

DECLARATION OF POLICY

Section 1 - The Congress finds and hereby declares:

(1) That the franchises, powers, and privileges of all corporations are derived from the people and are granted by the governments of the States or of the United States as the agents of the people for the public good and general welfare; that to a rapidly increasing and, in many industries, to a dominating extent, commerce with foreign nations and among the several States is carried on through the instrumentality of corporations created by the several States which are without jurisdiction in the field in which such corporations principally operate; that it is the right and duty of the Congress to control and regulate all corporations engaged in such commerce and that to effectuate the policy herein declared it is necessary and proper to provide a national registration system.

(2) That the capital of such corporations is frequently furnished by citizens and residents of many States other than the State from which their corporate existence is derived; that the officers and directors of many such corporations are likewise in many instances citizens or residents of States other than such parent States.

(3) That (by reason of the effect of the Interstate Commerce clause of the Constitution as construed by the Supreme Court of the United States) corporations may do business elsewhere than in the State of their incorporation or organization without complying with the laws of such other States in respect of capitalization and other measures for the protection of investors and security holders; that competition has sprung up among the States in the field of granting corporate charters; that corporations have sought their privileges from those States whose laws are most lax; that the least stringent laws are thus applicable to investors and

security holders throughout the country; that this situation has resulted in a low standard of corporate morality which requires correction.

(4) That many of the causes of such evils have been and are national in their scope and effect and have been found beyond the practical or legal ability of the several States to control or eliminate effectively, and that such causes and effects can be effectively controlled or eliminated only through Congressional legislation.

Section 2(a) - When used in this title unless the context otherwise requires--

(1) The term "person" means an individual, a corporation, a partnership, an association, a joint stock company, a business trust or an unincorporated organization.

(2) The term "company" means a corporation, a partnership, an association, a joint stock company, a business trust or an unincorporated association except that this term shall not include any such group organized exclusively for a charitable, religious, educational, fraternal, social, cooperative or other non-business purposes or any labor organization.

(3) The term "Commission" means the Securities and Exchange Commission.

(4) The term "registered company" means a company whose registration is in effect under Section 5.

(5) The term "security" means any note, stock, treasury stock, bond, debenture, certificate of interest, or participation in any profit-sharing agreement (or in any oil, gas or other mineral royalty or lease), any collateral-trust certificate, preorganization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit, for a security, or in general, any instrument commonly known as a "security"; or any certificate of interest or participation in, temporary or interim certificate for, receipt for, or warrant or right to subscribe to or purchase, any of the foregoing; but shall not include any note,

draft, bill of exchange, or banker's acceptance which has a maturity at the time of issuance of not exceeding nine months, exclusive of days of grace, or any renewal thereof the maturity of which is likewise limited.

(6) The term "State" means any State of the United States, the District of Columbia, Alaska, Hawaii, Puerto Rico, (the Philippine Islands), the Canal Zone, the Virgin Islands, or any other possession of the United States.

(7) The term "interstate commerce" means trade, commerce, transportation, or communication among the several States, or between any foreign country and any State, or between any State and any place or ship outside thereof.

(8) The term "subsidiary company" of a specified company means any person who directly or indirectly is subject to a controlling influence by such specified company (it may be necessary to expand this in accordance with Section 2(a)(8) of the Holding Company Act).

(9) The term "books and records" shall include any books, records, correspondence, papers, documents, memoranda, contracts, and other written matter.

Section 3(a). - The Commission, by rules and regulations upon its own motion, or by order upon application, shall exempt any company, and every subsidiary company thereof, from any provision or provisions of this title unless and except insofar as it finds the exemption detrimental to the public interest or to the interest of investors, if such company and every subsidiary company thereof do a business which is predominantly intrastate in character and carry on their business substantially in a single state in which such company and every subsidiary company thereof are organized, and all securities of such company and every subsidiary company thereof are held predominantly by citizens and residents of such single State in which such company and every subsidiary company thereof are organized.

Section 3(b) - Any company shall be exempted from the provisions of Section 4 if--

(1) All securities of such company and of every subsidiary company thereof are beneficially owned by no more than fifty persons, or

(2) If the value of all its outstanding securities (excluding securities issued to and held by banks in connection with loans) plus all the outstanding securities (excluding securities issued to and held by banks in connection with loans) of all other companies directly or indirectly controlling, controlled by, or under direct or indirect common control with such company, does not exceed \$1,000,000. The value of outstanding securities shall, for the purposes of this section, mean the par value of face amount of securities, and in respect of securities which have no face amount or par value, the value shall be computed on the basis of market, book or stated value whichever is greater.

Section 3(c) - Every foreign company shall be exempted from the operation of Section 4 unless the Commission shall enter an order declaring such company to be subject to the operation of Section 4. The Commission may enter such an order if, after appropriate notice and an opportunity for hearing, it finds either--

(1) That such company is created for the purpose of evading the provisions of this title; or

(2) that by reason of the nature and volume of the business done by such company in the United States, or by reason of the number of security holders of such company in the United States, or for any other reason, it is necessary or appropriate in the public interest and for the protection of investors, that such corporation be subject to the requirements of this title.

Such an order shall not become effective for at least thirty days after the mailing of a copy thereof to the company in question. Whenever the Commission, on application, finds that the circumstances which gave rise to the issuance of any such order no longer exists, the Commission shall by order revoke such order.

Section 3(d) - Within a reasonable time after the receipt of an application for exemption under subsection (a), the Commission shall enter an order granting or, after notice and opportunity for hearing, denying or otherwise disposing of such application. The filing of an application in good faith under subsection (a) by a person other than a registered company shall exempt the applicant from any obligation, duty or liability imposed in this title upon the applicant until the Commission has acted upon such application. Whenever the Commission, on its own motion or upon application by the company exempted by any order issued under subsection (a), finds that the circumstances which gave rise to the issuance of such order no longer exist, the Commission shall by order revoke such order.

Section 4 - After January 1, 1939, unless a company is registered under Section 5, it shall be unlawful for such company directly or indirectly (a) to engage in any transactions in interstate commerce or through the use of the mails or (b) to own, control or hold with power to vote any security of any subsidiary company thereof, except a company exempted under Section 3, which engages in any transaction in interstate commerce or through the use of the mails.

Section 5(a) - On or at any time after October 1, 1938, any company may register by filing with the Commission a notification of registration in such form as the Commission may by rules and regulations prescribe as necessary or appropriate in the public interest or for the protection of investors or consumers. A company shall be deemed to be registered upon receipt by the Commission of such notification of registration.

(b) It shall be the duty of every registered company to file with the Commission, within such reasonable time after registration as the Commission shall fix by rules and regulations, a registration statement in such form as the Commission shall by rules and regulations prescribe as necessary or appropriate in the public interest or for the protection of investors. Such registration statement shall include the information required by Schedule A of the Securities Act of 1933, as amended, except that the Commission may by rules and regulations provide that any such information or document need not be included in respect of any class of companies if it finds that the requirement of such information or document is inapplicable to such class and that disclosure fully adequate in the public interest and for the protection of investors is otherwise required to be included in the registration statement. Any such registration statement shall contain such other information and be accompanied by such other documents as the Commission may by rules and regulations require as being necessary or appropriate in the public interest and for the protection of investors.

(c) The Commission by such rules and regulations as it deems necessary or appropriate in the public interest or for the protection of investors or consumers, may permit a registrant to file a preliminary registration statement without complying with the provisions of subsection (b); but every registrant shall file a complete registration statement with the Commission within such reasonable period of time as the Commission shall fix by rules and regulations, but not later than one year after the date of registration.

Section 6 - Every registered company shall file with the Commission such annual, quarterly, and other periodic and special reports, the answers to such specific questions, and the minutes of such directors', stockholders', and other meetings as the Commission may by rules and regulations or order prescribe as necessary or appropriate in the public interest or for the

protection of investors. Such reports, if so required by the rules and regulations of the Commission, shall be certified by an independent public accountant and shall be made and filed at such time and in such form and detail as the Commission shall prescribe. The Commission may require that there be included in reports filed with it such information and documents as it finds necessary or appropriate to keep reasonably current the information filed under Section 5, and such further information concerning the financial condition, security structure, security holdings, assets and cost thereof, wherever determinable, and affiliations of the reporting company and of all associated or affiliated companies thereof as the Commission deems necessary or appropriate in the public interest or for the protection of investors.

**PAYMENTS TO OFFICERS AND DIRECTORS; STATED CAPITAL;
DIVIDENDS; PROXIES; OTHER TRANSACTIONS**

Section 7(a) - It shall be unlawful for any registered company to pay to any officer or director of any such company any bonus, commission, or emolument of any kind or character in addition to his regular compensation unless such payment shall have been approved by the affirmative vote of a majority in interest of all outstanding stock, irrespective of class, at a regularly called meeting of stockholders.

Sec. 7(b) to (h) omitted.

ACCOUNTS AND RECORDS

Section 8(a) - Every registered company shall make, keep, and preserve for such periods, such accounts, cost accounting procedures, and books and records, as the Commission deems necessary or appropriate in the public interest or for the protection of investors or for the enforcement of the provisions of this title or the rules, regulations, or orders thereunder.

(b) After the Commission has prescribed the form and manner of making and keeping accounts, cost accounting procedures, and books and records to be kept by any company hereunder, it shall be unlawful for any such corporation or person to keep any accounts, cost accounting procedures, or books and records other than those prescribed or such as may be approved by the Commission, or to keep its or his accounts, cost accounting procedures, or books and records in any manner other than that prescribed or approved by the Commission.

(c) All accounts, cost accounting procedures, and books and records kept or required to be kept by companies subject to any provision of this section shall be subject at any time and from time to time to such reasonable, periodic, special, and other examinations by any member or representative of the Commission, as it may prescribe. The Commission, after notice and opportunity for hearing, may prescribe the account or accounts in which particular outlays, receipts, write up or write down of assets, and other transactions shall be charged or credited and the manner in which such entry shall be made, and may require an entry to be modified or supplemented so as properly to show the cost of any asset or any other cost.

(d) It shall be the duty of every registered company to submit the accounts, cost accounting procedures, and books and records of such company, to such examinations, in person or by duly appointed attorney, by the holder of any security of such company, or by

representatives of employees of such company, and under such conditions as the Commission deems necessary or appropriate in the public interest or for the protection of investors.

RULES, REGULATIONS, AND ORDERS

Section 9(a) - The Commission shall have authority from time to time to make, issue, amend, and rescind such rules and regulations and such orders as it may deem necessary or appropriate to carry out the provisions of this title, including rules and regulations defining accounting, technical, and trade terms. Among other things, the Commission shall have authority, for the purposes of this title, to prescribe the form or forms in which information required in any statement, application, report, or other document filed with the Commission shall be set forth, the items or details to be shown in balance sheets, profit and loss statements, and surplus accounts, the manner in which the cost of all assets, whenever determinable, shall be shown in regard to such statements, applications, reports, and other documents filed with the Commission, or accounts required to be kept by the rules, regulations, or orders of the Commission, and the methods to be followed in the keeping of accounts and cost-accounting procedures and the preparation of reports, in the segregation and allocation of costs, in the determination of liabilities, in the determination of depreciation and depletion, in the differentiation of recurring and nonrecurring income, and in the differentiation of investment and operating income.

(b) In the case of the accounts of any registered company whose methods of accounting are prescribed under the provisions of any law of the United States or of any State, the rules and regulations or orders of the Commission in respect of accounts shall not be inconsistent with the requirements imposed by such law or any rule or regulation thereunder; nor shall anything in this title relieve any registered company from the duty to keep the accounts,

books and records, which may be required to be kept by the law of any State in which it operates or by the State commission of any such State. But this provision shall not prevent the Commission from imposing such additional requirements regarding reports or accounts as it may deem necessary or appropriate in the public interest or for the protection of investors or consumers.

(c) The rules and regulations of the Commission shall be effective upon publication in the manner which the Commission shall prescribe. For the purpose of its rules, regulations, or orders the Commission may classify persons and matters within its jurisdiction and prescribe different requirements for different classes of persons or matters. Orders of the Commission under this title shall be issued only after opportunity for hearing.

(d) The Commission, by such rules and regulations or orders as it deems necessary or appropriate in the public interest or for the protection of investors, may authorize the filing of any information or documents required to be filed with the Commission under this title, by incorporating by reference any information or documents theretofore or concurrently filed with the Commission under this title or filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, or under the Public Utility Holding Company Act of 1935. No provision of this title imposing any liability shall apply to any act done or omitted in good faith in conformity with any rule, regulation or order of the Commission, notwithstanding that such rule, regulation, or order may, after such act or omission, be amended or rescinded or be determined by judicial or other authority to be invalid for any reason.

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