXCHANGES[1]

(All data are in thousands)

		TOTAL MARKET VALUE (Dollars)	STOCKS[2]		OPTIONS[3]		WARRANTS		RIGHTS	
			Market Value (Dollars)	Number of Shares	Market Value (Dollars)	Number of Contracts	Market Value (Dollars)	Number of Units	Market Value (Dollars)	Number of Units
All Registered Exchanges for past six years										
Calendar Year:	1974	120,488,495r	118,434,000	4,846,490	1,660,220	5,683	389,251	67,174	4,301	37,167
	1975	163,978,938r	157,260,586	6,231,516	6,423,469	14,428	285,859	97,225	9,024	52,928
	1976	206,959,037	194,969,057	7,035,755	11,734,222	31,425	248,124	53,603	7,634	35,843
	1977	198,292,217	187,202,855	7,023,165	10,899,135	39,622	184,435	67,841	5,792	43,940
	1978	268,508,724	249,257,272	9,482,710	18,953,204	59,847	343,723	68,064	2,323	13,889
	1979	323,899,993	299,973,110	10,862,787	22,725,724	63,643	748,361	76,895	6,918	38,093
Breakdown of 1979 Data by Registered Exchange										
All Registered Exchanges										
*American Stock Exchange		27,274,164	20,595,590	1,161,325	5,974,381	17,478	255,078	25,679	3,23 5	1,745
*Boston Stock Exchange		1,686,873	1,686,873	60,137	0	0	0	0	0	0
*Cincinati Stock Exchange		1,068,710	1,068,710	30,399	0	0	0	0	0	0
Midwest Stock Exchange		12,268,516	11,509,934	361,793	758,532	2,573	0	0	0	0
*New York Stock Exchange		251,582,709	251,098,467	8,675,253	0	0	480,569	49,720	3,673	34,124
Pacific Stock Exchange		9,485,787	8,575,972	368,393	899,323	4,066	10,483	1,080	9	2,224
*Philadelphia Stock Exnge		6,664,374	5,415,494	179,743	1,246,648	4,335	2,231	417	0	0
Intermountain Stock Ex.		2,168	2,168	1,975	0	0	0	0	0	0
Spokane Stock Exchange		19, 852	19,852	23,770	0	0	0	0	0	0
*Chicago Board Options		13,846,840	0	0	13,846,840	35,191	0	0	0	0

*Reports of those exchanges marked with an asterisk cover transactions cleared during the calendar month, clearances occur for the most part on the fifth day after that on which the trade actually was effected Reports for other exchanges cover transactions effected on trade dates of calendar month

[1]Data on the value and volume of equity securities sales are reported in connection with fees paid under Section 31 of the Securities Exchange Act of 1934 as amended by the Securities Acts Amendments of 1975 They cover odd-lot as well as round-lot transactions

[2]Includes voting trust certificates, certificates of deposit for stocks, and American Depository Receipts for stocks, but excludes rights and warrants

[3]Exercises are not included in these totals.

r = revised

Source: SEC Form R-31.

NASDAQ (Volume)

NASDAQ share volume and price information for over-the-counter trading has been reported on a daily basis since November 1, 1971. At the end of 1979, there were 2,670 issues in the NASDAQ system, an increase of 3.4 percent from 2,582 in 1978. Volume for 1979 was 3.65 billion shares, up 30.4 percent from 2.8 billion in 1978. This trading volume reflects the number of shares bought and sold by market-makers plus their net inventory changes.

Share and Dollar Volume by Exchange

Share volume of all stocks, rights and warrents traded on exchanges totaled $11 billion, a 15 percent increase from $9.6 billion in 1978. New York Stock Exchange accounted for 79.8 percent of all share volume; American Stock Exchange, 10.8 percent; and Midwest and Pacific Stock Exchanges, 3.3 and 3.4 percent, respectively.

Dollar volume of all stocks, rights and warrents was $300.7 billion, a 20.5 percent increase from $249.6 billion in 1978. New York Stock Exchange represented 83.7 percent of the dollar volume total. American and Midwest Stock Exchanges had 6.9 and 3.8 percent of the total.

Market Value Of Securities Traded On All U.S. Stock Exchanges

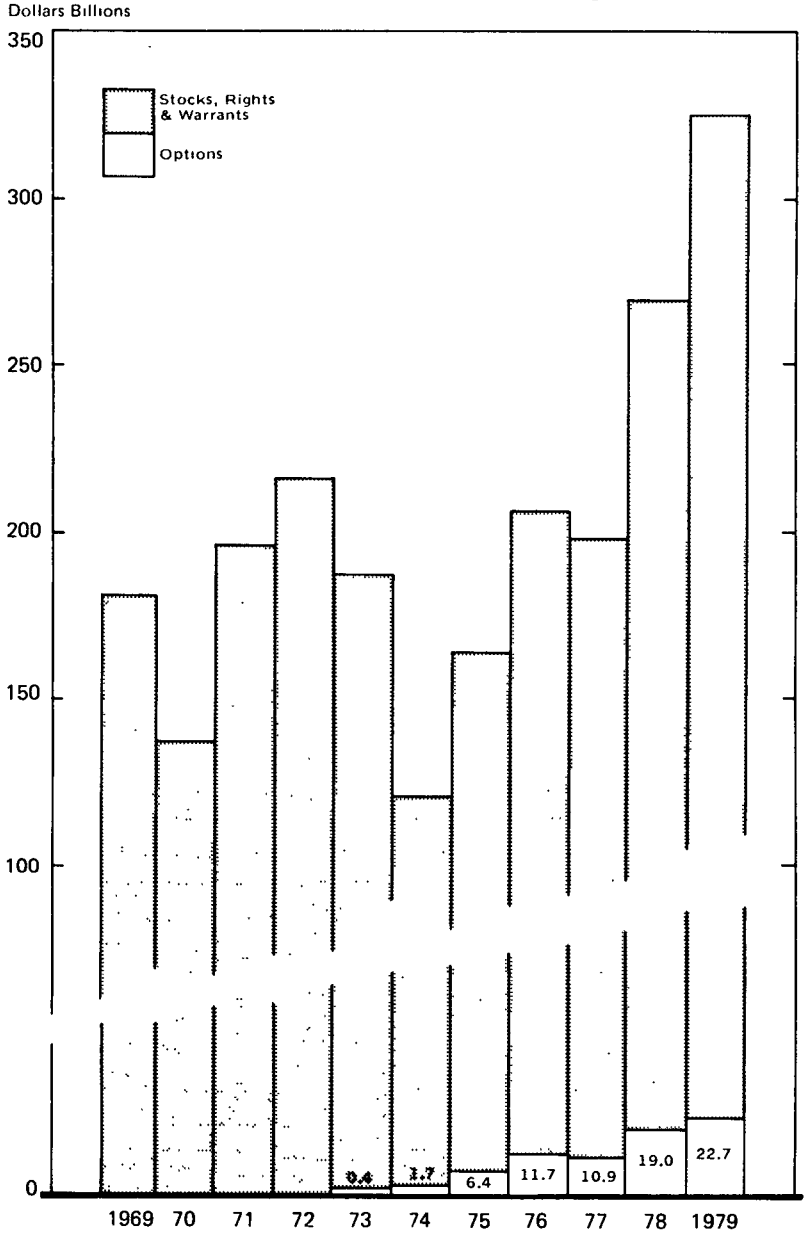


Table 22
SHARE VOLUME BY EXCHANGES[1]

Year	Total Share Volume (thousands)	In Percentage							
		NYSE	AMEX	MIDW	PSE	PHLE	BOSE	CNSE	Other[2]
1935	681,971	73 13	12 42	1.91	2 69	1 10	0 96	0 03	7.76
1940	377,897	75 44	13 20	2.11	2 78	1 33	1.19	0.08	3.87
1945	769,018	65 87	21 31	1 77	2 98	1 06	0 66	0 05	6 30
1950	893,320	76 32	13 54	2 16	3 11	0 97	0 65	0 09	3 16
1955	1,321,401	68.85	19.19	2.09	3 08	0.85	0.48	0 05	5 41
1960	1,441,120	68.47	22 27	2.20	3.11	0.88	0.38	0 04	2 65
1961	2,142,523	64.99	25 58	2 22	3 41	0 79	0 30	0 04	2.67
1962	1,711,945	71 31	20 11	2 34	2 95	0 87	0.31	0.04	2 07
1963	1,880,793	72 93	18.83	2.32	2.82	0.83	0.29	0.04	1 94
1964	2,118,326	72.81	19.42	2 43	2 65	0.93	0 29	0 03	1 44
1965	2,671,012	69 90	22.53	2 63	2.33	0 81	0.26	0 05	1 49
1966	3,313,899	69 38	22 84	2.56	2.68	0 86	0.40	0.05	1.23
1967	4,646,553	64.40	28 41	2.35	2 46	0.87	0.43	0.02	1.06
1968	5,407,923	61 98	29 74	2 63	2 64	0 89	0 78	0.01	1 33
1969	5,134,856	63.16	27 61	2 84	3 47	1 22	0 51	0 00	1 19
1970	4,834,887	71 28	19 03	3 16	3 68	1 63	0.51	0 02	0 69
1971	6,172,668	71 34	18 42	3 52	3 72	1 91	0 43	0 03	0 63
1972	6,518,132	70 47	18 22	3 71	4 13	2 21	0 59	0 03	0 64
1973	5,899,678	74 92	13 75	4.09	3.68	2 19	0 71	0 04	0 62
1974	4,950,833	78.47	10.27	4.39	3.48	1.82	0.86	0 04	0.67
1975	6,381,669	80 92	8 96	4 05	3.25	1 54	0.84	0.13	0.31
1976	7,125,201	80.03	9.35	3.87	3.93	1.41	0.78	0.44	0.19
1977	7,134,946	79 54	9 73	3 95	3.71	1 49	0 66	0.64	0 28
1978	9,564,663	80 08	10 75	3 58	3.14	1 49	0 60	0 15	0 21
1979	10,977,775	79.78	10.82	3.29	3 38	1 64	0 54	0 27	0.28

[1] Share Volume for exchanges includes Stocks, Rights, and Warrants
[2] Others include all exchanges not listed above.

Table 23
DOLLAR VOLUME BY EXCHANGES[1]

In Percentage

Year	Total Dollar Volume (thousands)	NYSE	AMEX	MIDW	PSE	PHLE	BOSE	CNSE	Other[2]
1935	15,396,139	86.64	7.83	1 32	1.39	0.88	1.34	0.04	0 56
1940	8,419,772	85.17	7.68	2.07	1.52	1.11	1.91	0.09	0.45
1945	16,284,552	82.75	10.81	2 00	1.78	0.96	1.16	0.06	0.48
1950	21,808,284	85 91	6 85	2 35	2.19	1 03	1.12	0.11	0 44
1955	38,039,107	86.31	6.98	2 44	1.90	1.03	0.78	0.09	0 47
1960	45,309,825	83 80	9 35	2 72	1 94	1 03	0 60	0.07	0.49
1961	64,071,623	82 43	10 71	2.75	1.99	1 03	0 49	0 07	0.53
1962	54,855,293	86.32	6.81	2 75	2.00	1.05	0.46	0.07	0.54
1963	64,437,900	85.19	7 51	2 72	2 39	1 06	0.41	0 06	0 66
1964	72,461,584	83.49	8.45	3 15	2.48	1.14	0.42	0.06	0.81
1965	89,549,093	81.78	9 91	3 44	2 43	1.12	0 42	0 08	0.82
1966	123,697,737	79.77	11.84	3.14	2.84	1.10	0.56	0.07	0.68
1967	162,189,211	77.29	14.48	3.08	2.79	1.13	0.66	0.03	0.54
1968	197,116,367	73.55	17.99	3 12	2 65	1 13	1 04	0.01	0 51
1969	176,389,759	73 48	17.59	3.39	3 12	1.43	0.67	0.01	0.31
1970	131,707,946	78 44	11 11	3 76	3.81	1 99	0 67	0.03	0.19
1971	186,375,130	79.07	9.98	4 00	3.79	2.29	0.58	0.05	0.24
1972	205,956,263	77 77	10.37	4 29	3.94	2 56	0 75	0.05	0.27
1973	178,863,622	82 07	6.06	4.54	3.55	2.45	1.00	0.06	0 27
1974	118,828,272	83.62	4.39	4.89	3.50	2.02	1.23	0.06	0 29
1975	157,555,469	85.04	3.66	4.82	3.25	1.72	1.18	0.17	0.16
1976	195,224,815	84.35	3.87	4.75	3.82	1.68	0.93	0.53	0 07
1977	187,393,082	83 96	4 60	4 79	3 53	1.62	0 73	0 74	0.03
1978	249,603,319	84.35	6.17	4.19	2.84	1.63	0.61	0.17	0 04
1979	300,728,389	83 65	6.93	3.82	2.85	1.80	0.56	0.35	0 04

[1] Dollar Volume for exchanges includes Stocks, Rights, and Warrants
[2] Others include all exchanges not listed above.

Special Block Distribution

In 1979, there were 45 special block distributions with a value of $278.3 million. Secondary distributions accounted for 82.2 percent of the total number of special block distributions in 1979 and 68 percent of the total value of these distributions.

The special offering method was employed five times, accounting for 11.1 percent of the total number of special block distributions in 1979, but with an aggregate value of $2.9 million, these offerings accounted for only 1.0 percent of the value of all special block distributions.

The exchange distribution method was employed three times in 1979. The value of exchange distributions was $86.1 million, representing 30.9 percent of the value of all special block distributions.

Table 24
SPECIAL BLOCK DISTRIBUTIONS REPORTED BY EXCHANGES
(Value in thousands)

YEAR	Secondary distributions			Exchange distributions			Special offerings		
	Number	Shares sold	Value	Number	Shares sold	Value	Number	Shares sold	Value
1942	116	2,397,454	82,840	0	0	0	79	812,390	22,694
1943	81	4,270,580	127,462	0	0	0	80	1,097,338	31,054
1944	94	4,097,298	135,760	0	0	0	87	1,053,667	32,454
1945	115	9,457,358	191,961	0	0	0	79	947,231	29,878
1946	100	6,481,291	232,398	0	0	0	23	308,134	11,002
1947	73	3,961,572	124,671	0	0	0	24	314,270	9,133
1948	95	7,302,420	175,991	0	0	0	21	238,879	5,466
1949	86	3,737,249	104,062	0	0	0	32	500,211	10,956
1950	77	4,280,681	88,743	0	0	0	20	150,308	4,940
1951	88	5,193,756	146,459	0	0	0	27	323,013	10,751
1952	76	4,223,258	149,117	0	0	0	22	357,897	9,931
1953	68	6,906,017	108,229	0	0	0	17	380,680	10,486
1954	84	5,738,359	218,490	57	705,781	24,664	14	189,772	6,670
1955	116	6,756,767	344,871	19	258,348	10,211	9	161,850	7,223
1956	146	11,696,174	520,966	17	156,481	4,645	8	131,755	4,557
1957	99	9,324,509	339,062	33	390,832	15,855	5	63,408	1,845
1958	122	9,508,505	361,886	38	619,876	29,454	5	88,152	3,286
1959	148	17,330,941	822,336	28	545,038	26,491	3	33,500	3,730
1960	92	11,439,065	424,688	20	441,644	11,108	3	63,663	5,439
1961	130	19,910,013	926,514	33	1,127,266	58,072	2	35,000	1,504
1962	59	12,143,656	658,780	41	2,345,076	65,459	2	48,200	588
1963	100	18,937,935	814,984	72	2,892,233	107,498	0	0	0
1964	110	19,462,343	909,821	68	2,553,237	97,711	0	0	0
1965	142	31,153,319	1,603,107	57	2,334,277	86,479	0	0	0
1966	126	29,045,038	1,523,373	52	3,042,599	118,349	0	0	0
1967	143	30,783,604	1,154,479	51	3,452,856	125,404	0	0	0
1968	174	36,110,489	1,571,600	35	2,669,938	93,528	1	3,352	63
1969	142	38,224,799	1,244,186	32	1,706,572	52,198	0	0	0
1970	72	17,830,008	504,562	35	2,066,590	48,218	0	0	0
1971	204	72,801,343	2,007,517	30	2,595,104	65,765	0	0	0
1972	229	82,365,749	3,216,126	26	1,469,666	30,156	0	0	0
1973	120	30,825,890	1,151,087	19	802,322	9,140	91	6,662,111	79,889
1974	45	7,512,200	133,838	4	82,200	6,836	33	1,921,755	16,805
1975	51	34,149,069	1,409,933	14	483,846	8,300	14	1,252,925	11,521
1976	44	20,568,432	517,546	16	752,600	13,919	22	1,475,842	18,459
1977	39	9,848,986	261,257	6	295,264	5,242	18	1,074,290	14,519
1978	37	15,233,141	569,487	3	79,000	1,429	3	130,675	1,820r
1979	37	10,726,580	189,253	3	1,647,600	86,065	5	203,900	2,939

r = revised

Value and Number of Securities Listed on Exchanges

The market value of stocks and bonds listed on U.S. Stock Exchanges at year-end 1979 was $1,487 billion, an increase of 11.4 percent from the previous year-end figure of $1,335 billion. The total was composed of $1,022 billion in stocks and $465 billion in bonds. The value of listed stocks increased 18.2 percent in 1979 and the value of listed bonds decreased 1.1 percent. Stocks with primary listing on the New York Stock Exchange were valued at $960.6 billion and represented 94 percent of the common and preferred stock listed on all U.S. exchanges. The value of NYSE listed stocks increased from their 1978 year-end total by $137.6 billion or 16.7 percent. Stocks with primary listing on the AMEX accounted for 5.6 percent of the total and were valued at $57.8 billion. The value of AMEX stocks increased $18.6 billion or 47 percent in 1979. Stocks with primary listing on all other exchanges were valued at $3.9 billion, an increase of 34.4 percent from the 1978 total.

The net number of stocks and bonds listed on exchanges increased 18 issues or 0.3 percent in 1979. The New York, Pacific, Intermountain and Philadelphia Stock Exchanges listed 42, 17, 9 and 2 additional securities, respectively. Spokane showed no change while all other exchanges showed a drop in the number of listings.

Table 25
SECURITIES LISTED ON EXCHANGES[1]
December 31, 1979

EXCHANGES	COMMON		PREFERRED		BONDS		TOTAL SECURITIES	
Registered:	Number	Market Value (Million)	Number	Market Value (Million)	Number	Market Value (Million)	Number	Market Value (Million)
American	904	$55,836	102	$1,941	210	$4,190	1,216	$61,967
Boston	56	503	2	+	1	1	59	504
Cincinnati	5	26	2	4	5	35	12	65
Midwest	14	458	6	17	0	0	29	475
New York	1,536	935,997	656	24,609	2,939	459,878	5,131	1,420,484
Pacific	43	1,599	11	263	35	860	89	2,722
Philadelphia	21	182	91	492	22	305	134	979
Intermountain	36	332	0	0	0	0	36	332
Spokane	24	$12	0	$0	0	$0	24	$12
Total	2,539	$ 994,945	870	$27,326	3,212	$465,269	6,721	$1,487,540
Includes the following foreign stocks:								
Registered:								
New York	36	$32,141	0	$0	166	$8,111	202	$40,252
American	58	24,126	0	0	8	327	66	24,453
Pacific	2	$214	0	$0	0	$0	2	$214
Total	96	$56,481	0	$0	174	$8,488	270	$64,919

[1] Excludes securities which were suspended from trading at the end of the year, and securities which because of inactivity had no available quotes
Honolulu Stock Exchange ceased operations on December 31, 1977
+ = Less than 0.5 million, but greater than zero.

Table 26

VALUE OF STOCKS LISTED ON EXCHANGES

(Dollars in billions)

Dec. 31	New York Stock Exchange	American Stock Exchange	Exclusively On Other Exchanges	Total
1936	59.9	14.8		7 47
1937	38 9	10.2		49.1
1938	47.5	10.8		58.3
1939	46 5	10 1		56.6
1940	41.9	8 6		50.5
1941	35.8	7.4		43.2
1942	38 8	7.8		46.6
1943	47.6	9 9		57.5
1944	55.5	11.2		66.7
1945	73.8	14.4		88.2
1946	68.6	13 2		81.8
1947	68.3	12.1		80.4
1948	67.0	11.9	3.0	81.9
1949	76.3	12.2	3.1	91.6
1950	93.8	13.9	3.3	111.0
1951	109 5	16 5	3.2	129.2
1952	120.5	16.9	3.1	140.5
1953	117.3	15.3	2.8	135.4
1954	169.1	22.1	3.6	194.8
1955	207.7	27.1	4.0	238.8
1956	219.2	31.0	3.8	254.0
1957	195.6	25.5	3.1	224.2
1958	276 7	31.7	4.3	312.7
1959	307.7	25.4	4.2	337.3
1960	307.0	24.2	4.1	335.3
1961	387.8	33.0	5.3	426.1
1962	345.8	24.4	4.0	374.2
1963	411.3	26.1	4.3	441.7
1964	474.3	28 2	4.3	506.8
1965	537.5	30.9	4.7	573.1
1966	482.5	27.9	4.0	514.4
1967	605.8	43.0	3.9	652.7
1968	692.3	61.2	6.0	579.5
1969	629.5	47.7	5 4	682.6
1970	635.4	39.5	4.8	680.7
1971	741.8	49.1	4.7	759.6
1972	871 5	55.6	5 6	932.7
1973	721.0	38.7	4.1	763.8
1974	511.1	28.8	2.9	537.3
1975	685.1	29.3	4 3	718.7
1976	858.3	36.0	4.2	898.5
1977	776.7	37 6	4.2	818.5
1978	822.7	39.2	2.9	864.8
1979	960.6	57.8	3.9	1022.3

Securities on Exchanges

As of September 30, 1980, a total of 6,850 securities, representing 3,082 issuers, were admitted to trading on securities exchanges in the United States. This compares with 6,783 issues, involving 3,129 issuers a year earlier. Over 5,000 issues were listed and registered on the New York Stock Exchange, accounting for 61.9 percent of the stock issues and 89.7 percent of the bond issues. Data below on "Securities Traded on Exchanges" involved some duplication since it includes both solely and dually listed securities.

Table 27
SECURITIES TRADED ON EXCHANGES

	Issuers	Stocks				Bonds[1]
		Registered	Temporarily exempted	Unlisted	Total	
American	994	994	1	39	1,034	223
Boston	775	106	...	711	817	14
Chicago Board of Options	1	1			1	
Chicago Board of Trade	3	1	.	2	3	
Cincinnati	336	30	..	320	350	16
Intermountain	48	47	..	1	48	..
Midwest	581	356	1	290	647	33
New York	1,915	2,266	2	..	2,268	2,902
Pacific Coast	791	780	1	163	944	110
PBS	870	257	.	773	1,030	81
Spokane	35	34		4	38	

[1] Issues exempted under Section 3(a)(12) of the Act, such as obligations of U.S. Government, the states, and cities, are not included in this table

Table 28
UNDUPLICATED COUNT OF SECURITIES ON EXCHANGES
(September 30, 1980)

	Stocks	Bonds	Total	Issuers Involved
Registered and Listed	3,625	3,221	6,846	3,052
Temporarily exempted from registration	2	2	4	2
Admitted to unlisted trading privileges	36	13	49	28
Total	3,663	3,236	6,850	3,082

1933 ACT REGISTRATIONS

Effective Registration Statements

In fiscal year 1980, securities valued at a total of $104.9 billion were registered in 3,263 effective registrations. This dollar value of effective registrations in 1980, a record amount for a single fiscal year, represents a rise of 35.6 percent from the total of $77.4 billion effectively registered in fiscal year 1979. The number of effective registrations in 1980 rose by 4.9 percent from the 3,112 effective registrations in fiscal year 1979.

First-time registrants in 1980 accounted for 947 effective registrations, an increase of 247 registrations (35.3 percent) from the 700 first-time registrants in fiscal year 1979.

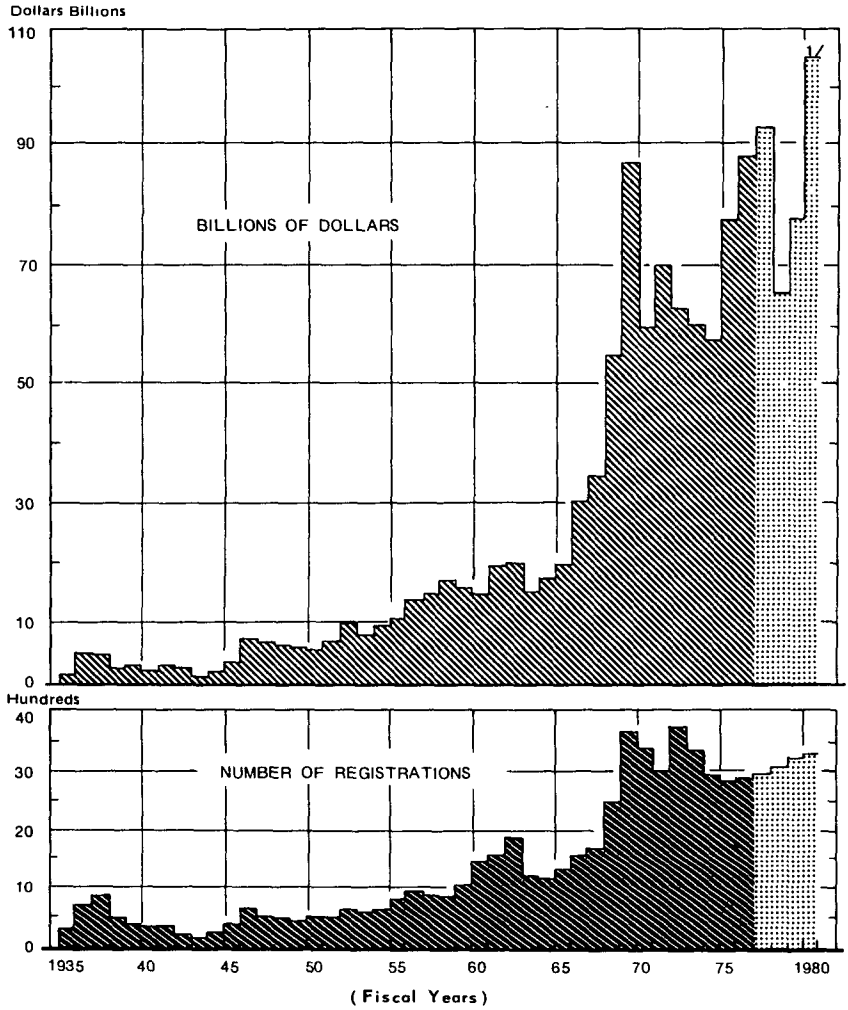
The dollar amount of securities registered for cash sale by issuers (primary cash sales) rose to $75.4 billion in fiscal year 1980, an increase of 41.4 percent from the total amount of $53.3 billion registered in fiscal year 1979. The fiscal year 1980 total dollar amount of these registrations is exceeded only by the $77.6 billion effectively registered in fiscal year 1977.

Table 29
EFFECTIVE REGISTRATIONS
(Dollars in Millions)

Fiscal Year	Total		Cash Sale for Account of Issuers			
	Number of Statements	Value	Common Stock[1]	Bonds, Debentures and Notes	Preferred Stock	Total
Fiscal Year ended June 30						
1935[2]	284	$913	$168	$490	$28	$686
1936	689	4,835	531	3,153	252	3,936
1937	840	4,851	802	2,426	406	3,634
1938	412	2, 101	474	666	209	1,349
1939	344	2,579	318	1,593	109	2,020
1940	306	1,787	210	1,112	110	1,432
1941	313	2,611	196	1,721	164	2,081
1942	193	2,003	263	1,041	162	1,466
1943	123	659	137	316	32	485
1944	221	1,760	272	732	343	1,347
1945	340	3,225	456	1,851	407	2 ,714
1946	661	7,073	1,331	3,102	991	5,424
1947	493	6,732	1,150	2,937	787	4,874
1948	435	6,405	1,678	2,817	537	5,032
1949	429	5,333	1,083	2,795	326	4,204
1950	487	5,307	1,786	2,127	468	4,381
1951	487	6,459	1,904	2,838	427	5,169
1952	635	9,500	3,332	3,346	851	7,529
1953	593	7,507	2,808	3,093	424	6,325
1954	631	9,174	2,610	4,240	531	7,381
1955	779	10,960	3,864	3,951	462	8,277
1956	906	13,096	4,544	4,123	539	9,206
1957	876	14,624	5,858	5,689	472	12,019
1958	813	16,490	5,998	6,857	427	13,282
1959	1,070	15,657	6,387	5,265	443	12,095
1960	1,426	14,367	7,260	4,224	253	11,737
1961	1,550	19,070	9,850	6,162	248	16,260
1962	1,844	19,547	11,521	4,512	253	16,286
1963	1,157	14,790	7,227	4,372	270	11,869
1964	1,121	16,860	10,006	4,554	224	14,784
1965	1,266	19,437	10,638	3,710	307	14,655
1966	1,523	30,109	18,218	7,061	444	25,723
1967	1,649	34,218	15,083	12,309	558	27,950
1968	2,417	54,076	22,092	14,036	1,140	37,268
1969	3,645	86,810	39,614	11,674	751	52,039
1970	3,389	59,137	28,939	18,436	823	48,198
1971	2,089	69,562	27,455	27,637	3,360	58,452
1972	3,712	62,487	26,518	20,127	3,237	49,882
1973	3,285	59,310	26,615	14,841	2,578	44,034
1974	2,890	56,924	19,811	20,997	2,274	43,082
1975	2,780	77,457	30,502	37,557	2,201	70,260
1976	2,813	87,733	37,115	29,373	3,013	69,501
Transition Quarter:						
Jly-Sept 1976	639	15,010	6,767	5,066	413	12,246
Fiscal Year ended September 30						
1977	2,915	92,579	47,116	28,026	2,426	77,568
1978[3]	3,037	65,043	25,330	23,251	2,128	50,709
1979 (r)	3,112	77,400	22,714	28,894	1,712	53,320
1980 (p)	3,263	104,900	31,631	40,907	2,841	75,379
Cumulative Total	65,782	$1,298,467	$530,182	$436, 007	$41,361	$1,007,550

(r) = revised
(p) = preliminary
[1] Includes warrants, shares of beneficial interest, certificates of participation and all other equity interests not elsewhere included.
[2] For 10 months ended June 30, 1935.
[3] The adoption of Rule 24f-2 (17 CFR 279.24f-2) effective November 3, 1977 made it impossible to report the dollar value of securities registered by investment companies.
Note: The Total Cash Sale differs from earlier presentations due to changes in rounding procedures.

Securities Effectively Registered With S.E.C. 1935-1980



FISCAL YEAR END CHANGED FROM JUNE TO SEPTEMBER

DATA FOR TRANSITION QUARTER JULY-SEPTEMBER 1976 NOT SHOWN ON CHARTS: EFFECTIVE REGISTRATIONS $15.0 BILLION, NUMBER OF REGISTRATIONS 639

1/ DOES NOT INCLUDE INVESTMENT COMPANIES AS OF 1/1/78 DUE TO RULE CHANGE

Purpose and Type of Registrations

Of the $104.9 billion of securities registered in fiscal year 1980, $75.4 billion (71.9 percent) were registrations of cash sales for the account of the issuer (primary cash offerings). Non-cash registrations for the account of the issuer amounted to $27.0 billion (25.8 percent) and registrations of secondary offerings accounted for $2.5 billion (2.4 percent) of all registrations in fiscal year 1980.

Within the primary offering category, $58.7 billion of securities were registered for immediate sale and $16.7 billion of securities were registered for extended offerings. Of securities registered for immediate offering, $56.2 billion (95.7 percent) represent the securities of corporations and other private enterprises. The remaining $2.5 billion (4.3 percent) are securities registered by foreign governments. Effective registrations of extended cash offerings, the last category of primary cash offerings, amounted to $16.7 billion in fiscal year 1980. Of this amount, $12.7 billion (76.5 percent) represented securities registered for future distribution to an issuer's employees through savings, stock option, stock purchase or incentive compensation plans. Securities registered for exchange offers, mergers and consolidations and securities reserved for the conversion of other securities ($24.3 billion) account for 89.7 percent of the $27.0 billion of securities registered by issuers for non-cash transactions.

Registrations for the cash sale of common stock form the largest group of secondary offerings registrations (proceeds to selling securities holders). In fiscal year 1980, these registrations covered $1.7 billion (67.7 percent) of all registrations for secondary offerings.

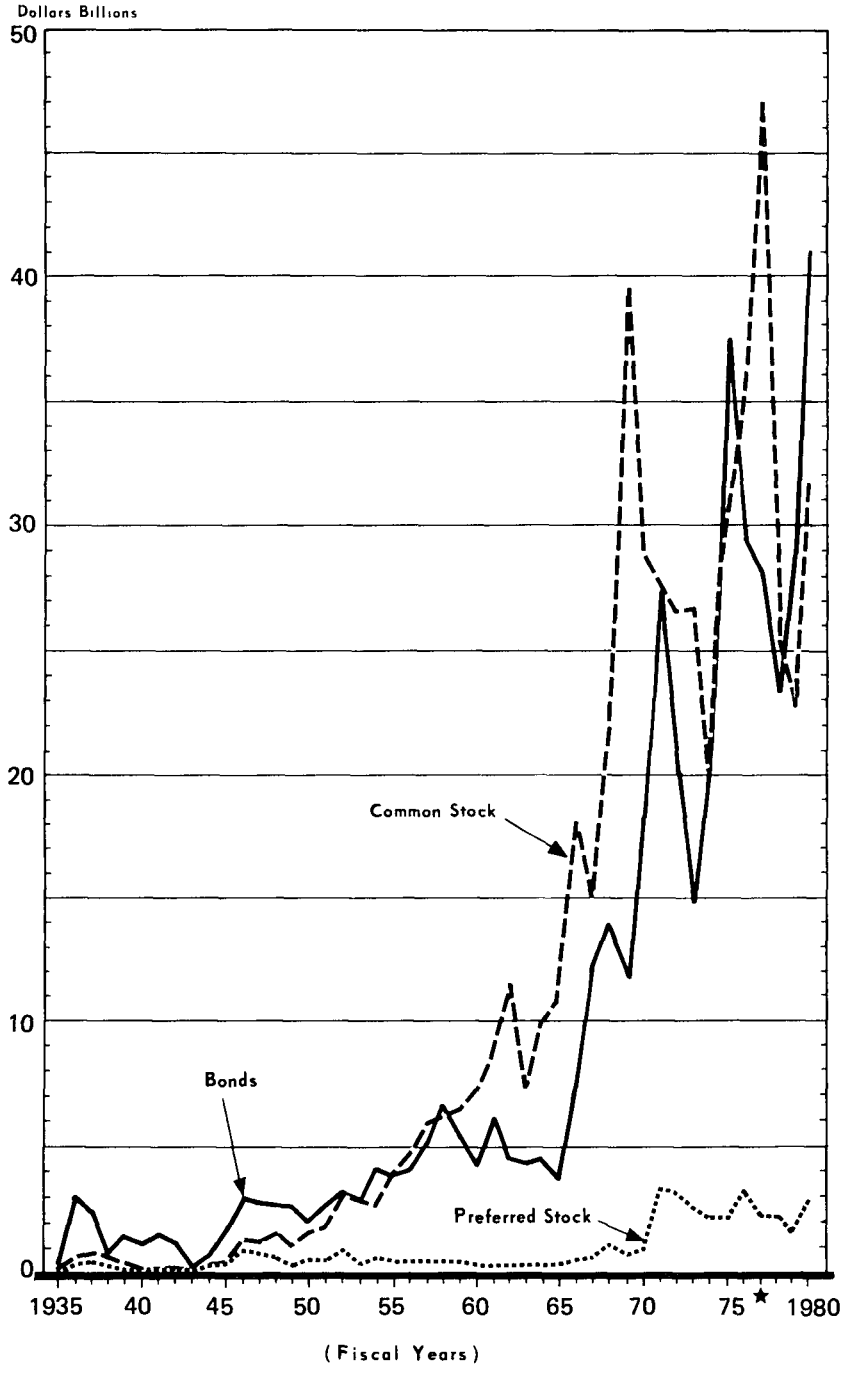
The total dollar value of all but two categories of registrations by purpose (registrations for foreign government securities and for secondary offerings) rose in fiscal year 1980 from fiscal year 1979. Registrations for immediate offerings by private enterprises to the public for cash increased for all types of securities. Bond offerings of this kind rose by $14.1 billion (58.3 percent) to $38.3 billion, preferred stock offerings rose by $1.2 billion (69.4 percent) to $2.8 billion and common stock offerings increased by $5.6 billion (74.3 percent) to $13.3 billion from the previous fiscal year.

Table 30
EFFECTIVE REGISTRATIONS BY PURPOSE AND TYPE OF SECURITY: FISCAL YEAR 1980
(Dollars in Millions)

Purpose of registrations	Type of security			
	Total	Bonds, debentures and notes	Preferred Stock	Common Stock[1]
All registrations (estimated value)	$104,900	$46,024	$ 6,301	$52,575
For account of issuer for cash sale	75,380	40,907	2,841	31,631
Immediate offering	58,709	40,907	2,814	14,987
Private Enterprise	56,220	38,418	2,814	14,987
Offered to:				
General Public	54,316	38,255	2,811	13,250
Security Holders	1,904	164	3	1,737
Foreign Governments	2,489	2,489	0	0
Extended cash sale	16,671	0	27	16,644
For account of issuer for other than cash sale	27,025	5,116	3,441	18,468
Secondary offerings	2,496	1	19	2,476
Cash Sale	1,695	0	4	1,691
Other	801	1	15	785

[1] Includes warrants, shares of beneficial interest, certificates of participation and all other equity interests not elsewhere included
Note: Preliminary

Effective Registrations
Cash Sale For Account Of Issuers
1935-1980



★BEGINNING IN 1977, FISCAL YEARS END IN SEPTEMBER RATHER THAN JUNE.

DATA FOR TRANSITION QUARTER JULY-SEPTEMBER 1976 NOT SHOWN ON CHART:
BONDS $5.1 BILLION, PREFERRED STOCK $.4 BILLION, COMMON STOCK $6.8 BILLION

REGULATION A OFFERINGS

During fiscal year 1980, 398 notifications were filed for proposed offerings under Regulation A. Issues between $500–000–$1,500,000 in size predominated. It should be noted that the ceiling for Regulation A was raised to $1.5 million on September 11, 1978.

Table 31
OFFERINGS UNDER REGULATION A

	Fiscal 1980	Fiscal 1979	Fiscal 1978
Size:			
$100,000 or Less	17	10	23
$100,000–$200,000	25	33	33
$200,000–$300,000	17	27	36
$300,000–$400,000	23	30	25
$400,000–$500,000	35	44	120
$500,000–$1,500,000	281	203	5
Total	398	347	242
Underwriters:			
Used	100	98	55
Not Used	298	249	187
Total	398	347	242
Offerors:			
Issuing Companies	382	331	223
Stockholders	14	3	5
Issuers and Stockholders jointly	2	13	14
Total	398	347	242

ENFORCEMENT

Types of Proceedings

As the table below reflects, the securities laws provide for a wide range of enforcement actions by the Commission. The most common types of actions are injunctive proceedings instituted in the Federal district courts to enjoin continued or threatened securities law violators, and administrative proceedings pertaining to broker-dealer firms and/or individuals associated with such firms which may lead to various remedial sanctions as required in the public interest. When an injunction is entered by a court, violation of the court's decree is a basis for criminal contempt action against the violator.

Table 32
TYPES OF PROCEEDINGS

ADMINISTRATIVE PROCEEDINGS

Persons Subject to, Acts Constituting, and Basis for, Enforcement Action	Sanction
Broker-dealer, municipal securities dealer, investment adviser or associated person	
Willful violation of securities acts provision or rule, aiding or abetting such violation; failure reasonably to supervise others; willful misstatement or omission in filing with the Commission; conviction of or injunction against certain crimes or conduct.	Censure or limitation on activities; revocation, suspension or denial of registration; bar or suspension from association (1934 Act, §§ 15B(c)(2)–(4), 15(b)(4)–(6); Advisers Act, §§ 203(e)–(f)) *
Registered securities association	
Organization or rule not conforming to statutory requirements.	Suspension of registration or limitation of activities, functions, or operations (1934 Act § 19(h)(1))
Violation of or inability to comply with the 1934 Act, rules thereunder, or its own rules, unjustified failure to enforce compliance with the foregoing or with rules of the Municipal Securities Rulemaking Board by a member or person associated with a member.	Suspension or revocation of registration; censure or limitation of activities, functions, or operations (1934 Act, § 19(h)(1)).
Member of registered securities association, or associated person	
Being subject to Commission order pursuant to 1934 Act, § 15(b); willful violation of or effecting transaction for other person with reason to believe that person was violating securities acts provisions, rules thereunder, or rules of Municipal Securities Rulemaking Board.	Suspension or expulsion from the association; bar or suspension from association with member of association (1934 Act, §§ 19(h)(2)–(3)).
National securities exchange	
Organization or rules not conforming to statutory requirements.	Suspension of registration or limitation of activities, functions, or operations (1934 Act, § 19(h)(1)).
Violation of or inability to comply with 1934 Act, rules thereunder or its own rules; unjusitified failure to enforce compliance with the foregoing by a member or person associated with a member.	Suspension or revocation of registration, censure or limitation of activities, functions, or operations (1934 Act, § 19(h)(1)).
Member of national securities exchange, or associated persons	
Being subject to Commission order pursuant to 1934 Act, § 15(b); willful violation of or effecting transaction for other person with reason to believe that person was violating securities acts provisions or rules thereunder.	Suspension or expulsion from exchange; bar or suspension from association with member (1934 Act, §§ 19(h)(2)–(3))
Registered clearing agency	
Violation of or inability to comply with 1934 Act, rules thereunder, or its own rules; failure to enforce compliance with its own rules by participants.	Suspension or revocation of registration, censure or limitation of activities, functions, or operations (1934 Act, § 19(h)(1)).
Participant in registered clearing agency	
Being subject to Commission order pursuant to 1934 Act, § 15(b)(4); willful violation of or effecting transaction for other person with reason to believe that person was violating provisions of clearing agency rules.	Suspension or expulsion from clearing agency (1934 Act, § 19(h)(2))
Securities information processor	
Violation of or inability to comply with provisions of 1934 Act or rules thereunder.	Censure or operational limitations; suspension or revocation of registration (1934 Act, § 11A(b)(6)).

*Statutory references are as follows: "1933 Act", the Securities Act of 1933; "1934 Act", the Securities Exchange Act of 1934; "Investment Company Act", The Investment Company Act of 1940; "Advisers Act", the Investment Advisers Act of 1940; "Holding Company Act", the Public Utility Holding Company Act of 1935; "Trust Indenture Act", the Trust Indenture Act of 1939; and "SIPA", the Securities Investor Protection Act of 1970.

Table 32—Continued

TYPES OF PROCEEDINGS

ADMINISTRATIVE PROCEEDINGS

Persons Subject to, Acts Constituting, and Basis for, Enforcement Action	Sanction
Transfer agent	
Willful violation of or inability to comply with 1934 Act, §§ 17 or 17A, or regulations thereunder	Censure or limitation of activities, denial, suspension, or revocation of registration (1934 Act, § 17A(c)(3))
Any person	
Willful violation of securities act provision or rule; aiding or abetting such violation; willful misstatement in filing with Commission	Temporary or permanent prohibition from serving in certain capacities for registered investment company (Investment Company Act, § 9(b))
Officer or director of self-regulatory organization.	
Willful violation of 1934 Act, rules thereunder, or the organization's own rules, willful abuse of authority or unjustified failure to enforce compliance.	Removal from office or censure (1934 Act, § 19(h)(4))
Principal of broker-dealer	
Engaging in business as a broker-dealer after appointment of SIPC trustee	Bar or suspension from being or being associated with a broker-dealer (SIPA, § 10(b)).
1933 Act registration statement	
Statement materially inaccurate or incomplete.	Stop order suspending effectiveness (1933 Act, § 8(d))
Investment company has not attained $100,000 net worth 90 days after statement became effective.	Stop order (Investment Company Act, § 14(a)).
Persons subject to Sections 12, 13 or 15(d) of the 1934 Act.	
Material noncompliance with such provisions	Order directing compliance (1934 Act, § 15(c)(4)).
Securities issue	
Noncompliance by issuer with 1934 Act or rules thereunder	Denial, suspension of effective date, suspension or revocation of registration on national securities exchange (1934 Act, § 12(j)).
Public interest requires trading suspension	Summary suspension of over-the-counter or exchange trading (1934 Act, § 12(k)).
Registered investment company	
Failure to file Investment Company Act registration statement or required report, filing materially incomplete or misleading statement of report.	Revocation of registration (Investment Company Act, § 8(e)).
Company has not attained $100,000 net worth 90 days after 1933 Act registration statement became effective.	Revocation or suspension of registration (Investment Company Act, § 14(a)).
Attorney, accountant, or other professional or expert	
Lack of requisite qualifications to represent others, lacking in character or integrity, unethical or improper professional conduct; willful violation of securities laws or rules; or aiding and abetting such violation.	Permanent or temporary denial of privilege to appear or practice before the Commission (17 C F.R. § 201.2(e)(1)).
Attorney suspended or disbarred by court, expert's license revoked or suspended; conviction of a felony or misdemeanor involving moral turpitude.	Automatic suspension from appearance or practice before the Commission (17 C.F.R. § 201.2(e)(2)).
Permanent injunction against or finding of securities violation in Commission-instituted action; finding of securities violation by Commission in administrative proceedings.	Temporary suspension from appearance before Commission (17 C.F.R § 201.2(e)(3)).
Member of Municipal Securities Rulemaking Board	
Willful violation of securities laws, rules thereunder, or rules of the Board.	Censure or removal from office 1934 Act, § 15B(c)(8)).

Table 32—Continued

TYPES OF PROCEEDINGS

CIVIL PROCEEDINGS IN FEDERAL DISTRICT COURTS

Persons Subject to, Acts Constituting and Basis for, Encorcement Action	Sanction
Any person	
Engaging in or about to engage in acts or practices violating securities acts, rules or orders thereunder (including rules of a registered self-regulatory organization)	Injunction against acts or practices which constitute or would constitute violations (plus other equitable relief under court's general equity powers) (1933 Act, Sec 20(b); 1934 Act, Sec 21(d), 1935 Act, Sec. 18(f), Investment Company Act, § 42(e); Advisers Act, § 209(e); Trust Indenture Act, § 321)
Noncompliance with provisions of law, rule, or regulation under 1933, 1934, or Holding Company Acts, order issued by Commission rules of a registered self-regulatory organization, or undertaking in a registration statement	Writ of mandamus, injunction, or order directing compliance (1933 Act, § 20(c); 1934 Act, § 21(e), Holding Company Act § 18(g))
Securities Investor Protection Corporation	
Refusal to commit funds or act for the protection of customers	Order directing discharge of obligations or other appropriate relief (SIPA, § 7(b))
National securities exchange or registered securities association	
Noncompliance by its members and persons associated with its members with the 1934 Act, rules and orders thereunder, or rules of the exchange or association	Writ of mandamus, injunction or order directing such exchange or association to enforce compliance (1934 Act, § 21(e)).
Registered clearing agency	
Noncompliance by its participants with its own rules.	Writ of mandamus, injunction or order directing cleanng agency to enforce compliance (1934 Act, § 21(e))
Issuer subject to reporting requirements	
Failure to file reports required under § 15(d) of 1934 Act	Forfeiture of $100 per day (1934 Act, § 32(b))
Registered investment company or affiliate	
Name of company or of security issued by it deceptive or misleading	Injunction against use of name (Investment Company Act, § 35(d))
Officer, director, member of advisory board, adviser, depositor, or underwriter of investment company.	
Engage in act or practice constituting breach of fiduciary duty involving personal misconduct	Injunction against acting in certain capacities for investment company, and other appropriate relief (Investment Company Act, § 36(a)).
Any person having fiduciary duty respecting receipt of compensation from investment company.	
Breach of fiduciary duty.	Injunction (Investment Company Act § 36(a))

III REFERRAL TO ATTORNEY GENERAL FOR CRIMINAL PROSECUTION

Basis for Enforcement Action	Sanction or Relief
Any person	
Willful violation of securities acts or rules thereunder or willful misstatement in any document required to be filed by securities laws and rules or by self-regulatory organization in connection with an application for membership, participation or to become associated with a member thereof.	Maximum penalties: $10,000 fine and 5 years imprisonment, an exchange may be fined up to $500,000, a public-utility holding company up to $200,000 (1933 Act, Secs 20(b), 24, 1934 Act Secs 21(d), 32(a), 1935 Act, Secs. 18(f), 29; 1939 Act, Sec 325; Investment Co. Act, Secs. 42(e), 49, Advisers Act, Secs 209(e), 217).

Table 32—Continued

TYPES OF PROCEEDINGS

REFERRAL TO ATTORNEY GENERAL FOR CRIMINAL PROSECUTION

Persons Subject to Acts Constituting, and Basis for Enforcement Action	Sanction
Any person Willful violation of securities acts or rules thereunder or willful misstatement in any document required to be filed by securities laws and rules or by self-regulatory organization in connection with an application for membership, participation or to become associated with a member thereof.	Maximum penalties: $10,000 fine and 5 years imprisonment; an exchange may be fined up to $500,000, a public-utility holding company up to $200,000 (1933 Act, Secs. 30(b), 24; 1934 Act Secs. 21(d), 32(a); Holding Company Act, Secs. 18(f), 29, 1939 Act, Sec. 325; Investment Company Act, Secs. 42(e), 49; Advisers Act, Secs. 209(e), 217).
Any issuer which violates Section 30A(a) of the 1934 Act.	Maximum penalty: $1,000,000 fine (1934 Act Sec. 32(c)(1)).
Any officer or director of an issuer, or any stockholder acting on behalf of such issuer, who willfully violates Section 30A(a) of the 1934 Act.	Maximum penalty: $10,000 fine and 5 years imprisonment (1934 Act Sec. 32(c)(2)).
Any employee or agent (subject to the jurisdiction of the United States) of an issuer found to have violated Section 30A(a) of the 1934 Act, who willfully carried out the act or practice constituting such violation.	Maximum penalty: $10,000 fine and 5 years imprisonment (1934 Act Sec 32(c)(3))
Any person Willful violation of securities acts or rules thereunder or willful misstatement in any document required to be filed by securities laws and rules or by self-regulatory organization in connection with an application for membership, participation or to become associated with a member thereof.	Maximum penalties: $10,000 fine and 5 years imprisonment; an exchange may be fined up to $500,000 a public-utility holding company up to $200,000 (1933 Act, Secs. 20(b), 24; 1934 Act Secs. 21(d), 32(a); Holding Company Act, Secs. 18(f), 29; 1939 Act, Sec. 325; Investment Company Act, Secs. 42(e), 49; Advisers Act, Secs. 209(e), 217).
Any issuer which violates Section 30A(a) of the 1934 Act (foreign corrupt practices).	Maximum penalty: $1,000,000 fine (1934 Act Sec 32(c)(1)).
Any officer or director of an issuer, or any stockholder acting on behalf of such issuer, who willfully violates Section 30A(a) of the 1934 Act.	Maximum penalty: $10,000 fine and 5 years imprisonment (1934 Act Sec 32(c)(2)).
Any employee or agent (subject to the jurisdiction of the United States) of an issuer found to have violated Section 30A(a) of the 1934 Act, who willfully carried out the act or practice constituting such violation.	Maximum penalty: $10,000 fine and 5 years imprisonment (1934 Act Sec. 32(c)(3)).

Table 33
INVESTIGATIONS OF POSSIBLE VIOLATIONS OF THE ACTS ADMINISTERED BY THE COMMISSION

Pending September 30, 1979	1,171
Opened	322
Total for Distribution	1,493
Closed	405
Pending September 30, 1980	1,088

During the fiscal year ending September 30, 1980, 186 formal orders were issued by the Commission upon recommendation of the Division of Enforcement.

Table 34
ADMINISTRATIVE PROCEEDINGS INSTITUTED DURING FISCAL YEAR ENDING SEPTEMBER 30, 1980

Broker Dealer Proceedings	35
Investment Adviser Proceedings	16
Stop Order, Reg. A Suspension and Other Disclosure Cases	23

Injunctive Actions 1979–1980

During fiscal 1980, 103 suits for injunctions and 25 miscellaneous actions were instituted in the United States district courts by the Commission, and 23 district court proceedings were brought against the Commission. During that year this office handled 16 appellate cases involving petitions for review of Commission decisions, 3 appeals in reorganization matters and 23 appeals in injunction and miscellaneous cases. SEC participated and filed 13 amicus curiae briefs in 13 cases.

Table 35
INJUNCTIVE ACTIONS

Fiscal Year	Cases Instituted	Injunctions Ordered	Defendants Enjoined
1971	140	114	495
1972	119	113	511
1973	178	145	654
1974	148	289	613
1975	174	453	749
1976	158	435	722
1977	166	336	715
1978	135	289	607
1979	108	253	511
1980	103	216	387

Criminal Proceedings

During the past fiscal year 74 cases were referred or access was granted to the Department of Justice. (This figure includes 1 criminal contempt action.) As a result of these actions and those prior referrals, 26 indictments were returned against 49 defendants during the fiscal year. There were also 57 convictions in 35 cases. Convictions were affirmed in 2 cases that had been appealed, and appeals were still pending in 6 other criminal cases at the close of the fiscal year. Of 10 defendants in 9 criminal contempt cases handled during the fiscal year, 3 defendants were convicted, prosecution was declined as to 1 defendant, and 6 defendants in 6 cases are still pending.

Table 36
CRIMINAL CASES

Fiscal Year	Number of cases referred/access Justice Dept.	Number of Indictments	Defendants Indicted	Convictions
1971	22	16	83	89
1972	38	28	67	75
1973	49	40	178	83
1974	67	40	169	81
1975	88	53	199	116
1976	116	23	118	97
1977	100	68	230	135
1978	109	50	144	174
1979	45	42	112	87
1980	74	26	49	58

Trading Suspensions

During fiscal 1980, the Commission suspended trading in the securities of 25 companies, an increase of 9% from the 23 securities suspended in fiscal 1979 and a 71% decrease from the 86 securities suspended in fiscal 1978. Of the 25 companies whose securities were the subject of trading suspensions in fiscal 1980, 3 were suspended because of delinquency in filing required reports with the Commission. In most other instances, the trading suspension was ordered either because of substantial questions as to the adequacy, accuracy or avaliability of public information concerning the company's financial condition or business operations, or because transactions in the company's securities suggested possible manipulation or other violations.

Foreign Restricted List

The Commission maintains and publishes a Foreign Restricted List which is designed to put broker-dealers, financial institutions, investors and others on notice of unlawful distribution of foreign securities in the United States. The list consists of names of foreign companies whose securities the Commission has reason to believe have been, or are being, offered for public sale in the United States in violation of the registration requirements of Section 5 of the Securities Act. The offer and sale of unregistered securities deprives investors of all the protections afforded by the Securities Act, including the right to receive a prospectus containing the information required by the Act for the purpose of enabling the investor to determine whether the investment is suitable for him. While most broker-dealers refuse to effect transactions in securities issued by companies on the Foreign Restricted List, this does not necessarily prevent promoters from illegally offering such securities directly to investors in the United States by mail, by telephone, and sometimes by personal solicitation. During the past fiscal year, there was one corporation added to the Foreign Restricted List. The total number of corporations on the list is 102. The following company was added during the fiscal year:

International Monetary Exchange, S.A. —Information has come to the attention of the Commission that International Monetary Exchange, S.A., has solicited investors in the United States, through the mails and the means and instruments of transportation and communication of interstate commerce, to purchase securities, namely, investments purporting to consist of leasehold interests in supposed goldmining properties. Since no registration statement has been filed nor become effective pursuant to the Securities Act of 1933 with respect to these securities, their

offer and sale may be in violation of Section 5 of the Securities Act of 1933.

The complete list of all foreign corporations and other foreign entities on the Foreign Restricted List on September 30, 1980, is as follows:

Aguacate Consolidated Mines, Incorporated (Costa Rica)
Alan MacTavish, Ltd. (England)
Allegheny Mining and Exploration Company, Ltd. (Canada)
Allied Fund for Capital Appreciation (AFCA, S.A.) (Panama)
Amalgamated Rare Earth Mines, Ltd. (Canada)
American Industrial Research S.A., also known as Investigacion Industrial Americana, S.A. (Mexico)
American International Mining (Bahamas)
American Mobile Telephone and Tape Co., Ltd. (Canada)
Antel International Corporation, Ltd. (Canada)
Antoine Silver Mines, Ltd. (Canada)
ASCA Enterprises Limited (Hong Kong)
Atho'l Brose (Exports) Ltd. (England)
Atholl Brose, Ltd. (England)
Atlantic and Pacific Band and Trust Co., Ltd. (Bahamas)
Banco de Guadalajara (Mexico)
Bank of Sark (United Kingdom)
Briar Court Mines, Ltd. (Canada)
British Overseas Mutual Fund Corporation Ltd. (Canada)
California & Caracas Mining Corp., Ltd. (Canada)
Canterra Development Corporation, Ltd. (Canada)
Cardwell Oil Corporation, Ltd. (Canada)
Caribbean Empire Company, Ltd. (British Honduras)
Caye Chapel Club, Ltd. (British Honduras)
Central and Southern Industries Corp. (Panama)
Cerro Azul Coffee Plantation (Panama)
Cia. Rio Bonano, S.A. (Costa Rica)
City Bank A.S. (Denmark)
Claw Lake Molybdenum Mines Ltd. (Canada)
Claravella Corporation (Costa Rica)
Compressed Air Corporation, Limited (Bahamas)
Continental and Southern Industries, S.A. (Panama)
Credito Mineroy Mercantil (Mexico)
Crossroads Corporation, S.A. (Panama)
Darien Exploration Company, S.A. (Panama)
Derkglen, Ltd. (England)
De Veers Consolidated Mining Corporation, S.A. (Panama)
Doncannon Spirits, Ltd. (Bahamas)
Durman, Ltd., formerly known as Bankers International Investment Corporation (Bahamas)
Empresia Minera Cavdalosa de Panama, S.A.
Ethel Copper Mines, Ltd. (Canada)
Euroforeign Banking Corporation, Ltd. (Panama)
Financiera Comermex (Mexico)
Financiera de Eomento Industrial (Mexico)
Financiera Metropolitana (Mexico)
Finansbanken a/s (Denmark)
First Liberty Fund, Ltd. (Bahamas)
Global Explorations, Inc. (Panama)
Global Insurance Company, Limited (British West Indies)
Globus Anlage-Vermittlungsgesellschaft MBH (Germany)
Golden Age Mines, Ltd. (Canada)
Hebilla Mining Corporation (Costa Rica)
Hemisphere Land Corporation Limited (Bahamas)
Henry Ost & Son, Ltd. (England)
International Communications Corporation (British West Indies)
International Monetary Exchange, S.A.
International Trade Development of Costa Rica, S.A.
Ironco Mining & Smelting Company Ltd. (Canada)
James G. Allan & Sons (Scotland)
J.P. Morgan & Company, Ltd., of London, England (not to be confused with J.P. Morgan & Co., Incorporated, New York)
Jupiter Explorations, Ltd. (Canada)

Kenilworth Mines, Ltd. (Canada)
Klondike Yukon Mining Company (Canada)
Kokanee Moly Mines, Ltd. (Canada)
Land Sales Corporation (Canada)
Los Dos Hermanos, S.A. (Spain)
Lynbar Mining Corp., Ltd. (Canada)
Mercantile Bank & Trust Company, Limited
Norart Minerals Limited (Canada)
Normandie Trust Company, S.A. (Panama)
Northern Survey (Canada)
Northern Trust Company, S.A. (Switzerland)
Northland Minerals, Ltd. (Canada)
Obsco Corporation, Ltd. (Canada)
Pacific Northwest Developments, Ltd. (Canada)
Panamerican Bank & Trust Company (Panama)
Paulpic Gold Mines, Ltd. (Canada)
Pyrotext Mining and Exploration Co., Ltd. (Canada)
Radio Hill Mines Co., Ltd. (Canada)
Rodney Gold Mines Limited (Canada)
Royal Greyhound and Turf Holdings Limited (South Africa)
S.A. Valles & Co., Inc. (Phillipines)
San Salvador Savings & Loan Co., Ltd. (Bahamas)
Santack Mines Limited (Canada)
Security Capital Fiscal & Guaranty Corporation, S.A. (Panama)
Silver Stack Mines, Ltd. (Canada)
Societe Anonyme de Refinancement (Switzerland)
Strathmore Distillery Company, Ltd. (Scotland)
Strathross Blending Company Limited (England)
Swiss Caribbean Development & Finance Corporation (Switzerland)

PUBLIC UTILITY HOLDING COMPANIES

System Companies

At fiscal year 1980 there were 14 holding companies registered under the Act of which 13 are "active". In the 14 registered systems, there were 60 electric and/or gas utility subsidiaries, 68 non-utility subsidiaries, and 22 inactive companies, or a total of 168 system companies including the top parent and subholding companies. The following table lists the active systems.

Table 37
PUBLIC UTILITY HOLDING COMPANY SYSTEMS

	Solely Registered Holding Companies	Registered Holding Operating Companies	Electric and/or Gas Utility Subsidiaries	Nonutility Subsidiaries	Inactive Companies	Total Companies	Other
Allegheny Power System (APS)	1	3	0	4	0	8	3
American Electric Power Company (AEP)	1	0	12	10	6	29	3 [a]
Central and South West Corporation (CSW)	1	1	3	4	1	10	1 [b]
Colonial Gas Energy System (CGES)	1	0	2	12	2	17	—
Columbia Gas System(CGS)	1	0	8	9	1	19	—
Consolidated Natural Gas Company (CNG)	1	0	5	6	0	12	—
Eastern Utilities Associates (EUA)	1	0	3	1	2	7	4 [c]
General Public Utilities (GPU)	1	0	4	5	0	10	—
Middle South Utilities (MSU)	1	0	7	2	3	13	1 [b]
National Fuel Gas Company (NFG)	1	0	1	3	0	5	—
New England Electric System (NEES)	1	0	4	2	0	7	4 [c]
Northeast Utilities(NEU)	1	0	5	7	6	19	4 [c]
Philadelphia Electric Power Co (PEP)	0	1	1	0	1	3	—
Southern Company (SC)	1	0	5	3	0	9	—
Total Companies	13	5	60	68	22	168	8

[a] Beach Bottom Power Co. Inc
– 50% APS
50% AEP

Ohio Valley Elec. Corp & Subs.

Indiana-Kentucky Elec. Corp
– electric utility
– 37.8% AEP
12.5% APS
49 7% other companies

[b] Arklahoma Corp.
– 32% CSW
34% MSU
34% Oklahoma Gas & Elec

[c] Yankee Atomic Electric Co.:
30% NEES; 31 5% NBU; 45% EUA

Connecticut Yankee Atomic Power Co.: 15% NEES; 44% NEU: 45% EUA.

Vermont Yankee Nuclear Power Corp.: 20% NEES; 12% NDU; 25% EUA.

Maine Yankee Atomic Power Co.: 20% NEES; 15% NDU; 4% EUA.

– Statutory utility subsidiaries.

Table 38
KEY FINANCIAL STATISTICS OF REGISTERED PUBLIC UTILITY HOLDING COMPANY SYSTEMS

Name of Company	As of June 30, 1980 (000 omitted) Total Assets	Operating Revenues
Allegheny Power System (APS)	$ 2,870,473	$1,142,932
American Electric Power Company Inc (AEP)	10,506,994	3,490,000
Central and South West Corporation (C&SW)	3,596,895	1,493,195
Colonial Gas Energy System (CGES)	106,558	78,723
Columbia Gas System Inc., The (CGS)	3,608,947	3,368,742
Consolidated Natural Gas Company (CNG)	2,641,663	2,367,420
Eastern Utilities Associates (EUA)	363,601	219,197
General Public Utilities Corporation (GPU)	5,067,082	1,643,625
Middle South Utilities Inc (MSU)	6,934,526	2,002,420
National Fuel Gas Company (NFG)	673,046	730,871
New England Electric System (NEES)	1,938,055	970,620
Northeast Utilities (NEU)	3,291,867	1,188,427
Philadelphia Electric Power Co (PEP)	59,386	7,006
Southern Company, The (SC)	10,866,288	3,283,744
	$52,525,341	$21,986,922

Table 39
PUBLIC FINANCING OF HOLDING COMPANY SYSTEMS

Fiscal 1980

	In Millions of Dollars					
				Stock		
	Bonds	Long-term Notes and/or Debentures	Pollution Control financings	Preferred	Common	Short Term Debt
	$	$	$	$	$	
Allegheny Power System					15 2	175.0
West Penn Power Co	30.0			30.0		
American Electric Power Co					102.7	165.0
Appalachian Power Co	40 0	100.0	11.0			200.0
Cedar Coal Co						
Central Ohio Coal Co						30.0
Central & Southern Ohio Electric	80.0		100.0	50.0		200.0
Indiana & Michigan Electric	55.0		100.0	50.0		344 6
Kentucky Power Co	80.0					35.0
Kingsport Power Co		15.0				
Michigan Power Co		20.0				
Ohio Power Co						298.7
Wheeling Electric Co		19.0				
Central & Southwest Corp					115.1	250.0
Central Power & Light Co	75.0			40.0		121.7
Central & South West Services						4.0
Central & South West Fuels						19 2
Public Service Co. of Oklahoma	55.0	90.0				160.0
Southwestern Electric Power Co	60 0			40.0		78.3
Colonial Gas Energy Co						
Lowell Gas Co						12 5
Columbia Gas System	100.0	200.0			19.0	
Consolidated Natural Gas Co						225 0
CNG Producing Co		3 8				
Eastern Utilities Associates					7.5	
Blackstone Valley Electric						4.7
Eastern Edison						19.7
Montaup Electric						63.5
General Public Utilities	15.5					
Jersey Central Power & Light	47.5					160.0
Metropolitan Edison Co	14.0					125.0
Middle South Utilities					420.1	226.8
Arkansas-Missouri Power						16.0
Arkansas Power & Light		50.0				150.0
Louisiana Power & Light	55 0			40.0		165.0
Middle South Energy Inc	99.0					
Middle South Services						30.0
Mississippi Power & Light						45.0
New Orleans Public Service				15.0		22.0
System Fuels, Inc		124.0				40.0
National Fuel Gas Co						30.0
Seneca Resources Corp						20.0
New England Electric System					2.0	2.5
Granite State Electric						25.0
Narragansett Electric	20.0					143 0
New England Power Co			90.0			4 0
New England Power Service Co						28.0
Vermont Yankee Nuclear Power						
Northeast Utilities		55.0				
Connecticut Power & Light	75.0	185.0				
Hartford Electric Light Co	10.0	100.0		25.0		
Holyoke Water Power Co		8.0				
Northeast Utilities Service Co						
Western Massachusetts Electric Co	30.0	55.0				
Northeast Nuclear		30 0				
Philadelphia Electric Power Co						4.0
The Southern Co					18.2	100.0
Alabama Power Co	250.0		40.3			575.0
Georgia Power Co	125.0					450.0
Gulf Power Co	50.0			10.0		50.0
Mississippi Power Co	25.0					50.0
Connecticut Yankee Atomic Power		50.0				35.0
Yankee Atomic Electric Co						21.0
Total	$1,391 0	$1,204 8	$291.3	$250.0	$699.8	$4,924.2

Total = $8,761.1 million

FUEL PROGRAMS

During fiscal year 1980, the Commission authorized $597.9 million of fuel exploration and development capital expenditures for the holding company systems. These expenditures cover annual fuel programs subject to regulation under the Holding Company Act defined on geographical and functional terms. The following table lists the authorization by holding company system for each fuel program.

Table 40
REGULATED EXPENDITURES OF HOLDING COMPANY SYSTEMS

(Fiscal 1980)
(In Millions of Dollars)

	Gas and/or Oil Exploration	Fuel Oil Inventory	Coal, Lignite Exploration & Development	Coal Mining Equipment	Uranium Exploration	Nuclear Fuel Procurement	Coal Gasification	Fuel Transportation & Storage
American Electric Power Co	$	$	$	$68.2	$	$		$ 4.0
Central & South West Corp	52.1		25.6		.1			
Columbia Gas System, Inc							4.0	
Consolidated Natural Gas Co	7.0							
Middle South Utilities	76.3	100.0	1.1		14.7	44.1		56.9
New England Electric System	60.0					6 0		
Northeast Utilities						10.0		
Southern Company						60.0		7.8
	$195.4	$100.0	$26.7	$68.2	$14.8	$120.1	$4.0	$68.7

Total = $597.9 Million

Corporate Reorganizations

During the fiscal year the Commission entered 18 reorganization cases filed under Chapter 11 of the Bankruptcy Act of 1978 involving companies with aggregate stated assets of $1.46 billion and 97,000 public investors. The Commission also continued its participation in pending reorganization cases under Chapter X of the prior Bankruptcy Act. During the fiscal year 20 reorganization cases, all under Chapter X, were closed, leaving at year end 85 reorganization cases involving $5.96 billion in aggregate stated assets in which the Commission was participating.

Table 41

PENDING REORGANIZATION PROCEEDINGS UNDER CHAPTER X OF THE BANKRUPTCY ACT IN WHICH THE COMMISSION PARTICIPATED

Fiscal Year 1980

Debtor	District Court	Petition Filed	SEC Notice of Appearance Filed
Aldersgate Foundation, Inc 2	M.D Fla	Sep. 12, 1974	Oct 3, 1974
American Associated Systems, Inc. 2	E D. Ky.	Dec. 24, 1970	Feb. 26, 1971
American Land Corp. 1	S D. Ohio	Aug 8, 1973	Sept 25, 1973
Arlan's Dept Stores, Inc. 2	S.D. N.Y.	March 8, 1974	March 8, 1974
Bankers Trust 1	S.D Ind	Oct. 7, 1966	Nov 1, 1966
Bankers Trust Co. 2	S D. Miss.	Dec. 16, 1976	April 5, 1977
Beck Industries, Inc	S D. N.Y.	May 27, 1971	July 30, 1971
Bermec Corp. 2	S D N Y.	April 16, 1971	April 19, 1971
Beverly Hills Bancorp	C.D. Cal	April 11, 1974	May 14, 1974
Brethren's Home, The	S D Ohio	Nov 23, 1977	Dec. 27, 1977
Bubble Up Delaware, Inc.	C.D. Cal.	Aug 31, 1970	Oct. 19, 1970
BXP Construction Corp 1	S D. N.Y.	Jan. 15, 1974	June 10, 1974
C.I P Corp 1	S D Ohio	May 23, 1975	June 26, 1975
Carolina Caribbean Corp	W.D. N C	Feb. 28, 1975	April 17, 1975
Citizens Mortgage Investment Trust	D. Mass	Oct 5, 1978	Nov 1, 1978
Coast Investors, Inc 2	W.D. Wash	April 1, 1964	June 10, 1964
Combined Metals Reduction Co 1	D. Nev	Sept 30, 1970	Sept. 7, 1972
Commonwealth Corp 2	N.D. Fla.	June 28, 1974	July 17, 1974
Commonwealth Financial Corp. 1	E D Pa	Dec 4, 1967	Dec. 13, 1967
Continental Investment Corp	D. Mass.	Oct 31, 1978	Oct 31, 1978
Continental Mortgage Investors	D. Mass	Oct 21, 1976	Oct 21, 1976
Continental Vending Machine Corp 1	E.D. N.Y.	July 10, 1963	Aug 7, 1963
Davenport Hotel, Inc. 2	E D Wash.	Dec. 20, 1972	Jan. 26, 1973
Detroit Port Development Corp 2	E D Mich.	Sept 14, 1976	Nov. 17, 1976
Diversified Equity Corp	S.D Ind	Jan. 24, 1977	Feb. 17, 1977
Diversified Mountaineer Corp. 2	S.D. W Va	Feb. 8, 1974	April 24, 1974
Duplan Corp 3	S D N.Y	Oct 5, 1976	Oct. 5, 1976
E.T. & T Leasing, Inc. 2	D Md	Dec 20, 1974	June 5, 1975
Farmington Manufacturing Co 2	E D Va	Dec 22, 1970	Jan. 14, 1971
First Baptist Church, Inc. of Margate, Fla 2	S D Fla.	Sept 10, 1973	Oct 1, 1973
First Home Investment Corp of Kansas, Inc 2	D. Kan	April 24, 1973	April 24, 1973
First Research Corp. 2	S.D. Fla	March 2, 1970	April 14, 1970
Fort Cobb, Okla Irrigation Fuel Authority	W D Okla.	April 20, 1979	July 16, 1979
GAC Corp. 3	S.D Fla	May 19, 1976	June 14, 1976
GEBCO Investment Corp	W D Pa	Feb 8, 1977	March 24, 1977
Wm. Gluckin Co , Ltd	S.D N Y	Feb. 22, 1973	March 6, 1973
Guaranty Trust Co. 3	W.D. Okla	April 9, 1979	April 9, 1979
Gulfco Investment Corp	W D. Okla.	March 22, 1974	March 28, 1974
Gulf Union Corp. 2	M.D. La.	Aug. 29, 1974	Nov. 5, 1974
Harmony Loan, Inc 2	E.D. Ky.	Jan. 31, 1973	Jan. 31, 1973
Hawaii Corp	D. Hawaii	March 17, 1977	March 17, 1977
Home-Stake Production Co	N.D. Okla.	Sept 20, 1973	Oct 2, 1973
Houston Educational Foundation, Inc 1	S.D. Texas	Feb. 16, 1971	March 2, 1971
Imperial-American Resources Fund, Inc 1	D Colo.	Feb 25, 1972	March 6, 1972
Interstate Stores, Inc. 1	S D N Y	June 13, 1974	June 13, 1974
Investors Associated, Inc. 2	W D. Wash	March 3, 1965	March 17, 1965
Investors Funding Corp of New York	S D N Y.	Oct 21, 1974	Oct 22, 1974
J.D Jewell, Inc 2	N D. Ga	Oct. 20, 1972	Nov. 7, 1972
King Resources Co 2	D Colo	Aug. 16, 1971	Oct 19, 1971
Lake Winnebago Development Co , Inc	W.D Mo.	Oct 14, 1970	Oct 26, 1970
Lusk Corp	D Ariz.	Oct. 28, 1965	Nov. 15, 1965
Dolly Madison Industries, Inc. 1	E D Pa.	June 23, 1970	July 6, 1970
Mount Everest Corp. 2	E D. Pa	May 29, 1974	June 28, 1974
National Telephone Co., Inc. 2	D. Conn	July 10, 1975	May 27, 1976
Nevada Industrial Guaranty Co 1	D Nev	May 7, 1963	July 2, 1963
North American Acceptance Corp. 2	N.D Ga.	March 5, 1974	March 28, 1974
North Western Mortgage Investors Corp 1	W D Wash	Dec. 12, 1973	Dec 12, 1973
Omega-Alpha, Inc 2	N.D. Texas	Jan. 10, 1975	Jan. 10, 1975

Table 41—Continued

PENDING REORGANIZATION PROCEEDINGS UNDER CHAPTER X OF THE BANKRUPTCY ACT IN WHICH THE COMMISSION PARTICIPATED

Fiscal Year 1980

Pacific Homes	C D. Cal	Dec	9, 1977	Feb	2, 1978
Pan American Financial Corp. 2	D Hawaii	Oct	2, 1972	Jan	9, 1973
Parkview Gem, Inc 2	W D. Mo.	Dec	18, 1973	Dec.	28, 1973
Pocono Downs, Inc	M.D Pa.	Aug	20, 1975	Aug	20, 1975
John Rich Enterprises, Inc. 2	D Utah	Jan	16, 1970	Feb	6, 1970
Reliance Industries, Inc	D Hawaii	May	24, 1976	Aug	10, 1976
Riker Delaware Corp 1	D. N.J	April	21, 1967	May	23, 1967
Royal Inns of America, Inc 2	S D Cal.	April	24, 1975	June	24, 1975
Scranton Corp 1	M.D Pa	April	3, 1959	April	15, 1959
Sierra Trading Corp. 2	D Colo	July	7, 1970	July	22, 1970
Sound Mortgage Co., Inc 2	W D. Wash	July	27, 1965	Aug	31, 1965
Southern Land Title Corp	E D. La.	Dec	7, 1966	Dec	31, 1966
Stanndco Developers, Inc	W D. N.Y	Feb	5, 1974	March	7, 1974
Stirling Homex Corp 2	W D. N Y	July	11, 1972	July	24, 1972
Sunset International Petroleum Corp. 2	N D Texas	May	27, 1970	June	10, 1970
TMT Trailer Ferry, Inc. 2	S D Fla	June	27, 1957	Nov	22, 1957
Thermo-Dyne, Inc. 1	W D Okla	Feb.	24, 1978	June	5,, 1978
Tilco, Inc 2	D. Kans	Feb.	7, 1973	Feb.	22, 1973
Tower Credit Corp 2	M D Fla	April	13, 1966	Sept	6, 1966
Traders Compress Co 1	W.D Okla	May	12, 1972	June	6, 1972
Trinity Baptist Church of Jacksonville, Inc 1	N.D. Fla.	June	24, 1977	Oct	3, 1977
"U" District Building Corp 1	W D Wash.	Dec.	9, 1974	Dec	9, 1974
U S Financial, Inc 2	S.D Cal	Sept	23, 1975	Nov	3, 1975
University Baptist Church of Jacksonville, Florida Inc. 1	M D. Fla	May	23, 1977	Oct.	3, 1977
Virgin Island Properties, Inc 2	D. V I	Oct	22, 1971	April	11, 1972
Washington Group, Inc 3	M D N.C.	June	20, 1977	July	25, 1977
Western Growth Capital Corp	D Anz	Feb.	10, 1967	May	16, 1968
Westgate California Corp. 3	S D Cal	Feb.	26, 1974	March	8, 1974
Wonderbowl, Inc. 2	C D Cal.	March	10, 1967	June	7, 1967

[1] Reorganization proceedings closed during fiscal year 1980.
[2] Plan has been substantially consummated but no final decree has been entered because of pending matters
[3] Report or memorandum on plan of reorganization filed during fiscal year 1980.

Table 42

REORGANIZATION PROCEEDINGS UNDER CHAPTER 11 OF THE BANKRUPTCY CODE IN WHICH COMMISSION ENTERED APPEARANCE DURING FISCAL YEAR

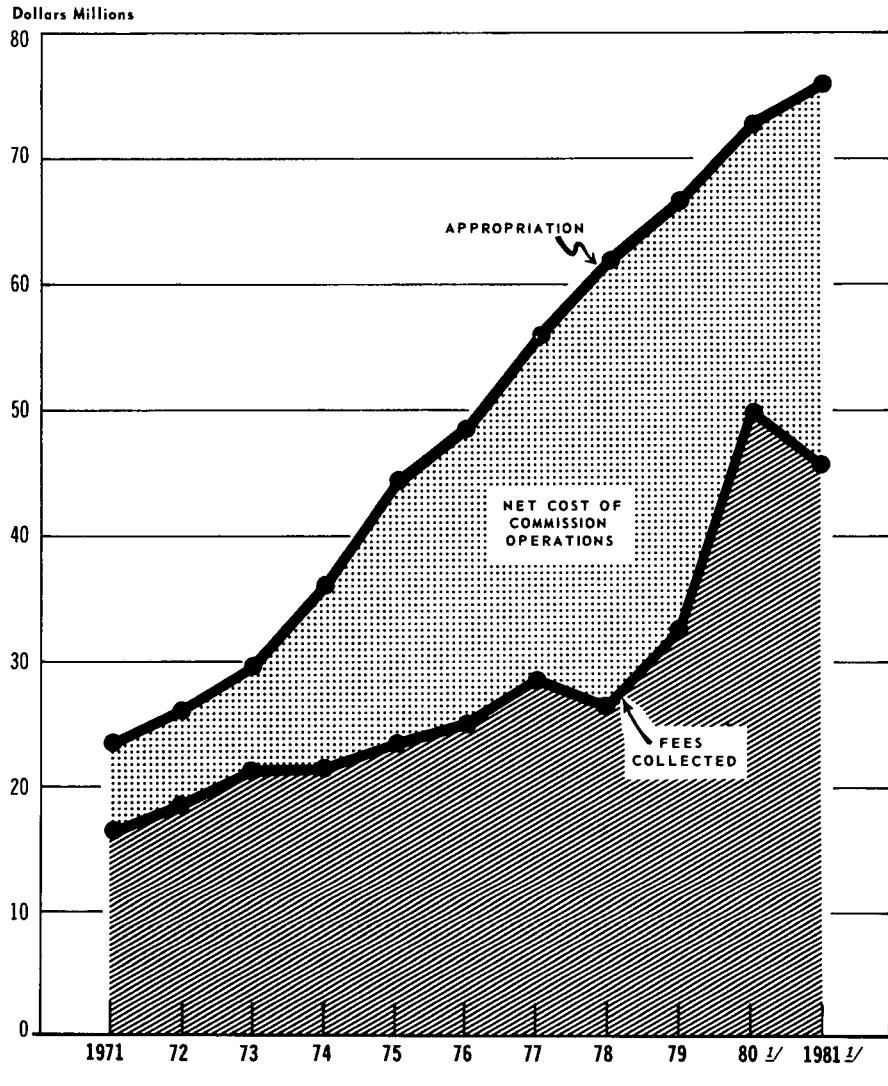
Auto Train Corp.	D D.C.
Christian Life Center	N.D Ca.
Coleman American Companies	D Kans
G Weeks Securities, Inc	W.D Tenn
General Resources Corp.	N D Ga
Inforex, Inc *	D Mass
L. S. Good & Co.	N D W Va
Mansfield Tire & Rubber Co.	N.D Ohio
Park Nursing Center, Inc.	E.D Mich
Penn-Dixie Industries, Inc.	S D. N.Y
Pleasant Grove Medical Center	N.D. Texas
Resources Exploration, Inc.	N.D. Ohio
SBE, Inc.	N.D. Ca.
Southland Lutheran Home	C D Ca
Tenna Corp.	N.D. Ohio
Topps & Trowsers	N.D. Ca.
Western Farmers Assoc	D Wash
White Motor Corp.	N.D Ohio

*Plan substantially consummated during fiscal year

SEC OPERATIONS

The Commission collects fees for the registration of securities, securities transactions on national securities exchanges, and miscellaneous filings, reports and applications. In fiscal year 1980, the Commission collected a record $48 million dollars in fees, representing approximately 66 percent of the total funds appropriated by the Congress for Commission operations. These figures are up from $33 million, representing 47 percent of funds appropriated in fiscal year 1979. Nearly $14 million of the increase in collections was attributed to Securities Act registration fees resulting from money market fund registrations, while higher stock exchange volumes accounted for $1 million of the increase.

Appropriated Funds vs Fees Collected



1/ Estimated

Table 43
BUDGET ESTIMATES AND APPROPRIATIONS

Action	Fiscal 1976		Transitional Quarter		Fiscal 1977		Fiscal 1978		Fiscal 1977		Fiscal 1980		Fiscal 1981	
	Positions	Money	Positions	Money	Positions	Money	Positions	Money	Positions	Money	Positions	Money	Positions	Money
Estimate submitted to the Office of Management and Budget	2,294	$54,577,000	2,081	$12,500,000	2,400	$54,822,000	2,133	$59,000,000	2,179	$66,600,000	2,244	$72,478,000	2,424	$81,869,000
Action by the Office of Management and Budget	−276	−7,390,000	....	..	−283	−1,724,000	−41	−710,000	−47	−1,800,000	−144	−3,439,000	−319	−5,774,000
Amount allowed by the Office of Management and Budget	2,018	47,187,000	2,081	12,500,000	2,117	53,098,000	2,092	58,290,000	2,132	64,800,000	2,100	69,039,000	2,105	76,095,000[1]
Action by the House of Representatives	...	−302,000		−75,000	.	−98,000	....	−290,000	−7	−150,000	..	−93,000	+23	+255,000
Sub-total	2,018	46,885,000	2,081	12,425,000	2,117	53,000,000	2,092	58,000,000	2,125	64,650,000	2,100	68,946,000	2,128	76,350,000
Action by the Senate	+126	+2,000,000		+250,000	.	..	.	+290,000	.	.		+40,000	..	..
Sub-total	2,144	48,885,000	2,081	12,675,000	2,117	53,000,000	2,092	58,290,000	2,125	64,650,000	2,100	68,986,000	..	
Action by conferees	−63	−1,000,000		. ..	.	.	...	−190,000	.				.	.
Annual appropriation	2,081	47,885,000	2,081	12,675,000	2,117	53,000,000	2,092	58,100,000	2,125	64,650,000	2,100	68,986,000	.	.
Supplemental appropriation	.	1,406,000		502,000	.	3,270,000	..	4,375,000	.	2,450,000	.	3,753,000	.	
Total appropriation	2,081	49,291,000	2,081	13,177,000	2,117	56,270,000	2,092	62,475,000	2,125	67,100,000	2,100	72,739,000	.	

[1] Original submission to Congress was $77,150,000, subsequently reduced by OMB.