

# 45th Annual Report of the Securities and Exchange Commission

for the fiscal year  
ended September 30, 1979



UNITED STATES  
SECURITIES  
AND  
EXCHANGE  
COMMISSION



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# Chairman's Letter of Transmittal

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The Honorable Walter F. Mondale  
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:

I am pleased to transmit the Annual Report of the United States Securities and Exchange Commission for the fiscal year ended September 30, 1979. As I have in connection with the Commission's last two Annual Reports, I would like to summarize in this letter some of the significant challenges which the Commission has faced, and achievements which it has realized, during the past year. I want also to describe several of the areas to which the Commission will be devoting its efforts in the coming year.

After 45 years of successful administration of the Federal securities laws—a period during which the Commission earned recognition as a highly effective Federal regulatory agency—it is taking a close look at whether its rules, procedures, and internal operations remain adequate and appropriate to the capital markets of the 1980s. This examination comes at a time when the Commission is already facing the challenge of stretching limited resource levels to meet its steadily increasing responsibilities.

Since 1975, during a period in which the Commission actually *lost* a significant number of staff positions, the Commission has experienced an explosion in the number and complexity of its regulatory responsibilities—in large part, for two specific reasons. First, significant changes have occurred in the financial markets and community—including greatly expanded market activity, increasing complexity of financial transactions, the development of a new mix of financial products being offered to the public, and the increasingly high financial leverage of the broker-dealer industry. As illustrations, during the period from 1975, the number of shares annually traded in the NASDAQ system increased over 150 percent, the number of contracts for exchange-traded options increased over 250 percent, the number of registered investment advisers increased by approximately one-half, there were approximately \$100 billion worth of *successful* tender offers, and in the last year alone the assets of money market funds increased

almost five-fold. Such remarkable growth is expected to continue—in January 1980, the volume of trading in New York Stock Exchange-listed securities on the composite tape, American Stock Exchange-listed and over-the-counter traded securities totaled 2.165 billion shares. Just a year earlier, the January figure was less than one-half that amount; two years earlier, it was only about one-third of this year's figure.

Second, during this same five-year period, Congress charged the Commission with a wide range of new regulatory responsibilities and legal obligations. Some of these mandates to which it must allocate significant resources, such as the Freedom of Information Act, are not unique to the Commission. But other requirements are. For example, in 1975 Congress directed the Commission to facilitate the establishment of a national market system for securities. Further, the Commission has been charged with implementing the Foreign Corrupt Practices Act and has undertaken a greater role to achieve more effective oversight and self-regulation of the accounting profession. The Commission also has devoted considerable resources to reviewing the American Law Institute's proposed Federal Securities Code, which, it is anticipated, will be introduced in the Congress. Moreover, recent judicial developments, which have severely hampered private rights of action, mean that in many cases, no party other than the Commission can seek judicial enforcement of the federal securities laws.

Major changes in the Commission's operations have been necessary to cope with this increased workload in the face of diminished staff allocation. In order to maintain the Commission's traditionally high level of investor protection, it has had to increase efficiency, reallocate personnel, reorganize structure, develop new management strategies, and rely on unpaid overtime donated by its highly-motivated staff. This drive for even more efficient utilization and allocation of our resources will, of necessity, continue in the coming year. Nonetheless, such efforts can accomplish only so much. The Commission is concerned that continually growing demands on limited resources impair its existing programs and functions. In a number of areas, underallocation of staff, because of needs to immediately meet other demands, already has resulted in performance capabilities diminishing to a level which the Commission does not consider adequate. For example, the Commission's inspections of many of the financial entities which it regulates are too infrequent to be optimally effective in protecting the public.

### *The Securities Markets*

The Commission continued its efforts, during fiscal 1979, to implement its Congressional mandate to facilitate the establishment of a national market system for securities. As part of its efforts to identify the objectives and framework of such a system, during fiscal 1979, the Commission proposed three significant rules: Rule 11Ac1-3 to provide price protection for public limit orders; Rule 19c-3 to limit extension of off-board trading restrictions; and Rule 11Aa2-1 to define criteria for

securities to “qualify” for trading in a national market system. The securities industry, meanwhile, strengthened the two principal experiments in technology which may become, or help determine, a foundation of a national market system—the Intermarket Trading System and the Cincinnati multiple-dealer trading facility. Both of these projects also received authority from the Commission to continue operating until January 31, 1983. Two additional private sector initiatives in this area were the commitment by the participating exchanges in the Intermarket Trading System to a joint limit order protection plan, and the agreement by the New York and American Stock Exchanges to make generally available their common message switch.

Trading in exchange-listed options also received a great deal of attention from the Commission during the fiscal year. In December 1978, the Special Study of the Options Markets submitted to the Commission the 1,000-page report of its comprehensive 14-month study. The Commission released the staff’s report publicly in February 1979, and announced the conditions under which it would permit an expansion in options trading. During the balance of the fiscal year and into fiscal 1980, the staff worked closely with the securities industry’s self-regulators toward implementing many of the recommendations of the Study. Although the task was complex and difficult, the cooperation between the Commission’s staff and the industry’s representatives has been excellent. I anticipate that in the coming fiscal year the Commission will authorize an expansion of trading in this segment of the securities market.

#### *The Full Disclosure System*

The Commission’s statutory mandate to require corporations to disclose all material information to the investing public is at the heart of the capital formation process. In accordance with the 1977 recommendations of its Advisory Committee on Corporate Disclosure, the Commission is pursuing an on-going program designed to enhance the effectiveness of its disclosure requirements, while reducing attendant burdens to the extent practicable. During the fiscal year, the Commission took a number of important steps towards this goal.

As part of this program, the Commission has begun a thorough review of filings under the separate disclosure systems prescribed by its two most fundamental disclosure statutes—the Securities Act of 1933 and the Securities Exchange Act of 1934—to reduce reporting burdens and paperwork by more precisely tailoring the reporting requirements to the characteristics of particular registrants and to the needs of their investors. This program also has been substantially advanced by the Commission’s efforts, which culminated in proposals, published subsequent to the close of the fiscal year, to amend Form 10-K to serve as the cornerstone of a new “integrated” disclosure system and to centralize the instructions for financial statements in various reporting forms. In addition, during the last fiscal year, the Commission continued its efforts to encourage issuers to provide investors with forward-looking and other forms of “soft” information, such as performance projections.

Other actions by the Commission during fiscal 1979 designed to make the full disclosure system more effective include the adoption of significant rules governing public tender offers and "going private" transactions. In addition, important progress was made in the Commission's comprehensive examination of shareholder participation in the process of corporate accountability. That study, which began in 1977, has resulted in significant amendments to the Commission's proxy rules in both fiscal 1978 and 1979. The study's final report is expected during 1980.

One of the Commission's major initiatives during fiscal 1979 has been its efforts to facilitate capital formation by small businesses without materially diminishing the protections afforded public investors. The Office of Small Business Policy, established in June 1979, serves as liaison with the small business community and generates proposals to eliminate unnecessary impediments to the ability of small businesses to raise capital in the securities markets. As a result of that Office's recommendations, the Commission has liberalized the rule regarding resale of restricted securities, adopted a new "short form" registration statement for certain smaller issues of securities, and created a new exemption from registration for other types of relatively small issues of securities. In coordination with the Department of Commerce, the Commission also developed a monitoring program to assess the impact of our regulations on small businesses, and in conjunction with the Small Business Administration, is studying the role which regional broker-dealers play in the capital formation process.

In order to make the Commission's review of corporate disclosure documents more meaningful, the staff unit with primary responsibility in this area, the Division of Corporation Finance, has been reorganized with its operational branches restructured according to industry groups. The Division's new operational plan recognizes that the staff cannot adequately review every document filed, and relies, instead, on an "audit mode" and quality control techniques to enable the staff to give prompt and thorough scrutiny to key filings while devoting less resources to reviewing more routine documents.

### *Investment Companies and Advisers*

Staff task forces are conducting a comprehensive review of the Commission's regulation of investment companies and investment advisers. With regard to investment companies, the Commission has adopted a number of rules to lessen the costs and burdens associated with their regulation—which historically has been based, to a large extent, on the Commission's prior-clearance of transactions—by enhancing the role of directors in managing investment companies. The goal of diminishing the Commission's presence in routine investment company business decisions also is reflected in the Commission's withdrawal, in March, of its "Statement of Policy" on investment company advertising and in its adoption, in August, of Rule 434d to permit investment companies much more flexibility in mass media

advertising. The effect of these actions place responsibility for fair presentation of investment company advertising material on boards of directors rather than on arbitrary rules and staff clearances. The Commission also has requested public comment on a proposal to relax the prohibition against an investment company's using its assets to merchandise the sale of its shares. These efforts by the Commission to de-emphasize governmental prior-clearance of investment companies' business practices, while resulting in substantial private sector benefits, will place even greater emphasis on its increasingly stretched inspection capabilities to determine that such practices comply with the Federal securities laws.

As to investment advisers, the Commission has identified anomalies in the pattern of investor protection which it is striving to resolve with the least possible burden to that industry. For example, in response to a long-standing concern as to the adequacy of information provided to clients of investment advisers, the Commission adopted a new rule to require that certain investment advisers disclose to clients and prospective clients their background and business practices.

### *Ensuring Informed Regulation*

The Commission recognizes that no regulatory agency can successfully fulfill its legislative mandate unless it understands the industry it regulates and the economic consequences of its actions. Accordingly, the Commission is placing increasing emphasis on gathering and analyzing empirically-based information.

As part of its efforts to better assess the consequence of its regulations, the Commission has strengthened its capability for economic analysis. The revised format of the Commission's annual report on the securities industry and the recent report on the impact of the Commission's implementation of the Congressionally-mandated separation of money-management and floor brokerage illustrate this capability. Such analyses of economic conditions in the industry contribute importantly to the Commission's decision-making processes.

To further improve its oversight of the operations of the securities markets during the fiscal year, the Commission implemented a pilot project phase of its Market Oversight and Surveillance System, which will provide the Commission a much enhanced capability to surveil the marketplace. In view of the increased volume and complexity of the securities markets, the Commission's existing approaches are no longer adequate. This system will supplement, not supplant, the market surveillance performed by self-regulatory organizations, in accordance with the Commission's strong commitment to the traditional framework of the securities industry's self-regulation.

### *Inspection and Enforcement*

An essential medium for assuring compliance with the securities laws—and for assessing the impact of the Commission's regulation—is

its inspection program, a responsibility which is receiving an enhanced emphasis although remaining understaffed. The Commission's inspection program of regulated entities—including self-regulatory organizations, broker-dealers, investment companies and investment advisers—provides a vital discipline and the opportunity to examine the practical effects of regulation on such entities and on the investing public.

Moreover, in appropriate circumstances, the Commission in implementing its regulatory responsibilities, will initiate enforcement actions. The Annual Report relates some of the more significant enforcement actions concluded during the year. The Commission continues its longstanding commitment to such a vigorous enforcement program, which is necessary to the credibility of the Commission's programs to protect public investors and the integrity of the securities markets. This commitment has become even more compelling in recent years as court decisions have severely hampered the private rights of action by which investors themselves might otherwise have proceeded against perpetrators of illegal practices.

### *Accounting Matters*

In response to its 1977 undertaking to a Senate Subcommittee to report periodically on the accounting profession's response in meeting its challenges, as well as the Commission's own initiatives in this area, the Commission, in July 1979, submitted its second Report on the Accounting Profession and the Commission's Oversight Role. The Report concluded that sufficient progress has been made to merit continued opportunity for the profession to pursue efforts at self-regulation.

In accordance with such efforts, the Commission continued its close liaison in support of the work of the Financial Accounting Standards Board to address emerging accounting problems, such as the effects of inflation on financial reporting. It strongly endorses the Board's program to develop an overall conceptual framework in which to consider such problems.

As part of its on-going responsibilities to oversee the accounting profession, in June 1979, the Commission issued a release concerning certain factors which may affect the independence of accountants in performing nonaudit services for publicly-held audit clients, and certain factors which should be considered in determining to engage a corporation's independent accountants to perform nonaudit services. It also proposed during the year a rule requiring that management statements on internal accounting controls be included in corporations' annual reports on Form 10-K. Further, during the fiscal year, the Commission adopted amendments to certain forms and regulations to improve disclosure requirements relating to oil and gas reserves and operations, and proposed actions to encourage review by auditors of interim financial information.

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This summary provides only a very brief synopsis of the significant activities in which the Commission is engaged throughout its operations. Among the many others are: the important role we play in assisting Federal courts with regard to shareholder interests in reorganizations of publicly-held companies; the installation of micrographic and computer systems which have brought to the Commission's information-handling procedures the benefits of current technology; and unprecedented efforts to employ effective evaluation, management and development capabilities to further enhance the quality of our most valuable resource—our staff. All of these efforts, and others, are covered in the pages of this Annual Report—whose format, incidentally, has been revised during the past two years into a slimmer, more readable and more timely document.

I believe that this is one of the most important periods in the Commission's nearly half-century of existence. The American corporate community, the securities industry, and the markets, themselves, are changing rapidly to meet the challenges of the 1980s. The Commission, working closely with the Congress which oversees our operations, with those in the private sector whom we regulate, and in the interests of investors, is also changing to meet these challenges. I have every confidence that the Commission will strive to perform its responsibilities with the professionalism and dedication which Congress and the investing public have come to expect.

Sincerely,

Harold M. Williams  
Chairman



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## Commissioners and Principal Staff Officers

(As of December 31, 1979)

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Commissioners	Term expires June 5
<b>HAROLD M. WILLIAMS</b> of California, <i>Chairman</i>	1982
<b>PHILIP A. LOOMIS, JR.</b> , of California	1984
<b>JOHN R. EVANS</b> of Utah	1983
<b>IRVING M. POLLACK</b> of New York	1980
<b>ROBERTA S. KARMEI</b> of New York	1981

*Secretary:* **George A. Fitzsimmons**

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

### Principal Staff Officers

**Benjamin Milk**, *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*

**Michael J. Connell**, *Associate Director*

**Stanley Sporkin**, *Director, Division of Enforcement*

**(Vacant)**, *Deputy Director<sup>1</sup>*

**Irwin M. Borowski**, *Associate Director*

**Theodore Sonde**, *Associate Director*

**David P. Doherty**, *Associate Director*

**Theodore A. Levine**, *Associate Director*

**Douglas S. Scarff**, *Director, Division of Market Regulation<sup>2</sup>*

**Sheldon Rappaport**, *Deputy Director*

**(Vacant)**, *Associate Director*

**(Vacant)**, *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*

**Robert C. Pozen**, *Associate General Counsel*

**(Vacant)**, *Associate General Counsel*

**Paul Gonson**, *Solicitor to the Commission<sup>3</sup>*

**Andrew L. Rothman**, *Director, Office of Public Affairs*  
**Chiles T. A. Larson**, *Deputy Director*  
**A. Clarence Sampson**, *Chief Accountant*  
**Steven J. Golub**, *Deputy Chief Accountant*  
**Steven E. Levy**, *Director of Economic and Policy Research*  
**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*  
**James C. Foster**, *Director, Office of Personnel*  
**Joseph F. Olivo, Jr.**, *Director, Office of Reports and Information Services*  
**John D. Adkins**, *Director, Office of Data Processing*  
**Justin P. Klein**, *Director, Office of Consumer Affairs*<sup>4</sup>  
**Matthew R. Schneider**, *Director of Legislative Affairs*

<sup>1</sup> Former Deputy Director, Wallace L. Timmeny, left the Commission on December 7, 1979.

<sup>2</sup> Former Director, Andrew M. Klein, left the Commission on October 12, 1979.

<sup>3</sup> Former Solicitor, David Ferber, retired from the Commission on September 28, 1979.

<sup>4</sup> Mr. Klein is now participating in the President's Executive Exchange Program and will return to the Commission in October 1980.

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## Regional and Branch Offices

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### 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 30309.

**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).—**Michael J. Stewart**, 8th Floor, 411 West Seventh St., Forth 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 Wilshire 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.

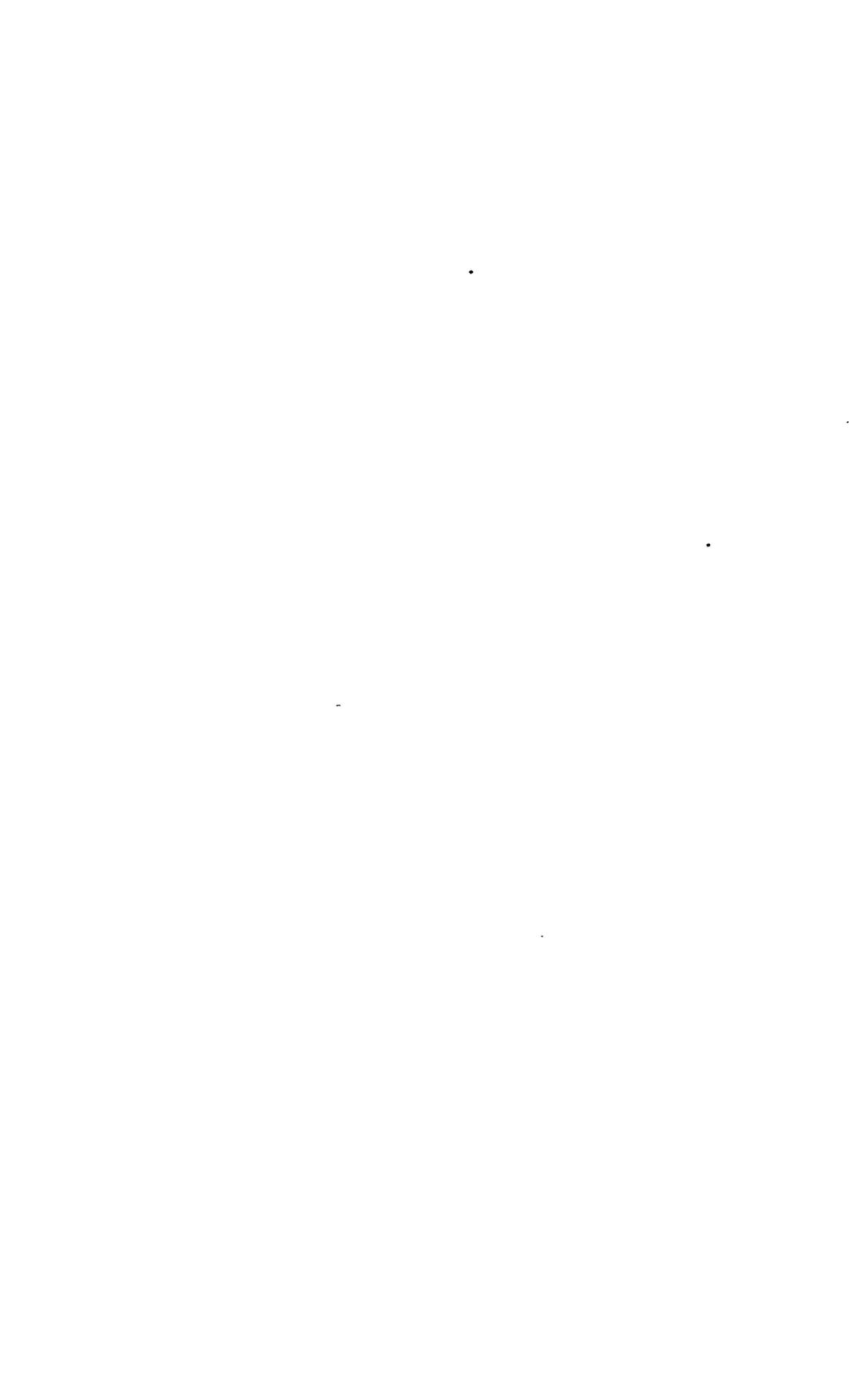
Houston, Texas 77002.—Room 5615, Federal Office & Courts Bldg., 515 Rusk Ave.

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.



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## Biographies of Commissioners

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### **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 of 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.

## **Irving M. Pollack**

Commissioner Pollack was born in Brooklyn, New York, on April 8, 1918. He received a B.A. degree, cum laude, from Brooklyn College in 1938 and an LL.B. degree, magna cum laude, from Brooklyn Law School in 1942. Prior to joining the Commission's staff he engaged in the practice of law in New York City after serving nearly four years in the United States Army, where he gained the rank of Captain. Mr. Pollack joined the staff of the Commission's General Counsel in October 1946. He was promoted from time to time to progressively more responsible positions in that office and in 1956 became an Assistant General Counsel. A career employee, Mr. Pollack became Director of the Division of Enforcement in August 1972 when the SEC's divisions were reorganized. He had been Director of the Division of Trading and Markets since August 1965, and previously served as Associate Director since October 1961. In 1967 Mr. Pollack was awarded the SEC Distinguished Service Award for Outstanding Career Service, and in 1968 he was a co-recipient of the Rockefeller Public Service Award in the field of law, legislation and regulation. Mr. Pollack took the oath of office on February 13, 1974 as a member of the Securities and Exchange Commission, and is now serving for the term expiring June 5, 1980.

## **Roberta S. Karmel**

Commissioner Karmel was born May 4, 1937, in Chicago, Illinois. She received a B.A. from Radcliffe College in 1959 and an LL.B. from New York University School of Law in 1962. From 1962 to 1969, Mrs. Karmel worked in the New York Regional Office of the Securities and Exchange Commission as an attorney, then attorney branch chief, then assistant regional administrator. From 1969 to 1972 she was an associate with Willkie, Farr & Gallagher in New York. Mrs. Karmel was a partner in Rogers & Wells from 1972 through September 1977, and an adjunct professor at Brooklyn Law School from 1973 through 1977. She has been a member of the American Bar Association Federal Regulation of Securities Committee since 1973. She has also served on the Association of the Bar of the City of New York Committee on Securities Regulation, Committee on Administrative Law, and Committee on Professional Responsibility. She is the author of numerous articles in legal journals. Mrs. Karmel took the oath of office as a member of the Securities and Exchange Commission on September 30, 1977, for a term expiring on June 5, 1981.

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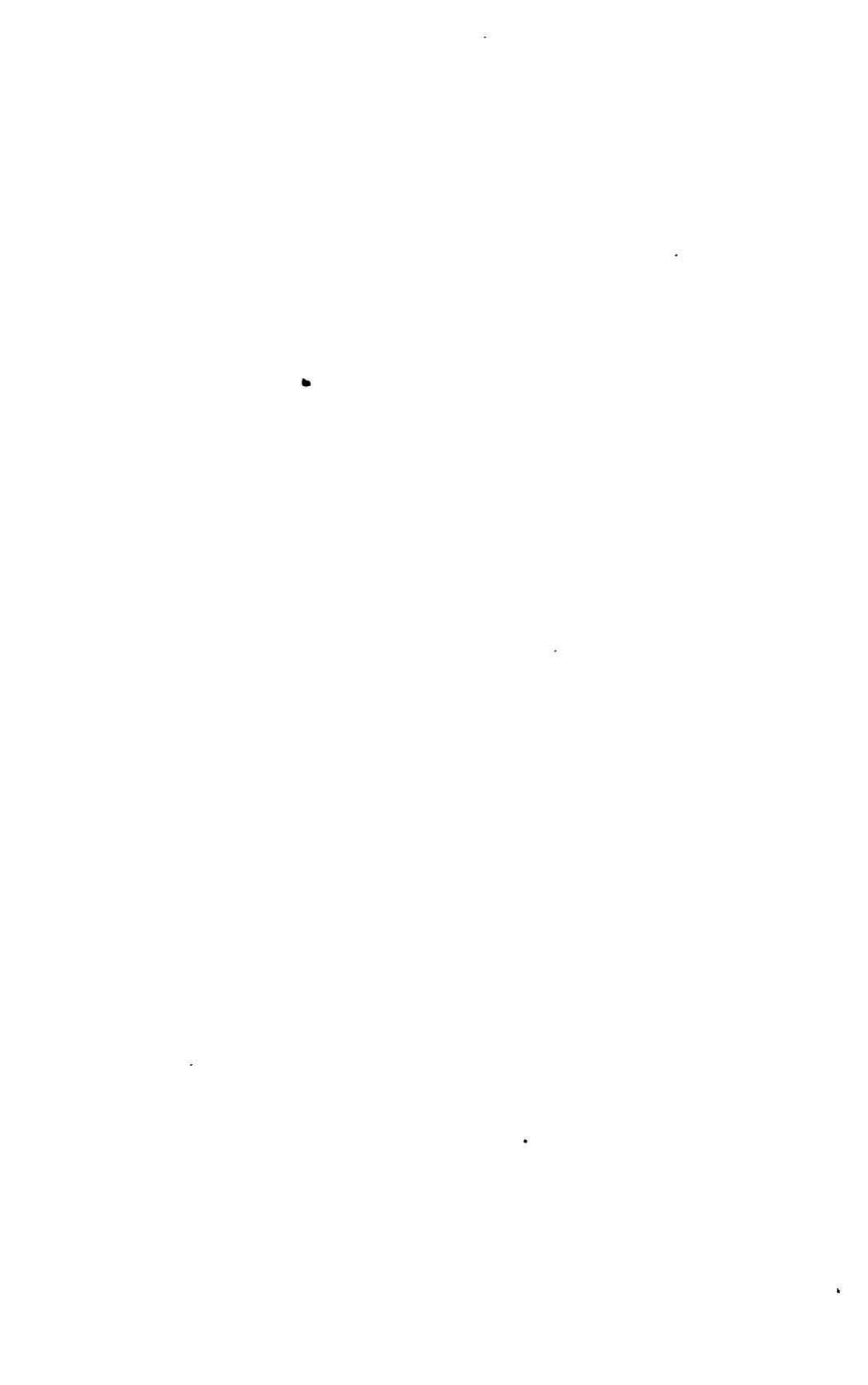
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# Regulation of the Securities Markets

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## Securities Markets, Facilities and Trading

*National Market System*—The past fiscal year saw marked acceleration in progress toward the development of a national market system.

On October 20, 1978, the Commission published for comment two proposals designed to refine the operation of the consolidated transaction reporting and quotation systems. The first of these proposals, Rule 11Ac1-2 under the Securities Exchange Act of 1934 (Exchange Act), would, if adopted, impose comprehensive minimum requirements regulating the manner in which securities information vendors display transaction and quotation information.<sup>1</sup> The second proposal, the amendment of existing Rule 17a-15, would, if adopted, (a) redesignate Rule 17a-15 as Rule 11Aa3-1 under the Act; (b) eliminate, subject to certain conditions, the existing prohibition on retransmission of last sale data for purposes of creating a moving ticker display; and (c) set forth procedures for amending transactions reporting plans filed pursuant to the rules.<sup>2</sup> The Commission received many valuable comments from self-regulatory organizations and vendors of market information and at year end both proposals were awaiting further action.

On March 22, 1979, the Commission issued a Status Report which, among other things, set forth the Commission's views as to the next steps to be taken toward development of a national market system.<sup>3</sup> These steps included: achievement of nationwide

price protection for all public limit orders; refinement of pilot market linkage facilities; improvement of the timeliness and reliability of quotation information; development of broker to market center order-routing facilities; consideration of a rulemaking proceeding to preclude the application of remaining off-board trading restrictions to securities not previously subject to those restrictions; and initiation of a rulemaking proceeding to consider procedures by which securities would be designated as qualified for trading in a national market system.

In the Status Report, the Commission indicated that its first priority would be the achievement of nationwide protection for public limit orders against executions at inferior prices. The Commission expressed its belief that nationwide price protection, whereby any appropriately displayed public limit order for a qualified security would be assured of receiving an execution prior to any execution by a broker or dealer at an inferior price, should be a basic characteristic of a national market system. Furthermore, the Commission stated that, in addition to price protection for public limit orders, it may ultimately be desirable to afford price protection to all displayed orders at the market, whether public or professional, so that any displayed quotation would be entitled to price protection up to the quotation size indicated. As an initial step in this direction, the Commission indicated that the proponents of the Intermarket Trading System (ITS) should be af-

forded the opportunity to experiment with and further enhance that system as a means of providing intermarket price protection for public limit orders.

The Commission indicated that two types of initiatives would be necessary to achieve nationwide price protection for displayed public limit orders by means of the ITS. The first would require the self-regulatory organizations and the securities industry to resolve collectively the various practical and technical problems associated with (a) disseminating and displaying public limit order information from each market center and (b) promptly enhancing the ITS so that it may serve as a means by which price protection for public limit orders can be afforded on an intermarket basis. To this end, the Commission requested that the affected self-regulatory organizations commit themselves to develop in concert and to submit to the Commission a plan by which the mechanisms to provide price protection for all public limit orders would be developed and implemented, at least on a pilot basis, not later than the end of calendar year 1980. The second initiative would involve the proposal by the Commission of a rule requiring price protection for displayed public limit orders.

On April 26, 1979, the Commission proposed for comment Rule 11Ac1-3 under the Exchange Act which, if adopted, would prohibit any broker or dealer from executing any order to buy or sell a qualified security 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.<sup>4</sup> The following month, the Commission received a commitment from each reporting self-regulatory organization to develop a joint plan for protection of public limit orders. In September 1979, the ITS participants submitted a preliminary plan for the protection of

public limit orders and a commitment to submit a definitive plan before the end of calendar year 1979. At the end of the fiscal year, the Commission was analyzing the preliminary plan and comments received in response to proposed Rule 11Ac1-3.

In furtherance of development of comprehensive market linkage systems, the Commission, on September 21, 1979, issued an order extending approval for operation of the ITS until January 31, 1983.<sup>5</sup> At the end of the fiscal year, all reporting self-regulatory organizations other than the Cincinnati Stock Exchange (CSE) and the National Association of Securities Dealers (NASD) were participating in the ITS. The Commission expects the CSE and NASD will commence participation in the ITS in the near future.

During the fiscal year, the number of securities traded in the ITS increased from approximately 100 to 600. That number is expected to continue to expand at the rate of approximately 40 securities per month. With expansion in the number of securities traded in the system, there has been a substantial increase in ITS volume. Furthermore, average response times with respect to ITS commitments to trade received by participating market centers have been reduced, and as a result of continuing technical enhancements to the system, the Commission expects that response times will be further reduced during fiscal year 1980.

On December 15, 1978, the Commission approved a rule change of the CSE extending the operation of the Cincinnati multiple-dealer trading facility (CSE System) for one year, and on September 21, 1979, the Commission further extended its approval until January 31, 1983.<sup>6</sup> While CSE System volume has thus far been limited, several additional broker-dealers commenced participation in the CSE System during the past fiscal year. The

three-year extension and increased broker-dealer participation should facilitate the Commission's ability to evaluate the effects of trading in this type of system.

In the Status Report, the Commission indicated its belief that, both for purposes of enhancing brokers' ability to seek out the best execution of their customers' orders and for purposes of assuring fair competition among markets, some type of neutral order-routing system is a necessary element of a national market system. To assure progress toward this objective, the Commission requested the New York Stock Exchange (NYSE) and the American Stock Exchange (Amex) to make available their jointly-owned common message switch to other market centers; other self-regulatory organizations were asked to inform the Commission of their interest in obtaining such a linkage.

Since the Status Report, the NYSE has engaged in continuing discussions with several self-regulatory organizations with respect to use of the NYSE-Amex message switch. In addition, the NASD has proposed enhancements to its NASDAQ inter-dealer quotation system which would, among other things, create an order-routing switch in NASDAQ that could be linked to the NYSE-Amex message switch and to the ITS. The Commission will continue to monitor and to encourage progress in these areas.

On April 26, 1979, the Commission announced commencement of a proceeding to consider proposed Rule 19c-3 under the Exchange Act, which, if adopted, would limit extension of off-board trading restrictions to additional securities. The rule would preclude application of such restrictions to certain securities that were not traded on an exchange on April 26, 1979, or that were traded on an exchange on April 26, 1979, but failed to remain so there-

after.<sup>7</sup> In its release proposing Rule 19c-3, the Commission indicated its concern that, as companies continue to list their securities on exchanges that have rules precluding their members from making over-the-counter markets in securities listed on those exchanges, competition between the over-the-counter market and the exchanges will be effectively foreclosed in an increasing number of securities. In addition, the Commission indicated that the rule could provide it and the securities industry with an opportunity to gain valuable experience as to the dynamics of competition between exchange-oriented trading and dealer-oriented trading. The Commission stated that the rule would also allow evaluation of whether existing and developing national market system facilities are sufficient to ensure an appropriate integration of trading in disparate locations.

During June and July 1979, the Commission held hearings with respect to proposed Rule 19c-3 and received extensive comments and testimony both supporting and opposing adoption of the rule. At the end of the fiscal year, the Commission was considering further regulatory action with respect to the rule.

Finally, on June 15, 1979, the Commission proposed for comment Rule 11Aa2-1 under the Exchange Act which, if adopted, would provide procedures whereby securities would be designated for trading in a national market system.<sup>8</sup> The proposed rule sets forth two quantitatively different sets of standards to be employed in determining whether any equity security should be designated a national market system security. The proposed rule would require that any equity security meeting certain minimum standards contained in the rule (tier 1 securities) be automatically designated a national market system security. If an

equity security did not meet the standards applicable to tier 1 securities, but substantially met certain broader standards (tier 2 securities), it would remain eligible for designation as a national market security pursuant to the procedures set forth in a designation plan required to be filed with the Commission by the various self-regulatory organizations.

The standards applicable to tier 1 and tier 2 securities would cover both securities traded on an exchange and securities traded exclusively in the over-the-counter market. However, while the proposal provides that the rule will become operational upon adoption with respect to all tier 1 securities and those tier 2 securities which are traded on an exchange, the rule will not become applicable to tier 2 over-the-counter securities until the Commission engages in further rule-making.

*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.

On September 19, 1978, the United States Court of Appeals for the District of Columbia Circuit affirmed the Commission's January 13, 1977 order granting the application of National Securities Clearing Corporation (NSCC) for registration as a clearing agency.<sup>9</sup> The Commission views the registration of NSCC as a key step in achieving the national clearance and settlement system envisioned by the Congress in Section 17A of the Exchange Act. Although the court did not disturb NSCC's registration, it did remand 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.

The Commission subsequently requested that NSCC submit reports on the two issues remanded by the court and that interested persons comment on NSCC's reports and on the GPM and competitive bidding issues generally.<sup>10</sup> By the end of the fiscal year, the Commission to date had received 11 letters in response to its request for comments, including letters from all but three of the registered clearing agencies. In preparation for responding to the court's remand, the Commission was reviewing those comment letters and the testimony and statements given at the Commission's March and April 1979 hearings into the development of a national clearance and settlement system.

On March 14, 1979, the Commission removed its restriction on NSCC's processing of transactions in securities listed on exchanges through its branch offices.<sup>11</sup> The removal of that restriction permitted NSCC's participants to process through NSCC's branch offices for the first time both transactions in securities listed on exchanges and transactions in securities traded in the over-the-counter market. The Commission indicated, however, that until it had responded to the remand of the GPM issue, NSCC could not use GPM for services relating to the processing of transactions in securities listed on exchanges.

The Commission continued its review of the transaction completion rules of the securities exchanges and of the NASD pursuant to Section 31(b) of the Securities Acts Amendments of 1975 (the 1975 Amendments). Some

of those rules unnecessarily restricted competition among clearing agencies. Others failed to comply with the Exchange Act for other reasons. As a result of this review, over 120 exchange and NASD rules now have been amended or deleted. This step removed many impediments to the development of a national clearance and settlement system. The Commission is continuing to discuss the amendment or deletion of other transaction completion rules with the exchanges and the NASD.

Progress toward a national system also was evident in other areas. The continued expansion of interfaces among depositories has further immobilized securities certificates and allowed depository participants to use book entry transfers to make deliveries throughout the country. This reduces the need to physically move stock certificates to settle securities transactions among depository participants. In addition, The Depository Trust Company included certain types of municipal securities in its book entry system, thus bringing municipal securities into a book entry environment for the first time. These developments have reduced costs and accelerated the settlement process.

*Options Trading*—As previously reported,<sup>12</sup> since July 1977, there has existed, at the Commission's request, a voluntary moratorium on expansion of the standardized options markets, pending (a) the completion of the Commission's Special Study of the Options Market (Options Study); (b) the evaluation of its findings; and (c) the resolution of the Commission's concerns regarding the adequacy of the regulatory framework within which standardized options trading occurs.<sup>13</sup>

The Report of the Options Study was released by the Commission in February 1979.<sup>14</sup> In general, the Study found that, to those who understand them,

options may offer an alternative to short-term stock trading having lower commission costs and a smaller commitment of capital. They also may provide a means of shifting the risks of unfavorable short-term stock price movements from owners of stock who do not wish to bear those risks to those who are willing to assume such risks in anticipation of possible rewards from favorable price movements.<sup>15</sup> The Options Study stated, however, that the purchase and sale of standardized options involves a high degree of financial risk and that only investors who understand those risks and who are able to sustain the costs and financial losses associated with options trading should participate in the standardized options markets.

The Study found that, too often, public investors have been encouraged to use standardized options without regard to the suitability of options for their investment needs.<sup>16</sup> It also found regulatory inadequacies in the options markets and, accordingly, recommended certain steps that the brokerage community, the self-regulatory organizations and the Commission should take to improve the self-regulatory framework within which listed options trading occurs and to increase protection of investors.

On February 22, 1979, the Commission issued a release that set forth its plan for implementing the Options Study recommendations and for terminating the options moratorium.<sup>17</sup> The Commission stated that, before it would permit any further expansion of the options markets, certain recommendations of the Study must be implemented by the self-regulatory organizations and the brokerage community. Implementation of these recommendations generally would require the adoption of self-regulatory organization rules, and modifications and improvements in the self-regula-

tory organizations' surveillance and compliance systems and procedures, as well as improved regulatory controls by brokerage firms. At the end of the fiscal year, the Commission had received rule proposals from the five exchanges trading options to implement some of the Options Study recommendations.<sup>18</sup>

On April 24, 1979, the Commission approved the combination of the Midwest Stock Exchange (MSE) options market with that of the Chicago Board Options Exchange (CBOE), to be effective upon termination of the options moratorium. Upon consummation of the combination, the MSE will no longer provide a market for listed options, and the CBOE will provide a market for those options then listed on the MSE. Upon listing the MSE options classes, the CBOE will assume full responsibility for floor operations, surveillance and enforcement regarding trading in those options classes.<sup>19</sup>

As reported previously,<sup>20</sup> on October 18, 1978, the Commission approved a four-month experiment by the options exchanges to extend trading hours until 4:10 p.m. New York time and to suspend daily closing rotations.<sup>21</sup> On April 27, 1979, the Commission approved uniform rule proposals by the options exchanges to permit, on a permanent basis, options transactions to be effected on the exchanges until 4:10 p.m. New York time and to provide that one trading rotation in any class of options may be completed where trading in the underlying security opens or reopens after 3:45 p.m. New York time, even though completion of the rotation may occur after 4:10 p.m. New York time.<sup>22</sup> On July 11, 1979, the Commission approved a second exception to the 4:10 p.m. closing time which provides that, if a trading rotation is commenced near the close of trading because of unusual market conditions, such as a heavy influx of

orders, an options exchange can permit the rotation to be completed after 4:10 p.m. New York time if notice of the rotation is publicly disseminated no later than the commencement of the rotation or 4:00 p.m. New York time, whichever is earlier.<sup>23</sup> The Commission has deferred further consideration of certain related rule proposals until additional experience is gained respecting the 4:10 p.m. closing hour and the exceptions described above.

*Market Inventory Funds*—In October 1978, the Chairman submitted to Senator Harrison A. Williams, Jr. a staff report on market inventory funds, which are part of master trusts established by companies to fund and administer employee benefit plans. Market inventory funds have been used solely in connection with plans of individual companies rather than in connection with pooled benefit plans of separate companies. The staff found no clear indication that these funds, as they had been operated up to that time, had had an adverse impact upon the securities markets. The report concluded, however, that such funds could develop a broad appeal in the future and that it would be appropriate for the Commission and its staff to continue to evaluate the operation of market inventory funds and their impact on the securities markets.

*Trading by Exchange Members*—Section 11(a)(1) of the Exchange Act, as amended in 1975, prohibits, with specified exceptions, any member of a national securities exchange from effecting any transaction on that exchange for its own account, the account of an associated person, or an account with respect to which it or any of its associated persons exercises investment discretion. Under this section, the Commission has authority to fashion either more flexible or more restrictive standards in light of changing circumstances. Section 11(a) became effec-

tive as to all exchange members on February 1, 1979.

In January 1979, the Commission announced the adoption of (a) a temporary rule permitting exchange members to effect certain bona fide hedge transactions for their own accounts or the accounts of their associated persons; (b) interpretations concerning the application of the section to transactions effected through the use of several automated facilities operated by national securities exchanges; and (c) interpretations concerning certain exemptions for specified types of proprietary transactions effected by exchange members.<sup>24</sup> Also in January 1979, in connection with its continuing review of its regulatory program under Section 11(a), the Commission commenced two surveys designed to elicit data concerning (a) the effect of the section on exchange members that provide money management and brokerage services to discretionary institutional accounts, and (b) market making activities by certain exchange members.

In July 1979, the Commission also approved a nine-month extension, until April 30, 1980, of programs designed by the NYSE and the Amex to supplement the market making capacity of specialists by establishing classes of registered market makers whose transactions are exempted from the prohibitions of the section.<sup>25</sup> During the nine-month period, the Commission will continue its review of the activities of those registered market makers to determine whether their transactions should continue to qualify for an exemption.

*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 covering the first 20 months of commission price competition (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 Research released to the public on July 26, 1979, a "Staff Report on the Securities Industry in 1978" (Staff Report), which detailed the results of its commission rate survey in the context of a wide-ranging analysis of the basic economic dynamics of the securities industry. This Staff Report is the second 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. Beginning with the 1978 Staff Report, the Directorate greatly expanded the scope of its study of the securities industry to examine fundamental industry trends and relationships in addition to the impact of negotiable commission rates. The 1978 Staff Report analyzed, for example, the profitability of New York Stock Exchange member firms, the sources of and trends in revenues of these firms, firm expenses and balance sheet data, the trend toward and causes of increased concentration in the securities industry, the increasing diversification among the larger broker-dealers, the notable growth of discount broker-dealers, the financial experience of exchange specialists, the economic performance of self-regulatory

organizations, and, of course, the economic effects of unfixed brokerage commission rates.

In general, the reports to the Congress and the two Staff Reports concluded that competitively determined commission rates do not appear to have adversely affected the maintenance of fair and orderly markets. Some of the more specific findings in regard to commission rates are as follows.

From May 1, 1975 to the end of June 1979, individual investors' effective commission rates, when measured as a percent of principal value, declined 19.7 percent. Institutional customers, because of their larger average order size and greater bargaining power, have negotiated discounts averaging 53.6 percent from the pre-May 1975 exchange-prescribed minimum rates. When commission rates are measured in cents per share, the declines were eight percent for individuals and 53.8 percent for institutions. Individuals paid an average of 27.6 cents per share on their June 1979 orders, which averaged 400 shares in size. Institutional orders averaged 2,034 shares in size and commissions on these orders averaged 12.0 cents per share. Individual orders of 1,000 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 group of discount broker-dealers have entered the industry. On the whole, these changes now offer investors a broader spectrum of services with a correspondingly broader range of commission rates.

*Regulation of Tender and Exchange Offers by Issuers*—On August 16, 1979, the Commission announced the adoption of a new Rule 13e-4 and related Schedule 13E-4 under the Exchange Act, effective September 21, 1979, to regulate the increasing number of cash tender and exchange offers by certain issuers for their own securities.<sup>26</sup> Rule 13e-4 and Schedule 13E-4 had been proposed for public comment on December 4, 1977.<sup>27</sup>

Rule 13e-4 requires that (a) issuers with a class of equity securities registered under Section 12 of the Exchange Act; (b) issuers required to file periodic reports pursuant to Section 15(d) of the Exchange Act; and (c) closed-end investment companies registered under the Investment Company Act of 1940 comply with certain disclosure requirements and other provisions governing the manner in which cash tender and exchange offers may be made. The requirements of the rule are patterned substantially on the regulatory scheme established by Section 14(d) of the Exchange Act and existing rules thereunder which are applicable in the context of third party tender offers. The information required to be disclosed in Schedule 13E-4 is substantially the same type of information which is required by Schedule 14D-1. The Commission adopted Rule 13e-4 and Schedule 13E-4 to insure that issuer tender offers are conducted in a manner free of deception, manipulation or fraud.

*Resale of Restricted Securities*—On August 2, 1979, the Commission authorized the issuance of a release<sup>28</sup> setting forth the staff's views concerning certain issues raised by the resale of restricted and other securities in compliance with Rule 144 under the Securities Act of 1933 (Securities Act). The release responded to interpretive questions raised by the amendments to that rule adopted by the Commission in September 1978,<sup>29</sup> which, among

other matters, permit sales under the rule to be made directly to a market maker and liberalize restrictions on the amount of securities which may be resold under the rule.

## **Regulation of Brokers, Dealers and Municipal Securities Dealers**

*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 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 smaller, more specialized brokerage firms.

*Lost and Stolen Securities*—During fiscal 1979, several significant developments occurred in the Commission's Lost and Stolen Securities Program. On November 1, 1978, the Commission announced the redesignation of Securities Information Center, Inc. (SIC) as the Commission's designee to maintain and operate the data base of missing, lost, counterfeit and stolen securities for a two-year term commencing January 1, 1979.<sup>30</sup> In addition, the Commission, on March 29, 1979, published for public comment various proposed amendments to the Commission rule governing the program.<sup>31</sup>

In response to comments received, the Commission, on May 23, 1979, adopted amendments to the rule<sup>32</sup> which, among other things: (a) established registration requirements for all institutions subject to the rule (reporting institution) with certain exceptions; (b) required that losses and

thefts of securities of the United States Government and its agencies be reported to SIC, instead of the Federal Reserve Banks, in an identical manner as lost, stolen or counterfeit corporate and municipal securities; (c) incorporated into the rule the temporary pilot period exemptions from reporting and inquiry; (d) established a new exemption from required inquiry for bearer securities received by a reporting institution directly from a known customer to whom it had previously sold the securities; and (e) required reporting institutions to report suspect counterfeit securities to a transfer agent for the issue.

The rule also incorporated two staff interpretations which exempt from required inquiry (a) securities received by a reporting institution directly from a "drop" that is affiliated with another reporting institution for the purposes of receiving and delivering certificates on behalf of such institution; and (b) securities received from a Federal Reserve Bank or Branch. At the end of August 1979, approximately 395,000 reports of missing, lost, counterfeit or stolen securities, with an aggregate market value of nearly \$2.1 billion, had been received by SIC since the inception of the program on October 3, 1977.

*Securities Confirmations*—On December 18, 1978, the Commission's new rule prescribing delivery and disclosure requirements for securities transaction confirmations sent by brokers and dealers to customers became generally effective.<sup>33</sup> The confirmation is an important disclosure document that provides an investor with information pertinent to each securities transaction. For example, the disclosures required in the confirmation provide investors with a basis for comparing transaction costs offered by competing broker-dealers and for measuring those costs against the quality of brokerage services provided.

In October 1978, before the effective date of the rule, the Commission adopted amendments<sup>34</sup> requiring disclosures relating to odd-lot differentials, remuneration received in "riskless" principal transactions in equity securities, and market making activities. Also, in October 1978, the Commission announced proposals to amend the confirmation rule further and to adopt a new rule extending to transactions in debt securities the required disclosures of remuneration received in riskless principal transactions.<sup>35</sup> At the end of fiscal year, the Commission was evaluating the public comments received in response to those proposals to determine whether the additional disclosure requirements are appropriate.

*Uniform Dispute Resolution Procedures for Investors*—A program to implement uniform, fair and efficient dispute resolution procedures for investors was undertaken by the Commission in May 1976, in connection with its establishment of an Office of Consumer Affairs. The Securities Industry Conference on Arbitration (SICA), a voluntary group of securities industry and public representatives, submitted proposals for a uniform dispute resolution system contemplating utilization of existing arbitration facilities. Self-regulatory organizations adopted a series of rules based on SICA proposals providing procedures for small claims arbitration which were approved by the Commission during the fiscal year 1978. The Commission reviews the operation of arbitration facilities as part of its general oversight responsibilities with respect to self-regulatory organizations.

On December 28, 1978, SICA submitted further proposals for a uniform arbitration code for investor-broker disputes. The uniform code includes provisions that are intended to improve the efficiency and fairness of

arbitration procedures provided by self-regulatory organizations. For example, a record of the proceedings would be kept upon request, the majority of arbitrators on each panel would not be associated with the securities industry and peremptory challenge of arbitrators by either party would be allowed. In addition, parties would be directed to cooperate in the voluntary exchange of documentary evidences and would be permitted to forward documents to the arbitrators prior to the hearing in order to expedite the proceedings.

*Arbitration Clauses in Broker-Dealer Customer Agreements*—Despite its support for arbitration, the Commission became concerned during the fiscal year about the fact that many customer agreement forms used by broker-dealers contain clauses purporting to require arbitration of all future disputes that might arise between the securities professional and the customer. In general, broker-dealers did not inform customers that a number of court decisions have held such advance agreements to be unenforceable with respect to causes of action arising under the Federal securities laws. Without such information, customers might be led to believe that they had prospectively waived any right to a judicial forum for the resolution of disputes related to securities transactions.

In July 1979, the Commission published a release<sup>36</sup> giving notice to broker-dealers that the use of pre-dispute arbitration clauses in customer agreement forms, without specifying the meaning, effect and enforceability thereof, is inconsistent with just and equitable principles of trade and may raise serious questions of compliance with the antifraud provisions of the Federal securities laws. The Commission emphasized its support for arbitration as a means of resolving dis-

putes between investors and securities professionals, but stated that prior agreements to arbitrate must reflect current applicable judicial decisions.

*Municipal Securities Dealers*—On July 11, 1979, the Commission published for comment proposed amendments to Rule 15b10-12 under the Exchange Act, allowing an exemption for certain municipal securities brokers and municipal securities dealers from the requirements of the Commission's SECO (Securities and Exchange Commission Only) program.<sup>37</sup> The proposed amendments are designed to eliminate the current dual regulation of municipal securities transactions effected by SECO brokers and dealers which conduct business in both municipal and corporate securities.

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

*Broker-Dealer Financial Responsibility Requirements*—Many broker-dealers subject to the Commission's uniform net capital rule are also registered with the Commodity Futures Trading Commission (CFTC) as futures commission merchants (FCMs). An FCM is, generally, a person who engages in soliciting or in accepting orders for the purchase or sale of any commodity for future delivery on or subject to the rules of any contract market.<sup>38</sup> The CFTC has jurisdiction to impose minimum financial requirements on FCMs. On September 1, 1978, the CFTC substantially revised its minimum financial and related reporting requirements imposed upon registered FCMs, which became effective on December 20, 1978.<sup>39</sup> Although the CFTC's amendments apply only to FCMs, about half of all commodity customer business in the futures industry is done by FCMs that are also

registered with the Commission as securities broker-dealers and are therefore subject to the Commission's uniform net capital rule.

In the interest of minimizing duplicative regulation, the CFTC generally incorporated into its minimum financial responsibility rules provisions comparable to the Commission's net capital requirements applicable to the securities business of an FCM. The CFTC agreed to accept Part II of the Financial and Operational Combined Uniform Single (FOCUS) Report, a quarterly report filed by broker-dealers with the Commission, provided it was amended to incorporate the CFTC's Schedule of Segregation Requirements and Funds on Deposit in Segregation.

On June 5, 1979, the Commission generally incorporated into its net capital rule the CFTC's minimum financial requirements applicable to the commodities business of an FCM.<sup>40</sup> It also incorporated the CFTC's segregation schedule into its FOCUS Report.<sup>41</sup> The joint efforts of the two agencies have generally provided uniform net capital requirements for entities involved in both the securities and commodities businesses and will eliminate duplicative reporting requirements.

*Securities Investor Protection Corporation*—The Securities Investor Protection Act of 1970 (SIPA)<sup>42</sup> provides certain protection 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 nonprofit membership corporation, the members of which are all registered brokers and dealers with limited exceptions. 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. Section

3(e) of SIPA requires that SIPC file proposed rule and bylaw changes with the Commission. Proposed rule changes must be approved by the Commission before they become effective, while proposed bylaw changes take effect after a prescribed period unless the Commission disapproves the bylaw changes.

On September 20, 1978, SIPC submitted proposed bylaw changes regarding the indemnification of SIPC directors, and requiring SIPC members to display the SIPC symbol at their offices and to make reference to their SIPC membership in certain advertisements. The Commission considered these proposals on November 8, 1978 and did not disapprove them.

In June 1978, SIPC adopted and submitted to the Commission three sets of rules under SIPA. The Series 100 rules and the Series 200 rules establish various capacities in which a customer may have separate securities accounts with a single broker-dealer and be protected by SIPC on each account. The Series 300 rules set forth requirements for the closeout and completion of open contractual commitments between a SIPC member undergoing liquidation and other broker-dealers. In October 1978, the Commission approved the Series 100 and 200 rules.<sup>43</sup> Subsequently, in March 1979, the Commission approved the Series 300 rules.<sup>44</sup> The Series 300 rules replaced similar Commission rules that were promulgated before the passage of the Securities Investor Protection Act Amendments of 1978 which gave SIPC, rather than the Commission, the authority to adopt such rules.

Because SIPC rules approved by the Commission have the same force and effect as Commission rules, the Commission has published those rules in a separate section of the *Code of Federal Regulations*.<sup>45</sup>

## Oversight of Self-Regulatory Organizations

*Securities Exchanges*—As of September 30, 1979, 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.

In connection with the Commission's oversight of the delisting of securities traded on national securities exchanges, the Commission, during the fiscal year, granted applications by exchanges to strike 96 equity issues and 56 debt issues from listing and registration. The Commission also granted applications, submitted by issuers, requesting withdrawal from listing and registration for 24 equity issues and four debt issues.

During the fiscal year, the Commission neared completion of its review of its policies with respect to granting applications for unlisted trading privileges. The Commission's review is designed to develop standards which it will apply in considering whether an extension of unlisted trading privileges is consistent with the maintenance of fair and orderly markets and the protection of investors under Section 12(f)(2) of the Exchange Act. While that review continues, the Commission generally has not granted applications for unlisted trading privileges. In June<sup>46</sup> and again in August<sup>47</sup> of the

fiscal year, however, the Commission approved applications by the MSE for unlisted odd lot trading privileges in certain securities which had become listed on the NYSE subsequent to the date of a previous Commission order extending unlisted odd lot trading privileges to the MSE in 865 NYSE-listed securities.<sup>48</sup>

During the fiscal year, the national securities exchanges reported to the Commission, pursuant to Section 19(d)(1) of the Exchange Act, approximately 200 disciplinary actions imposing a variety of sanctions upon member firms and their employees. In addition, the Commission received from the national securities exchanges 154 filings pursuant to Rule 19b-4 under the Exchange Act, including 98 proposed rule changes and 56 notices of a stated policy, practice or interpretation not constituting a rule change. Among the significant rule filings approved by the Commission during the fiscal year were: (a) a proposal by the NYSE to establish, on a two-year pilot basis, a non-disciplinary procedure for the reallocation of securities among specialist units who fail to meet certain minimum performance standards based upon the results of a performance evaluation questionnaire<sup>49</sup>; (b) a complete revision of the rules of the CSE<sup>50</sup>; (c) amendments to the Amex listing standards, expanding the universe of foreign and domestic issuers whose securities may qualify for listing on the Amex<sup>51</sup>; (d) a nine-month extension of the respective NYSE and Amex rules regarding supplemental market makers in equity securities<sup>52</sup>; and (e) a pricing formula amendment to the PSE's automated execution system (COMEX), to provide that orders executed at the best bid or best offer as determined by quotes received from all participants in the Intermarket Trading System.<sup>53</sup>

*National Association of Securities*

*Dealers*—The NASD is the only securities association registered with the Commission. At the close of the fiscal year, 2800 brokers and dealers were NASD members.

During the past fiscal year, the NASD reported to the Commission the final disposition of 289 disciplinary complaints. In those disciplinary actions, 143 member firms and 332 individuals were named as respondents. At the beginning of fiscal 1979, three proceedings for review of NASD disciplinary decisions were pending before the Commission, and during the year 27 additional cases were brought up for review. The Commission reviewed 14 of these cases and reduced the sanctions to be imposed in some cases.

The Commission also reviewed 39 NASD applications to admit a broker or dealer to membership or to permit a person to become associated with a member where the broker or dealer or person is subject to a statutory disqualification. The Commission has taken no adverse action with respect to 15 notices. Five notices were withdrawn, and at the end of the fiscal year, 19 notices were pending before the Commission.

During the year, the Commission continued to review an NASD proposed rule submitted in fiscal 1978 to prohibit its members from giving discounts to customers in distributions of securities offered at a fixed price. The proposal was written in response to a 1976 judicial decision, *Papilsky v. Berndt*,<sup>54</sup> which held that such discounts were unlawful in some circumstances, absent a contrary Commission or NASD ruling. In September 1979, the Commission commenced public hearings to consider the issues presented by the proposed rule.

During the fiscal year, the Commission also worked with self-regulatory organizations to simplify and eliminate

duplication in the self-regulatory system for brokers and dealers. The Commission extended until January 1, 1980, its provisional approval of four plans proposed by self-regulatory organizations for allocating their responsibilities to perform various regulatory functions for brokers and dealers which belong to more than one self-regulatory organization. The plans represent agreements reached between the NASD and four exchanges: the BSE, CSE, MSE and PSE. The plans assign to the NASD much of the responsibility for conducting onsite examination of dual members and for processing various applications.

*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 14 rule proposals. The Commission considered a number of those proposals and others which were pending from the previous fiscal year.

The Commission approved a comprehensive arbitration code for the municipal securities industry.<sup>55</sup> The code is designed to provide a means for resolving disputes on an expedited and relatively inexpensive basis. It includes both special procedures for settling disputes relating to customer small claims and more general procedures which can be used for claims of any size.

The Commission also approved a rule relating to the advertising of municipal securities.<sup>56</sup> The rule prohibits a municipal securities professional from publishing or causing to be published an advertisement concerning municipal securities that such professional knows or has reason to know is false and misleading. It also requires all advertisements concerning municipal securities to be approved in writing

by appropriate supervisory personnel.

In addition to consideration of MSRB rule proposals, the Commission proposed a rule to provide the MSRB with information for use in its rulemaking activities. On May 30, 1979, the Commission published for comment proposed Rule 15Bc7-1 under the Exchange Act to make available to the MSRB information concerning compliance examinations of municipal securities brokers and municipal securities dealers.<sup>57</sup> The proposed rule is designed to establish a mechanism for furnishing to the MSRB reports of compliance examinations, or information from such examinations, made by or furnished to the Commission, the NASD and the three Federal bank regulatory agencies. (In October 1979, this rule was adopted by the Commission.<sup>58</sup>)

*Clearing Agencies*—The Commission has granted temporary registration to 12 clearing agencies pending the development of standards for full registration of clearing agencies. The Commission also received applications for temporary registration as a clearing agency from the Philadelphia Depository Trust Company (Philadep) and the Fixed Income Clearing Corporation.<sup>59</sup>

The Commission, at year end, was considering the numerous comment letters which were received on the revised proposed standards for clearing agency registration which were published in the previous fiscal year.<sup>60</sup> The Commission expects to announce the standards for full registration within the next fiscal year.

The Commission has established a Branch of Securities Processing Inspections whose primary responsibility is to inspect registered clearing agencies. The branch has embarked on a program of inspecting each clearing agency and is developing formal procedures for the inspection of clearing agencies. On July 10-13, 1979, the

branch conducted an extensive inspection of the Philadep as part of the Commission's consideration of whether to grant temporary registration as a clearing agency to that applicant. At the end of the fiscal year, the Commission's staff was continuing to analyze data gathered in the course of this inspection. After completion of this work, the findings of this inspection will be discussed with Philadep. (Subsequent to the close of the fiscal year, on October 24, 1979, the Commission announced its order granting temporary registration to Philadep.<sup>61</sup>)

*Arbitration Facilities of Self-Regulatory Organizations*—During fiscal year 1978, the Commission's staff inspected arbitration facilities of the NASD, Amex, and CBOE. The staff also completed its analysis of information obtained during an inspection of the NYSE on September 27-28, 1978. The purpose of these inspections was to determine the efficiency and fairness of the procedures of these organizations for the resolution of disputes between investors and broker-dealers. The inspections focused on the organizational structure of the arbitration departments, the composition of arbitration panels, the time necessary to resolve disputes, the volume of cases and the range of awards.

As a result of these inspections, the staff recommended that the self-regulatory organizations prepare materials to inform investors about the enforceability of agreements to arbitrate future disputes with broker-dealers and about those issues for which a judicial forum might be available. The staff also made certain comments and recommendations regarding the operation of the arbitration programs.

The staff suggested that the NYSE permit arbitrators, through the arbitration department staff, to refer to disciplinary authorities any apparent violations of applicable rules or laws

discovered in the course of arbitration proceedings. The staff also suggested that the NASD attempt to reduce the time between filing and resolution of claims and to select public arbitrators with a greater diversity of experience.

*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. Shortly after Section 19(b) became effective, the Commission adopted Section 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 for public comment amendments to Rule 19b-4 and related Form 19b-4A.<sup>62</sup> Developed in light of the Commission's experience in administering Section 19(b), the proposed amendments are intended to improve and simplify the procedures for filing proposed rule changes, thereby expediting the rule review process. The Commission's proposals include (a) an amendment to Rule 19b-4 to designate a new category of rules that may become effective upon filing and (b) amendments to Form 19b-4A to specify, in greater detail the information required by that form.

*Inspections of Self-Regulatory Organizations*—During the fiscal year, the Commission reorganized its program for oversight inspections of the activities of self-regulatory organizations. This new program has entailed more frequent and more intensive onsite inquiries into the market surveillance and compliance systems of the various national securities exchanges and the NASD.

In February 1979, the Commission staff conducted an inspection of the

stock market surveillance program of the Phlx. This inspection disclosed significant inadequacies in the market surveillance systems of the Phlx.

In April 1979, the Commission staff, in response to a recommendation of the Options Study, conducted an inspection of the operations and listed options market surveillance program of the MSE. This inspection disclosed that the MSE program was inadequate for the detection of certain common options trading violations.

In June 1979, the Commission staff, in connection with a pending pilot trading program, conducted an inspection of the NYSE program for surveillance of the activities of Registered Competitive Market Makers (RCMMs) and Registered Competitive Traders (RCTs). This inspection also included a review of the exchange's enforcement program for RCMM members. This inspection disclosed deficiencies in certain of the techniques employed by NYSE staff to detect rule violations by RCMMs and RCTs and other weaknesses in case file documentation practices. Also discovered was a failure to take the formal disciplinary action necessary to enforce RCMM rules effectively.

In April 1979, the Commission staff inspected the options operations and market surveillance programs of the PSE. This inspection disclosed certain inadequacies in some of the exchange's systems which monitor compliance by market professionals with trading rules and with credit regulations.

In June 1979, the Commission staff conducted an inspection of the options operations and market surveillance systems of the Phlx. This inspection disclosed significant deficiencies in the Phlx system to detect options trading violations and deficiencies in the enforcement of certain Phlx rules.

In June 1979, the Commission staff conducted an inspection of the Securities Qualification Section in the NASD's NASDAQ Operations Department. The major findings of this inspection were that the NASD had made marked improvements in the manner in which it monitors periodic filings of issuers for compliance with securities qualification criteria, that there were shortcomings in the section's administration of the listing exception process and that there were ambiguities in the NASD rules governing this process.

Between February and July 1979, the Commission staff conducted inspections of the operations of NASD district offices located in Philadelphia, Washington, D.C., New Orleans, Kansas City and Chicago, as well as the operations of the unit at NASD headquarters assigned to manage and coordinate NASD district office activities. These inspections focused on the administration of the NASD's program of examinations and monitoring of member firms. These inspections disclosed a number of strengths and weaknesses in the regulatory programs of individual offices as well as several significant weaknesses which appeared to be national in scope. This latter class of weaknesses included (a) shortcomings in the work paper requirements and document maintenance practices of NASD examiners, especially with regard to sales practices; (b) the failure of some examiners to follow procedures prescribed by the NASD to detect sales practice violations during routine examinations of member firms; and (c) inadequate staffing of the district offices of both examiners and supervisory personnel.

During July 1979, the Commission staff inspected the operations and market surveillance and enforcement program of the CBOE. The inspection team found inadequacies in the man-

ner in which the CBOE seeks to detect certain trading violations.

During August 1979, the Commission staff inspected the options operations and market surveillance and enforcement program of the Amex. This inspection disclosed certain deficiencies in the market surveillance systems of the exchange and a failure to enforce certain exchange rules. In addition, the inspection team found a pattern of failure to prosecute certain cases of apparent rule violations by floor members.

During February 1979, the Commission staff conducted an examination of the complaint processing unit of the Amex. Complaint processing is a function of the Department of Rulings and Inquiries, Legal and Regulatory Policy Division, which is also responsible for issuing interpretations of Amex rules. The purpose of the inspection was to determine the responsiveness, efficiency and timeliness of the Amex complaint handling system. The staff will continue to monitor that system and to recommend changes where necessary.

In May 1979, the Commission staff examined the complaint processing function of the CBOE. The CBOE Trading Regulation Department responds to complaints and inquiries which are floor-related, and the Office of Inquiries and Complaints handles matters related to broker-dealer sales

practices. The staff will continue to monitor the responsiveness of the CBOE to investor concerns.

After each of the foregoing inspections, the Commission notified the appropriate self-regulatory organization of its findings and asked that remedial action be taken. The Commission is planning a series of follow-up inspections to ensure that appropriate remedial action has been taken.

*Revenues and Expenses of Self-Regulatory Organizations*—The regulatory functions of the various exchanges and the NASD with regard to their broker-dealer members are financed through various fees and dues, such as listing fees and transaction charges. The nature of some of these revenue sources makes the financial condition of self-regulatory organizations dependent upon price fluctuations and trading volume.

Furthermore, the various self-regulatory organizations are quite different in the extent of their dependence on particular sources of revenue. Some sources of revenue, such as transaction, clearing and depository fees, change directly with changes in share volume. Others are relatively fixed, such as listing fees and membership dues. Additional analysis and statistical detail on share volume, revenues and expenses of each self-regulatory organization are presented in the Appendix of this report.



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# The Disclosure System

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## New Developments in Disclosure Policy

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 Commission pursued a program designed to enhance the effectiveness of required information, while reducing attendant burdens to the extent possible. Five major objectives have been stressed to attain that goal: (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; (4) development of guidance for special situations outside the normal system of continual disclosure; (5) refocusing of the staff review process; and (6) implementation of a program review of existing rules to delete or amend unnecessary or outmoded provisions.

*Projections of Future Economic Performance*—In furtherance of its new policy of encouraging the disclosure of earnings forecasts and other forward-looking information by registrants, the Commission issued a release on June 25, 1979, which announced the adoption of Rule 175 providing "safe har-

bor" from the liability provisions of the Federal securities laws for enumerated forward-looking information that is reasonably based and made in good faith.<sup>63</sup> The Commission's initiatives in voluntary projection disclosure are experimental in nature and a task force has been set up to assure that the new policies embodied in the rule do not yield results inconsistent with investor protection.

*Disclosure Revisions*—The Commission has taken a number of steps to improve the format of disclosure, delete unnecessary requirements, add new requirements, and, generally, make disclosure more effective and flexible. In one such action, the Commission adopted amendments to provide relief from certain portions of the reporting requirements of the annual and quarterly reports filed with it by registrants whose equity securities are owned either directly or indirectly by a single person which itself is a reporting entity under the Exchange Act.<sup>64</sup> The Amendments are part of the Commission's continuing effort to reduce reporting burdens and paperwork by more precisely tailoring the reporting requirements to the characteristics of particular registrants and to the needs of their investors.

On September 6, 1979, the Commission proposed the amendment of Rule 12b-25 and its related form which would result in the elimination of extensions of time to file reports under the Exchange Act and, in lieu thereof, proposed the institution of a system requiring notification of a registrant's or reporting person's inability to timely

file reports or portions thereof.<sup>65</sup> By eliminating the review requirement for extension of time requests, the Commission hopes to be able to place increased emphasis on the review of all Exchange Act filings. In this manner, the Commission will attempt to implement a recommendation of the Advisory Committee on Corporate Disclosure which noted that a substantive review of periodic reports, consistent with the quality of information sought in registration statements, is essential to the end product of a high quality disclosure document.<sup>66</sup>

The Commission also concurrently proposed for comment a new Rule 12b-26 which would require registrants to prominently disclose, on the cover pages of periodic reports filed pursuant to Sections 13 or 15(d), any required portion omitted from those reports. It is believed that this requirement will assist the investing public and the Commission in the review of Exchange Act reports.

*Corporate Accountability; Management Background and Remuneration*—Responding to numerous events that raised questions about the adequacy of corporate accountability mechanisms, the Commission established a task force in 1977 to undertake a broad reexamination of its rules related to shareholders communications, shareholder participation in the corporate electoral process and corporate governance generally.<sup>67</sup> The Commission determined to address in stages, the complex issues raised during the ensuing public hearings. In December 1978, the Commission adopted final rule, form and schedule amendments designed to provide shareholders with additional information about the matters on which their vote is solicited.<sup>68</sup> Generally, these amendments require disclosure of: (1) The existence and functioning of audit, nominating and compensation committees; (2) attend-

ance of directors at board and committee meetings; (3) certain economic and personal relationships between directors or nominees and an issuer or its management; and (4) resignations of directors.

On August 13, 1979, the Commission proposed a second set of rules related to corporate accountability.<sup>69</sup> The proposals would require that shareholders be provided with a proxy card which: (1) Indicates whether the proxy is solicited by the board of directors; (2) provides a means to vote for director nominees individually; and (3) removes discretionary authority to vote unmarked proxies. The proposed amendments also would require disclosure of prior year election results in certain circumstances and would expand the types of communications exempt from the proxy rules. (On November 20, 1979, the Commission adopted a version of these rules modified to reflect certain comments received.)<sup>70</sup>

The Task Force on Corporate Accountability was, at the close of the fiscal year, engaged in preparing a comprehensive report on the corporate governance proceeding. The staff monitored governance disclosure appearing in the proxy statements of 1,200 representative issuers during the 1979 proxy season. In addition to analyzing the results of the disclosure survey, the report is expected to address such issues as the functions of the board of directors and its committees; solicitations of beneficial owners of stock held in street and nominee name; disclosure of corporate activities having both economic and social impacts; and the respective roles of private sector, institutional shareholders, self-regulatory organizations, the states, the Commission and Congress in corporate accountability. After review of the staff report, the Commission will consider what further action, if any, is appropri-

ate and will determine whether to publish additional rulemaking proposals or to recommend or support new legislation affecting corporate accountability.

In a release dated December 4, 1978, the Commission amended certain disclosure forms and regulations to standardize and improve the disclosure requirements relating to management remuneration.<sup>71</sup> The Amendments revised the management remuneration disclosure provisions in certain registration statements, periodic reports and proxy and information statements filed with the Commission to require tabular and other forms of disclosures as to all remuneration received from the corporation and its subsidiaries for services during the latest fiscal year by certain specified directors, executive officers and officers. Subsequent to the adoption of these requirements, the Commission authorized the Division of Corporation Finance (the Division) to issue its interpretive views regarding certain aspects of the amendments in order to give guidance to registrants.<sup>72</sup>

*Monitoring of Existing Guidelines*—As a means of accomplishing its stated disclosure program goals, the staff of the Division has undertaken a comprehensive revisitation and review of the disclosure requirements of the Securities Act and Exchange Act. On June 25, 1979, the Commission issued, for public comment, comprehensive proposed staff guidelines for the disclosure in registration statements and reports by electric and gas utility companies.<sup>73</sup> It is anticipated that these guidelines will improve the usefulness to investors of the various documents involved by specifying the types of data which such documents should disclose. It is also believed that the guidelines will benefit companies by increasing the uniformity of disclosure within the industry and eliminat-

ing disclosure requirements which are not meaningful to that industry. The comment period closed on September 24, 1979, and the staff began analyzing the comments received.

In August of 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."<sup>74</sup> These particular guidelines have been in operation since 1976. The request is part of the Commission's effort to monitor the effect and value of its disclosure rules and guides with a view to amending or rescinding those rules or guides which do not yield the expected benefits.

On September 6, 1979, the Commission requested comments on the operation and efficacy of certain of its recently adopted proxy statement disclosure requirements as well as certain other disclosure requirements relating to the structure, functioning, and composition of boards of directors.<sup>75</sup>

On September 27, 1979, the Commission published an interpretive release<sup>76</sup> focusing attention on existing requirements under the Securities Act and the Exchange Act concerning environmental disclosure to assist registrants in complying with those requirements and to alert them that the Commission will continue, in appropriate cases, to take enforcement action in instances of non-compliance. The release, in particular, addressed these issues: (1) the need to disclose total estimated expenditures for environmental compliance beyond two years in the future; (2) the obligation to disclose particular types of environmental proceedings; and (3) the circumstances under which companies must disclose their policies or approaches concerning environmental compliance. The Commission reviewed its policies with respect to environmen-

tal disclosure in an administrative proceeding<sup>77</sup> (which is discussed in the "Enforcement" section of this report).

## Small Business

While it should be recognized that many of the problems which face small business today result from factors rooted in the broad economic environment rather than the Federal securities laws, the Commission is aware that the rather costly and complicated process of distributing securities in compliance with these laws is felt by some to impede unnecessarily capital formation by small businesses. The Commission has vigorously addressed itself to these problems by focusing primarily on its existing rules and regulations and on the general problem areas under those rules which have been of the greatest interest to small businesses.

During April and May of 1978, the Commission held public hearings concerning the effects of its rules and regulations on the ability of small businesses to raise capital and the impact on small businesses of the disclosure requirements under the Securities Act. The Commission subsequently adopted revisions to its rules during fiscal 1978 and has continued to implement the policy of easing the regulatory burden on small businesses, consistent with the protection of investors, during fiscal 1979.

In June 1979, the Office of Small Business Policy was established within the Division. The Office: (a) serves as the focal point of the Commission's small business rulemaking initiatives; (b) reviews and comments upon the impact of rule proposals on small businesses; and (c) acts as liaison with Congressional committees, government agencies and other groups concerned with small business. The Office is responsible for monitoring the quality of disclosure included in offerings

registered on Form S-18, which is described below. Since the Form was adopted on an experimental basis, the Office will make recommendations as to the continued use of or appropriate amendments to the Form.

The Commission has also adopted certain revisions to Rule 144 and Regulation A. On March 5, 1979, Rule 144 was amended to allow non-affiliates to disregard the Rule's volume restrictions under certain circumstances.<sup>78</sup> To qualify, the seller must have been a non-affiliate for three months and must have held the securities: (a) for three years if they are listed on a national securities exchange or quoted on the NASDAQ, or (b) for four years if the securities are not so listed or quoted and the issuer files reports pursuant to the Exchange Act. On June 1, 1979, the Commission adopted amendments which permit the use of a pre-effective selling document in Regulation A offerings, provided that the securities are sold by underwriter(s) who are broker-dealers registered under the Exchange Act.<sup>79</sup>

On March 29, 1979, the Commission adopted Form S-18 and related amendments concerning simplified registration and reporting requirements for small issuers.<sup>80</sup> The Form is available to certain domestic or Canadian corporate issuers for offerings of up to \$5 million, of which up to \$1.5 million may be sales by existing security holders. The Form calls for narrative disclosure somewhat less extensive than that presently required by Form S-1 and audited financial statements prepared in accordance with generally accepted accounting principles rather than in accordance with Regulation S-X. A corresponding amendment was also adopted which allows issuers to include the narrative and financial disclosure format of the Form S-18 in its initial Form 10-K report.<sup>81</sup> Issuers also have the option of filing the registration statement at the

appropriate regional office or at the Headquarters Office.

On September 11, 1979, the Commission proposed Rule 242 which expands the availability of Section 3(b) of the Securities Act to allow issuers to sell up to \$2 million worth of securities, subject to provisions of integration delineated in the Rule, without registration or compliance with the more burdensome requirements found in other exemptions from registration.<sup>82</sup> The two major conceptual changes embodied in the Rule are, first, the unregistered sale of securities to an unlimited number of institutional investors with no mandated information requirements (relying on the ability of such persons to obtain material information from the issuer) and, second, the unregistered sale of securities to a limited number of individuals (35) with no sophistication test which must be met, but with an information requirement similar to that found in Form S-18. (On January 10, 1980, the Commission adopted Rule 242.)

(On October 10, 1979, the Commission authorized the issuance of a release indicating that it will not take enforcement action against issuers utilizing Form S-18 to offer \$1,500,000 or less of debt securities for public sale pursuant to the Securities Act without filing and qualifying the trust indenture under the Trust Indenture Act of 1939. The proposed no-action position would be taken when it appears that such compliance would be inconsistent with both the Commission's ongoing effort to facilitate small businesses in the capital formation process and the Commission's view that qualification is not required for Regulation A offerings of debt securities.)<sup>83</sup>

*Long Range Studies*—Policy research by the Commission's Directorate of Economic and Policy Research regarding the ability of small firms to raise capital increased substantially in 1979.

Phase I of the Experimental Technology Incentive Program (ETIP) was completed in conjunction with the U.S. Department of Commerce. In this initial effort several policy questions regarding the capital markets confronting small, high technology corporations were addressed. Phase II, now in progress, implements this system and expands the scope beyond the capital raising process to include accounting disclosure, tender offers and other policy concerns relevant to small, innovative enterprises. This effort will be supplemented in fiscal year 1980 with an examination also conducted by the Directorate of Economic and Policy Research, of the role regional brokerage firms play in raising capital for issuers through initial public offerings.

### **Tender Offer Proposal**

In February 1979, the Commission withdrew certain proposed rules with respect to tender offers which had been published in 1976, and published for comment a new proposal and a related schedule.<sup>84</sup> This action was part of the Commission's ongoing program to establish a comprehensive regulatory framework with respect to tender offers.

The proposal would require Tender Offer Statements on Schedule 14D-1 to be filed by the bidder with the Commission, and sent to certain interested persons, predicated on the date of commencement of a tender offer. An initial filing with the Commission prior to the date the tender offer is first published, sent or given to security holders would not be required. Rather than establish a specific time for such filings, the proposal generally would permit a filing to be made as soon as practicable on the date of commencement or, with respect to amendments, on the date the material change or additional tender offer material is first published, sent or given to security holders. This

filing standard is designed to create an efficient system in conformity with the Williams Act which will not unduly burden bidders. In addition, the proposal, which would provide the prompt communication of information regarding tender offers to trading markets, is intended to assist national securities exchanges and the National Association of Securities Dealers, in carrying out their self-regulatory responsibilities under the Federal securities laws.

In addition to establishing comprehensive disclosure requirements applicable to any tender offer subject to Section 14(d) of the Exchange Act, the proposal would also provide a framework for disseminating cash tender offers, and amendments, to security holders. The proposed rules would add content and clarity to the term "published, sent or given" to security holders and are intended to afford a greater number of shareholders the opportunity to receive, consider and evaluate tender offer materials. Three non-mandatory methods of disseminating cash tender offers would be provided: long-form publication; summary publication; and the use of stockholder lists and security position listings. To ensure the efficient operation of the latter method, a procedure would be established under which the bidder's tender offer materials would be sent to security holders either by the bidder who is furnished with stockholder lists, or by the subject company. The choice as to the method used would be the option of the subject company.

To further ensure that investors have an adequate opportunity to consider communications from the bidder, as well as the subject company, in deciding whether to tender to the bidder, sell into the market, or hold part or all of their securities, the Commission also proposed rules that would require all tender offers to remain open for at least 30 business days and for at least

ten business days after any increases by the bidder in the offered consideration; provide withdrawal rights for shares deposited by investors during the first 15 business days of an offer and an additional ten business days in the event of a competing offer; and permit bidders to extend pro rata acceptance rights for periods in excess of those required by Section 14(d)(6).

Other proposed rules would require prompt status reports whenever the length of a tender offer is extended and payment for or return of deposited securities as soon as reasonably practicable after the tender offer's termination.

The proposal would also revise the present disclosure requirements relating to subject companies and other persons making a solicitation or recommendation in connection with a tender offer subject to Section 14(d). Thus, proposed Rule 14d-10 and proposed Schedule 14D-10 would replace current Rule 14d-4 and Schedule 14D, respectively. While the proposed rule would require broader disclosure, a narrower class of persons would be subject to its requirements than is currently the case. The limitation on the types of persons who must file a proposed Schedule 14D-10 represents an effort by the Commission to avoid unnecessary regulation in the context of tender offers.

While not applying to a bidder, proposed Rule 14e-2(a) would affirm a duty of disclosure on any other person who trades on non-public material information obtained directly from a bidder or indirectly from a bidder, such as from persons involved or consulted by the bidder in the precommencement planning and preparation stages of a tender offer. The Commission believes that an affirmative duty of disclosure is necessary for the protection of investors because of past abuses, the vital importance of such market informa-

tion and the extraordinary nature of tender offers.

(On November 20, 1979, the Commission adopted a modified version of these tender offer proposals.)<sup>85</sup>

### **Going Private and Sale of Asset Transactions**

On August 2, 1979, the Commission adopted a new rule and schedule relating to going private transactions by public companies or their affiliates.<sup>86</sup> This was in response to the continued occurrence of going private transactions, the variety of methods employed in such transactions, and the need for disclosure to investors confronted with these transactions. The rule and schedule are intended to augment and implement the present statutory provisions by prohibiting fraudulent, deceptive and manipulative acts or practices in connection with going private transactions and by prescribing new filing, disclosure and dissemination requirements as a means reasonably designed to prevent such acts and practices.

During the year, several proxy statements involving novel, multi-step sale of asset transactions were filed with the Commission. Typically, the subject transaction involved a cash sale of substantially all of the assets of a public company to another company, often a private company not otherwise engaged in a trade or business. The purchasing company expects to continue the business of the public selling company under the public company's name and hires substantially all of the seller's managers under long-term employment arrangements to manage the business. A significant percentage of the purchase price may be borrowed by the purchaser and, if so, the assets purchased are usually directly or indirectly pledged to secure repayment of the loan. In some cases, the sale of assets, if approved, will be followed by an

issuer tender offer by the public company to repurchase its shares for cash out of the proceeds received from the sale. In addition, the public company proposes, as part of the transaction, to amend its certificate of incorporation to change its business to that of an investment company. In view of concerns that were expressed by interested shareholders regarding the adequacy of disclosure; difficulties encountered in the administrative review process; and enforcement actions which had been taken as a result of failure to comply with the disclosure requirements of the Exchange Act, the Commission authorized the Division of Corporation Finance to provide information to the public about current practices and guidance to issuers in fulfilling their disclosure obligations.<sup>87</sup>

### **Oversight of the Accounting Profession**

*Report on the Accounting Profession and the Commission's Oversight Role*— In July 1979, the Commission submitted to Congress its second Report on the Accounting Profession and the Commission's Oversight Role. This was in accordance with the Commission's undertaking, during the June 1977 hearings held on the accounting profession by the Subcommittee on Reports, Accounting and Management of the Senate Committee on Governmental Affairs, to report periodically on the accounting profession's response to the challenges which Congress and others have placed before it and on related Commission initiatives.

The questions raised concerning the accounting profession and its future have centered principally on the profession's capability, absent direct government regulation, to regulate and discipline its members, to assure their independence, and to set auditing and accounting standards. The Report contained the views of the Commission and

the staff on the major issues confronting the accounting profession, and analyzed in detail the recent progress made by the profession and the Commission, in dealing with them.

In its July 1979 Report, the Commission concluded that progress has been sufficient to merit continued opportunity for the accounting profession to pursue its efforts at self-regulation. Consequently, the Commission did not recommend, at the time, legislation to supersede or control the regulation of accountants. Further, the Commission continues to believe that it is too early to reach any definite conclusions with respect to possible future regulatory action or legislation. If, for example, the profession's initiatives are not successful, a legislative alternative might well be required. Additionally, the Commission remains unconvinced 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.

During the past year, the Commission has worked with the accounting profession to define the objectives of the self-regulatory program, to assure that the profession's proposed implementation is consistent with those objectives, and to suggest ways in which to achieve the objectives without imposing specific methods. In addition, the Commission has been active during the past year in overseeing the profession's initiatives concerning the independence of auditors and the accounting and auditing standard-setting processes. In this respect, the Commission has given specific attention to maintaining the momentum for progress in such areas as reporting on internal accounting control, scope of services performed by auditors, and the work of the Financial Accounting Standards Board (FASB) and of the

AICPA. The Commission has criticized the profession where necessary, complimented it, when deserved, and in general, has offered its views and insights concerning the self-regulation effort on which the profession has embarked.

With respect to the accounting standard-setting process, the Commission believes that the initiative for establishing and improving accounting standards should remain in the private sector, subject to Commission oversight. However, to retain that prerogative, the FASB must continue its efforts to provide leadership and take necessary action in controversial areas. Also, the members of the accounting profession and the corporate community must encourage the FASB to provide that leadership, support the FASB's decisions and join more actively in the standard-setting process. This next year will be a critical period in assessing the ability of the private sector to demonstrate its ability to move responsibly in addressing the complex, yet essential, issues with which it is confronted.

The process of demonstrating that accountants themselves, rather than government, should (1) retain primary authority to regulate the profession; (2) ensure and instill confidence in professionalism and objectivity; (3) maintain control over the quality of the work of the profession's members and discipline those who fail to adhere to its standards; and (4) formulate appropriate accounting and auditing standards, is one which will demand the profession's and the Commission's continued commitment. The need for leadership regarding these essential issues is greater than ever. Whether it will be effectively provided by the private sector and, if so, by whom, is not yet certain. The Commission stands ready to consider any reasonable alternatives to achieve the essential objectives.

*Management Advisory Services*

(MAS)—The issue of the appropriate scope of services to be provided by independent public accountants to their audit clients and the effect of such services on their independence has been the subject of much discussion. The problem has been addressed in various fora—by the accounting profession, scholars, the Commission, the Congress, and most recently by the Public Oversight Board (POB) of the SEC Practice Section of the Division of CPA Firms of the AICPA.<sup>88</sup>

In June 1978, the Commission, in Accounting Series Release No. 250 (ASR No. 250), adopted a rule requiring disclosure in proxy statements of services provided by the registrant's principal independent accountants and disclosure of whether the board of directors or its audit or similar committee had approved each service and considered its possible effect on independence. In ASR No. 250, the Commission also indicated that it had not yet determined whether it should propose rules to prohibit public accountants from rendering certain types of services to their publicly-held audit clients. The Commission noted that the SEC Practice Section had asked the POB to consider the matter and stated that the POB should be given an opportunity to present its conclusions before the Commission acted.

On March 9, 1979, the POB submitted its report, "Scope of Services by CPA Firms," to the Executive Committee of the Section. In its report, the POB concluded that proscriptive solutions to the scope of services issue are not necessary at this time.

The Commission reviewed the report of the POB and concluded that it did not adequately sensitize the profession and its clients to the potential effects on the independence of accountants of performance of nonaudit services for audit clients. Accordingly, in June 1979, the Commission issued

Accounting Series Release No. 264 (ASR No. 264)<sup>89</sup> in which it stated its views concerning certain factors which accountants should consider in assessing the possible effects upon their independence of the performance of nonaudit services for publicly-held audit clients. In addition, because of the impact which any impairment of the auditor's independence, either in fact or in appearance, could have on the credibility and usefulness of the audit report, the Commission also set forth certain factors which audit committees, boards of directors, and managements should consider in determining whether to engage their independent accountants to perform nonaudit services.

The possible effect upon audit independence of performing nonaudit services for audit clients is a complex issue. The Commission, in identifying the factors set forth in ASR No. 264, was neither proposing to proscribe particular nonaudit services regardless of the surrounding circumstances, nor seeking to deprecate the very real benefits which may accrue from certain auditor MAS engagements. Rather, the Commission's objective was to re-enforce the sensitivity of interested parties to the considerations involved in judging whether particular nonaudit services should be rendered by a particular registrant's auditor. In each case, the ultimate issue is one of informed professional judgment; no set of factors or criteria can substitute for the careful, case-by-case evaluation which the exercise of that judgment entails.

ASR No. 264 did not end examination of the scope of services issue. The Commission has the responsibility under the securities laws to assure that accountants who practice before it are independent, and will continue its oversight of this area.

The Commission recognizes that the

question of independent auditor MAS activity is both difficult and controversial. If future events indicate that further action is necessary, the Commission stands ready to reconsider this issue in order to assure the confidence of investors in the financial reporting of publicly-held companies.

*Accounting Standards for Oil and Gas Producers*—During the fiscal year the Commission, aided by an Advisory Committee on Oil and Gas Accounting, continued its efforts to implement its August 1978 decision to consider a new method of accounting—reserve recognition accounting (RRA)—for oil and gas producers. The Commission's decision resulted from an extensive public proceeding conducted pursuant to both the Federal securities laws and the Energy Policy and Conservation Act of 1975, which requires that the Commission assure the development and observance of uniform accounting practices for the oil and gas industry.

Because the feasibility of such an accounting method was not assured, the Commission outlined a series of steps for the development and implementation of RRA. As an initial step, the Commission required that registrants disclose certain oil and gas reserve information beginning in fiscal years ending after December 25, 1978. Specifically, on December 19, 1978, the Commission adopted amendments to certain forms and regulations to standardize and improve its disclosure requirements relating to oil and gas reserves and operations.<sup>90</sup> The amendments incorporated into Regulation S-K requirements for disclosure of: (1) The present value of future net revenues from estimated production of proved oil and gas reserves; (2) any favorable or adverse event since the end of the most recent fiscal year which is believed to have caused a significant change in the proved reserves; (3) the average sale price and average produc-

tion cost per unit of oil and gas produced; and (4) historical information concerning the number of productive and dry wells drilled. The amendments expanded the disclosure of the net quantities of proved reserves from "as of a reasonably current date" to a period of five years, and expanded the types of companies which are required to disclose information concerning the estimated availability of oil and gas from principal sources. An exemption from these disclosure requirements was provided for registrants whose oil and gas activities do not exceed specified criteria.

In September 1979, the Commission adopted a requirement for oil and gas producers to include in their financial statements for fiscal years ending after December 25, 1979, a supplemental summary of oil and gas producing activities prepared on the basis of RRA. The information generated and the experience gained from the presentation of this supplemental summary will provide much of the basis for an eventual decision by the Commission as to whether RRA should be required as the accounting method for the primary financial statements of oil and gas producers.

*FASB Conceptual Framework Project*—The FASB project to develop a conceptual framework as a basis for addressing emerging accounting problems is the most important financial reporting matter confronting the profession. The Commission continues to support the efforts of the FASB in this area.

The conceptual framework project continues to be given a high priority by the FASB. The most notable actions during the last year were the issuance of: (1) Statement of Financial Accounting Concepts No. 1 (FAC No. 1), "Objectives of Financial Reporting by Business Enterprises" (November 1978), which establishes the objectives of

general purpose external financial reporting by business enterprises; and (2) Statement of Financial Accounting Standards No. 33 (FAS-33), "Financial Reporting and Changing Prices" (September 1979), which requires certain large, publicly-held enterprises to disclose supplementary information about how inflation and changing prices affect their businesses.

The FASB has made important strides in dealing with some of the fundamental issues inherent in the standard-setting process. FAC No. 1, for example, does not limit the scope of financial reporting objectives to financial statements, but rather sets forth those objectives in terms of financial reporting in general. In addition, its focus on users of financial information and their interest in evaluating future performance, including earnings, is a significant and worthwhile step. The Commission is optimistic that a consequence of that focus will be more thought, experimentation, and timely action in achieving improvements in financial reporting.

A major element of the conceptual framework should be to rethink the objectives of the primary financial statements—and, therefore, to rethink what type of information should be included and what information should be presented outside the financial statements. Ideally, the most relevant information would be a projection of cash flows for future periods. However, such information may be highly uncertain and surrogates may have to be used. The decision as to what that relevant information is and whether it should be included in the primary financial statements will be influenced by its measurability. The August 9, 1979 exposure draft of the FASB on qualitative characteristics, "Qualitative Characteristics: Criteria for Selecting and Evaluating Financial Accounting and Reporting Policies," addresses this is-

sue. The factors involved in the trade-off between reliability and relevance are the key to developing guidelines for the type of information that should be included in financial statements. Further clarification of this issue is necessary before display issues, such as the reporting of earnings, can finally be resolved. Additionally, the development of the recognition criteria phase of the conceptual framework project will be critical to the FASB in its search for a definition of "earnings." It is expected that the FASB will give appropriate attention and priority to these important issues.

The current status of financial reporting of oil and gas producing companies reflects the nature of these issues. The Commission's efforts to develop a more useful method of accounting would benefit from the existence of a conceptual framework. It should be recognized that in developing the concept of reserve recognition accounting, the Commission, will, of necessity, have to deal with issues relating to the conceptual framework if they have not, by then, been resolved.

*Accounting For the Effects of Changing Prices*—The Commission believes that the FASB's requirement that large, publicly-held enterprises disclose certain effects of general inflation and of price changes in specific goods and services is a positive development in providing useful information. Accounting for the effects of inflation and changing prices is one of the most important issues facing the FASB, the profession, the business community and the general public. Conflicting reports of record profits on the one hand and inadequate earnings to maintain and expand capacity on the other, serve only to confuse the issue. Further, they raise questions about the integrity of financial reporting. The basic question in a period of inflation and changing prices is how

best to report the effects of all economic events, and not only the effects of transactions with outside parties. If the objective is to measure only the general impact of inflation on business entities, then a general purchasing power or constant dollar approach might suffice. However, that approach may not, and often does not, adequately portray the specific effects of price changes on companies or industries. Therefore, it does not adequately assist investors in assessing or projecting future cash flows or dividend paying capacity—important objectives of financial reporting as set forth in FAC No. 1. The Commission remains fully committed to ensuring that users receive adequate information about the impact of changing prices on corporate earnings and assets.

The Commission recognizes that the effectiveness of the FASB's new standard will depend, in large part, on the efforts of the accounting profession and the corporate community in applying the standard, and evaluating and providing additional disclosures which may help users assess the impact of changing prices on particular business entities and industries. With respect thereto, the new standard should be viewed as a requirement for the minimum information to be presented to investors—an area where the corporate community must make a positive contribution to the standard setting process by volunteering additional information necessary to make the reporting more useful and meaningful in the particular corporate circumstances.

Last year, the Commission determined to delay reexamination and expansion of its replacement cost rule, adopted in Accounting Series Release No. 190, so as not to conflict with the FASB's consideration of these issues. Based on its evaluation of the FASB statement, the Commission staff in-

tends to recommend that the Commission take action to delete the requirement for reporting replacement cost information once the disclosure requirements of the FASB statement are fully effective. (On October 24, 1979, the Commission adopted the staff's recommendation and determined to delete the disclosure required by ASR 190 once the requirements of FAS 33 become fully effective.)

*Reporting on Internal Accounting Control*—Since the disclosure in the 1970's of widespread questionable or illegal corporate payments and enactment of the Foreign Corrupt Practices Act of 1977, there has been increasing attention to, and interest in, the effectiveness of internal accounting controls. The accounting profession, both institutionally through the AICPA's Special Advisory Committee on Internal Accounting Control and individually by many accounting firms, has responded to the need for guidance in evaluating systems of internal accounting control, and the AICPA's Auditing Standards Board is developing standards for public reporting on internal accounting control.

In April 1979, the Commission proposed for comment rules which would require 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. The rules, if adopted, would also require that such statement of management be examined and reported on by an independent public accountant. The Commission believes that information regarding the effectiveness of an issuer's system of internal accounting control may be necessary to enable investors to better evaluate management's performance of its stewardship responsibilities and the reliability of interim financial state-

ments and other unaudited financial information generated from the accounting system.

At the close of the fiscal year, the Commission was reviewing the large number of comments received on the proposed rules.

*Unaudited Interim Financial Information*—Since the issuance of Statement of Auditing Standards No. 24 (SAS No. 24) by the Auditing Standards Board of The American Institute of Certified Public Accountants (AICPA) in March 1979, several reports by independent accountants on interim unaudited financial information have been included in Securities Act filings on Form S-16 or S-14. Such filings have raised a question as to whether accountants could be liable under Section 11(a) of the Securities Act (which imposes liability on every accountant

“who has with his consent been named as having prepared . . . any report”) in such circumstances. On September 20, 1979, the Commission proposed for comment two alternative rules<sup>91</sup> either of which, if adopted, would have the effect of excluding accountants issuing such reports from Section 11(a) liability. In encouraging reviews by auditors of interim financial information, the Commission has noted that “the involvement of independent accounts will add the expertise of professional accountants with wide experience in reporting problems. . . . This should improve individual company reporting and direct greater professional attention to the general problems of interim reporting.”<sup>92</sup> (On December 28, 1979, the Commission adopted a rule having the effect of excluding accountants issuing SAS No. 24 reports from Section 11(a) liability.)



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# Investment Companies and Advisors

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## The Investment Company Act Study

The Investment Company Act special study group which was established at the end of the last fiscal year by the Division of Investment Management (the Division), continued its comprehensive review of the Investment Company Act of 1940 and the rules, regulations and administrative practices under it with the aim of simplifying, to the extent practicable, the regulation of investment companies, especially by eliminating unreasonably burdensome regulations. The guiding principal of this effort is that whenever possible, and subject to safeguards necessary for the protection of investors, investment companies and their managers should have responsibility for management decisions. Accordingly, the Investment Company Act Study (the Study) has sought to lessen the instances in which the staff of the Commission need participate in the decision-making process by (1) replacing administrative review of proposed investment company activities with rules establishing general criteria under which the activities are permissible; and (2) refining the Investment Company Act's sometimes sweeping statutory prohibitions so as to permit activity not originally contemplated as being within a provision's technical scope or underlying purpose.

The linchpin of the program is enhancement of the authority and responsibility of investment company directors, particularly disinterested directors, as primary overseers of man-

agement decisions. This greater reliance on directors, in many instances, permits the withdrawal of the staff as an active participant in certain management decisions while enabling the Commission to preserve, through its compliance and enforcement program an active oversight capability.

Consistent with the goal of greater director responsibility and reduced staff participation in management decisions, the Commission, during the fiscal year, adopted several rules which permit certain transactions between an investment company and its affiliated person with regard to: (1) joint purchase of liability insurance policies;<sup>93</sup> (2) the receipt of cash or securities pursuant to a portfolio company's plan of reorganization;<sup>94</sup> (3) the purchase of securities from an affiliated underwriting syndicate;<sup>95</sup> (4) certain purchase, sale or lending transactions between affiliated parties;<sup>96</sup> and (5) the receipt of stock exchange commissions by affiliated brokers.<sup>97</sup> During that period, the Commission also adopted rules (1) providing unit investment trusts with start-up exemptions from the Investment Company Act's requirements regarding minimum net worth, frequency of capital gains distribution, and forward pricing;<sup>98</sup> and (2) providing increased flexibility in determining when an investment company must price an investment company's redeemable securities.<sup>99</sup> The Commission also proposed rules to ease problems arising when certain contracts for investment advisory or principal underwriting services are terminated.<sup>100</sup>

In addition, for several years the Commission has been considering whether mutual funds (open-end management investment companies) should be permitted to finance distribution of their own shares. The Commission has been reluctant to permit funds to incur distribution expenses because of doubts about (1) whether funds benefit from sales of their shares; (2) whether funds' investment advisers' conflicts of interest could be regulated adequately; and (3) whether it would be fair to existing shareholders for funds to undertake such expenses. After reconsidering the matter in light of the objectives of the Study, the Commission on September 7, 1979, published for comment Rule 12b-1 under the Investment Company Act and certain related rules.<sup>101</sup> If adopted, Rule 12b-1 would permit use of fund assets for distribution if approved by shareholders, the board of directors as a whole, and the disinterested directors. The proposed rule contains conditions intended to increase the independence of the disinterested directors and ensure that the directors permit such a use of fund assets only after considering all pertinent facts and concluding that financial distribution would be likely to benefit the fund and its shareholders.

### **Disclosure Study**

In addition to the foregoing review of the investment company regulatory system, the Division established another study group to undertake a thorough review of investment company disclosure requirements under the Securities Act of 1933 (Securities Act) and the Investment Company Act. The new disclosure study will explore ways to reduce unnecessary burdens on both the industry and the staff which result from present disclosure requirements. Initially, the study group will undertake two major projects: a review

of current procedures for processing post-effective amendments to registration statements, which form the bulk of the Division's workload in the disclosure area; and a review of ways to eliminate duplicative reporting requirements in documents transmitted to investment company shareholders.

### **Investment Company Advertising**

During the fiscal year, the Commission took several actions to reduce restrictions applicable to the promotion and sale of investment company shares without diminishing essential investor protections. On March 8, 1979, the Commission withdrew its Statement of Policy on Investment Company Sales Literature.<sup>102</sup> The Statement of Policy, which had been in effect since 1950, was a lengthy document detailing types of representations which would or would not be considered misleading in investment company sales literature. By its specificity, the Statement of Policy tended to induce conformity to prescribed formats. The result may have been to limit innovations unduly and, at the same time, insulate sales literature, which complied mechanically with the Statement of Policy, but was used in a misleading way. At the same time that it withdrew the Statement of Policy, the Commission proposed for comment Rule 156 under the Securities Act, an interpretive rule which briefly and in relatively general terms highlighted what experience has suggested are problem areas in investment company sales literature.<sup>103</sup> (Subsequent to the end of the fiscal year on October 24, 1979, the Commission adopted Rule 156 as revised.<sup>104</sup>)

On August 31, 1979, the Commission adopted Rule 434d under the Securities Act<sup>105</sup> which, in effect, permits investment companies to include far more information in mass media advertisements. In the past, investment com-

panies, like other issuers, have been restricted to so-called "tombstone ads" which may contain only relatively limited information about the security and the issuer. However, Rule 434d permits advertisements to include any information which is taken from or which fairly summarizes the full statutory prospectus. The rule should permit investment companies to more effectively communicate important facts, such as performance data, to investors. At the same time, in order to protect investors from misleading statements, Rule 434d advertisements would be subject to some of the liability provisions of the Securities Act applicable to prospectuses.

### **Institutional Disclosure Program**

Beginning on February 14, 1979, more than 650 major institutional investment managers began filing quarterly reports on Form 13F reporting to the Commission on their significant equity holdings pursuant to Rule 13f-1 under Section 13(f) of the Securities Exchange Act of 1934. These reports are transferred to the Commission's Public Reference Room as promptly as reasonably possible after filing, and are normally available to the public within a day to two after they are filed.

The tabulations of the data on Forms 13F, required by Section 13(f)(3), are done by an independent contractor selected through the competitive bidding process. The contractor is required to make a variety of specified tabulations available to the public at reasonable prices within 10 days after receipt of the reports. Since the contractor provides its services without charge to the Commission, the only material costs to the Commission of administering the program are in staff time. The Commission's various responsibilities are carried out in several different offices and Divisions, making it difficult to be certain how much staff time is devoted

to the program, but it is probably on the order of two to four man years.

Because the program is in its first year of operation and the Commission has only limited resources to devote to its operation, the staff and the Commission have, so far, been concerned with resolving technical problems with Form 13F, interpretive questions, and collateral issues such as confidential treatment. No attempt has yet been made to analyze or otherwise use the information which has been filed. After receiving public comment, the Commission decided that it would be unduly burdensome to require reports in machine readable form since managers use a variety of computer systems and some compile reports manually. The independent contractor does prepare a magnetic tape of which may be obtained from either the Commission or the contractor.

### **Office of Investment Adviser Regulation**

The Office was established within the Division of Investment Management in October 1978. The Office was created in recognition of the need to reevaluate the Commission's advisory regulatory program in light of the dramatic growth in the advisory industry and the developments in the kinds of advisory services provided by investment advisers.

The Commission, in January 1979, adopted new investment adviser requirements concerning disclosure, recordkeeping, applications for registration and annual filings.<sup>106</sup> These requirements include: (1) adoption of a new disclosure rule (Brochure Rule) under the Investment Advisers Act of 1940 (Investment Advisers Act) (2) amendment of two rules under the Investment Advisers Act relating to recordkeeping and amendments to the investment adviser registration form; (3) adoption of a new annual report form for invest-

ment advisers; (4) revision of certain schedules used by investment advisers and broker-dealers in connection with the respective registration forms for such persons. Concurrently with the adoption of the above rules and forms, the Commission amended a rule and certain forms to require disclosure of brokerage placement practices.<sup>107</sup> A similar disclosure requirement is imposed on investment advisers as part of the Brochure Rule. Taken together, these actions will result in the Commission and the public being apprised of a great deal of material information about investment advisers which was not previously disclosed in any systematic way.

In other significant rulemakings, in July 1979, the Commission adopted new requirements under the Investment Advisers Act governing the payment of cash referral fees by investment advisers.<sup>108</sup> The adoption of the

new rule makes it unlawful, except under specified circumstances and subject to certain conditions, for an investment adviser to make a cash payment to a person ("solicitor") who directly or indirectly solicits any client for, or refers any client to, an investment adviser. In addition, in June 1979, the Commission issued for public comment a proposed rule under the Investment Advisers Act which would permit certain registered investment advisers to business development companies (as defined in the rule) to be compensated on the basis of a share of net capital gains upon, or net capital appreciation of, the funds, or any portion of the funds of the business development company.<sup>109</sup> Such means of compensation is currently prohibited by the Investment Advisers Act. At the close of the fiscal year, the staff was reconsidering the proposed rule in light of the comments received.

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# Enforcement Program

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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 private civil damage actions, 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 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, civil and criminal remedies for violations of those laws. Sanctions in administrative proceedings for those 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. The civil court remedy usually available to the Commission is court entry of an injunction barring further violations. The courts often enter orders providing for appropriate additional relief. Criminal sanctions pro-

vided by the Federal securities laws 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 and during fiscal year 1979 such relief included, in one case, an order requiring the defendant to return \$30 million alleged to have been wrongfully obtained<sup>110</sup>; the appointment of individuals or committees for the purpose of conducting further investigations and reporting publicly the results<sup>111</sup>; the appointment to boards of directors of persons previously unaffiliated with the corporation<sup>112</sup>; restrictions on the future employment of defendants as officers or directors of publicly-held companies<sup>113</sup>; limitations upon the voting of securities<sup>114</sup>; the return to publicly-held corporations of monies improperly obtained by insiders<sup>115</sup>; and the appointment of an independent master to oversee the operations of a corporation<sup>116</sup>.

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 admitting or denying the factual allegations contained in the Commission's com-

plaint or order for proceedings. Thus, unless otherwise noted, in the discussion of cases which follows, it should be assumed that settlements achieved were upon that basis.

## Energy-Related Cases

Due to the tax consequences of investments in certain energy-related products, particularly oil and gas, and the inherent attraction of such investments to investors, the Commission has long had to devote enforcement resources to the control of fraudulent offerings in this field. With the advent of the nation's energy crisis, fraudulent offerings (and the Commission's response to them) have intensified.

Investors in these offerings are often initially contacted as part of a nationwide, long-distance telephone solicitation campaign by salesmen.<sup>117</sup> These campaigns are typified by offerings which fail to comply with the registration requirements of the Securities Act of 1933 (Securities Act) and by the making fraudulent statements to investors to induce them to invest in the offering. Investors are often persuaded to make their investments on the basis of false statements or omissions concerning, among other things, the funding of the entity in which the investment is made and the use of the investors' funds derived from the offering<sup>118</sup>; the risks associated with the investment<sup>119</sup>; the experience of the issuers' principals<sup>120</sup>; and the use of special accounts in which investors' funds would, purportedly, be placed for protection<sup>121</sup>. One of the major inducements to investors is the purported availability of special tax benefits.<sup>122</sup>

*SEC v. Atlas Oil Exploration, Inc.*<sup>123</sup>— On July 12, 1979, the Commission filed a civil injunctive action against Atlas Oil Exploration, Inc. (Atlas) and a number of other entities and individuals re-

lated to it. The Commission's complaint alleged that, in connection with the offer and sale of approximately \$3 million in unregistered fractional undivided working interests in oil and gas leases, the defendants made a number of untrue statements of material facts concerning, among other things: (1) the use of "special escrow" or "trust" accounts for the protection of investors; (2) that investors could recover their investments in 1½-2 years; (3) the experience of the driller of oil wells; (4) that state securities commissioners were receptive to Atlas' "openness and full disclosure"; and (5) that wells drilled would produce on the average of ten barrels of oil a day per well. The complaint also alleged that the defendants omitted to state material facts concerning, among other matters: (1) the entry of cease and desist orders in seven states prohibiting the sale of Atlas securities; (2) the misuse of at least \$275,000 of the proceeds of the offerings; (3) that wells in the field where the subject wells were to be drilled were averaging less than one barrel of oil per day per well; (4) that, based upon the experience with production of initial wells drilled by Atlas, investors could not recover their investment in less than eight years; and, (5) that, prior to their involvement with Atlas, the oil well driller had drilled only 12 wells and the experience of the president and controlling shareholder of Atlas was as a salesman with a company that had been enjoined in an action previously brought by the Commission. Additionally, in connection with one of the offerings involved, the complaint alleged the failure to disclose (1) contingencies in securities gas pipeline connections; (2) that the proceeds of the offering would be commingled; and (3) that 22 percent of the total proceeds of the offering would be paid to the president and a vice president of a related corporation.

Several of the issuers named as defendants in the Commission's action consented to the entry of final judgments of permanent injunction. The defendants were enjoined from further violations of the registration and antifraud provisions of the Securities Act and the antifraud provisions of the Securities Exchange Act of 1934 (Exchange Act). Individual defendants consented to the entry of permanent injunctions enjoining them from further violations of the antifraud provisions of the Federal securities laws. Additionally, another corporation and its principal officers and directors were enjoined from further violations of the antifraud provisions of the Federal securities laws and the defendant officers and directors were ordered to file with the court an accounting setting forth the receipts and disbursements of five of the corporation's offerings.

*SEC v. Advanced Fuel Systems, Inc.*<sup>124</sup>—On December 6, 1978, the Commission filed a complaint against Advanced Fuel Systems, Inc. (AFSI) and an individual. The complaint alleged violations of the registration provisions of the Securities Act and certain of the antifraud provisions of the Federal securities laws based on untrue statements of material fact and omissions to state material facts to investors including: (1) that \$1 million had been committed to AFSI for research and development of a fuel system when in fact less than \$145,000 was available; (2) information that an "international financier" was backing the corporation with "unlimited funds" when no such backing existed; (3) omitting to disclose to investors the dilution effect of previous stock splits benefiting insiders; (4) failure to follow generally accepted accounting principles when valuing a licensing agreement in financial statements, resulting in an over evaluation of the agreement by about 500 percent; (5) claiming the

availability of special tax benefits when not available; (6) representations that the fuel system would yield 100 miles per gallon for automobiles when it was known that that was not true; (7) omitting to disclose that claims of 66.8 miles per gallon in certain tests were based on unsophisticated, nonscientific, nonverifiable and widely varying test results; (8) representations regarding the cost of the finished product when no facts were available to support any cost prediction; and, (9) omissions to disclose that funds from the securities sales would be paid to the individual.

The defendants consented to the entry of judgments of permanent injunction enjoining them from further violations of the registration and antifraud provisions of the Federal securities laws. The order of the court also requires the defendants to provide a copy of the ascertainable investors in AFSI.

### **Questionable Payments**

The Foreign Corrupt Practices Act of 1977 [Sections 13(b)(2), 30A and 31(c) of the Exchange Act] (Foreign Corrupt Practices 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. Among other things, the Act also requires corporations to maintain systems of internal accounting controls which provide reasonable assurance that certain objectives are met.

Disclosures of unethical and illegal corporate activity resulting in part from the Commission's enforcement activities contributed to Congress' enactment of the Foreign Corrupt Practices Act. During the past year, the Commission's enforcement interests in

this area continued and three of the important cases brought are described in the following summaries.

*SEC v. Hospital Corporation of America (HCA)*<sup>125</sup>—The Commission's complaint in the HCA case alleged violations of the antifraud provisions of the Securities Act and the antifraud, reporting, and proxy provisions of the Exchange Act in connection with disclosures regarding a contract for the management of a hospital in Saudi Arabia. The complaint alleged that, prior to entering into the contract, HCA was informed of facts which indicated that payments to persons of power and influence in Saudi Arabia would have to be made by HCA in connection with the contract. The complaint further alleged that a Liechtenstein entity which received a total of \$3.393 million from HCA, purportedly for consulting and other services, was merely a conduit for the improper payments. The Commission's complaint also alleged that HCA made false and misleading statements in registration statements, proxy statements, and other public documents filed with the Commission and in connection with statements made to the staff of the Commission during an informal inquiry.

HCA consented to the entry of a final judgment of permanent injunction from violations of the antifraud provisions of the Securities Act and the antifraud, reporting, and proxy provisions of the Exchange Act. In addition to the injunctive relief the terms of the settlement provide that HCA's audit committee, acting with the assistance of its counsel and its independent auditors, will conduct a review of prior investigations by HCA of (1) direct or indirect payments, if any, to agents, employees, or officials of foreign and domestic governments and of foreign domestic customers during a five year period and (2) of the accuracy of HCA's books

and records as to the foregoing. HCA's audit committee will prepare a written report containing its findings and recommendations and any action taken by HCA in response to the report will be described in a current report filed with the Commission.

*SEC v. Schenley Industries, Inc. (Schenley)*<sup>126</sup>—This case involved allegations that Schenley had expended at least \$6 million by granting illegal discounts, in the form of cash, credit, free merchandise or other things of value to selected purchasers of Schenley's products in violation of state liquor regulations. As a result, the complaint alleged, Schenley had jeopardized its licenses to do business in the 35 states of the United States in which Schenley operated as a producer, importer and seller of alcoholic beverages. The Commission's complaint alleged violations of the antifraud provisions of the securities laws.

The defendants consented to the entry of final judgments of permanent injunction. As part of its consent, Schenley agreed to, among other things, the appointment of a Special Agent to conduct an investigation of Schenley and its subsidiaries and render a report to the Court and to the Commission detailing: (1) illegal political contributions made by Schenley and its subsidiaries; (2) illegal foreign payments made by Schenley and its subsidiaries for the purpose of influencing any foreign government or official thereof or evading the laws of a foreign sovereign; (3) illegal kickbacks, rebates, discounts, refunds, allowances, or other expenditures made by Schenley and its subsidiaries to induce the purchase of Schenley products, and the approximate dollar amount expended to the extent that these facts have not been previously disclosed; and (4) pending investigations by state or Federal governmental authorities regulating the

liquor industry which may result in the commencement of legal proceedings.

In addition, Rapid-American agreed to file with the Commission a current report: (a) within 30 days after the entry of the final judgments, setting forth all facts, known as of that date, concerning Schenley's practice of granting illegal discounts to induce and promote the purchase of Schenley products; and (b) upon the filing of the Special Agent's report, setting forth all material facts contained therein.

*SEC v. International Systems and Controls Corporation*<sup>127</sup>—In this action, the Commission filed a complaint against International Systems and Controls Corporation (ISC) and certain officers and directors seeking injunctive relief, appointment of a receiver and other equitable relief.

The complaint alleged violations of the antifraud, reporting and proxy provisions of the Federal securities laws as well as violations of the accounting provisions of the Foreign Corrupt Practices Act. According to the complaint the corporation made false and misleading disclosures or failed to disclose its commitments to pay a total of \$33 million, its payment of approximately \$23 million in connection with the securing or solicitation of business in several foreign countries, its overstatement of its assets, earnings and shareholders' equity. 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.

The Commission simultaneously filed with the complaint a motion for a preliminary injunction against ISC and for the appointment of a Special Agent of the Court to take custody and control of all assets of ISC; to oversee

the business activities of ISC to assure that they are carried out for legitimate purposes of ISC and not for the personal benefit of any control person, officer, director or employee of ISC; to determine whether ISC entered into any transactions involving expenditure of substantial funds or assets which appear not to have been engaged in for legitimate business or are not adequately explained on ISC's books and records; to recover any funds or assets or enforce any liability to ISC; to oversee ISC's filings with the Commission; and to authorize the agent to report his findings to the Court within 60 days.

## **Government and Municipal Securities**

As indicated in last year's annual report,<sup>128</sup> 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.

In February 1979, the Commission transmitted to Congress its *Final Report in the Matter of Transactions in the Securities of the City of New York*, and simultaneously announced its conclusion of the investigation in that matter.<sup>129</sup> The investigation, one of the largest of most complex in the Commission's history, dealt with events occurring during the period from October 1974 to April 1975 when the City faced a fiscal crisis and issued large amounts of short-term securities. The Commission had previously issued a detailed Staff Report which described the events leading to the City's fiscal crisis.<sup>130</sup>

The Final Report issued in February called for legislative action to solve the deficiencies in the issuance and marketing of municipal securities and concluded that the Commission should de-

vote its efforts to support such legislative solutions. The Final Report also stated the Commission's conclusion that no enforcement proceedings should be instituted in the matter.

Among the factors cited in the Final Report for the Commission's decision were the issuance of the comprehensive Staff Report<sup>131</sup>; the change in the City's administration since the issuance of the Staff Report; various remedial actions taken by those who were mentioned in the Staff Report, most particularly by the City itself; Congressional and state actions with respect to New York City's financial difficulties, including the Federal legislation enacted in August 1978 which imposes certain financial controls over the City and requires, among other things, that the City's financial statements be audited; and, finally, the Commission's determination that enforcement action would have limited additional remedial value and would require the commitment of substantial additional resources which, in light of the above, could otherwise be used more efficiently in discharging the Commission's responsibilities.

The Final Report focused attention on the area of municipal accounting and financial reporting and stated:

"The Commission believes that legislation designed to standardize the methods used in the preparation of municipal accounts and the form and content of municipalities' financial statements should be accorded the highest legislative authority."<sup>132</sup>

The *University of Houston* case—The Commission continues to note instances of questionable practices in connection with United States Government securities and related securities. In this connection, of particular importance during fiscal year 1979 was the Commission's so-called "University of Houston" case.<sup>133</sup> The case involved a group consisting of an employee of the

University who was its government securities trader and various individuals and securities firms. Securities involved in the case were government securities (including so-called Ginnie Mae's) and reverse repurchase agreements (a pledge of securities which takes the form of a sale and buy-back obligation).

The Commission alleged in its complaint that the University's employee channelled securities transactions through the securities firms and individuals who were defendants in the action, to their benefit and to the University's detriment. The complaint also alleged that one of the securities firms involved charged excessive fees to the University and charged commissions to both sides of transactions while purportedly acting as a broker for the University. That firm also allegedly agreed to execute transactions for the University at prices away from the market and to "park" government securities with the University. The complaint alleged that in the event that the market price for securities increased, the securities were to be sold back to the firm at the original price. In addition, the complaint alleged that the firm, acting as a broker or principal in trades with the University, engaged in trades covering approximately \$318 million in securities upon which the firm made profits or commissions of approximately \$590,000.

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 securities transactions by the University. Over \$130,000 in commissions were generated by these transactions.

Finally, the complaint 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. These transactions were, allegedly, employed by the University's employee as part of an investment strategy whereby government securities were pledged in connection with cash loans. The loans were used in turn to purchase additional government securities. The firm acted as a broker for the University in trades involving about \$1 billion in reverse repurchases and about \$73 million in government securities transactions. The case resulted in the issuance of injunctions against the principal defendants as well as a criminal proceeding in which they were found guilty and sentenced to four years in prison.<sup>134</sup>

*Industrial Development Revenue Bonds*—A persistent concern of the Commission in the area of government securities has been abuses in the offer and sale of industrial development revenue bonds. These securities generally are issued by municipalities to obtain funds to erect industrial facilities which are then leased to private corporations for business use. Principal and interest on the bonds is paid only with revenues of the private corporation.

Industrial revenue bonds, though subject to the antifraud provisions of the Federal securities laws, are exempt from the registration requirements of those laws.

The Commission's *Staff Report On Transactions In the Marine Protein Corporation Industrial Development Revenue Bonds* is illustrative of the types of concerns arising in this area.<sup>135</sup> The staff report details an unusually instructive situation involving a corporation which had sold stock to the public in an offering registered with the Commission and, shortly thereafter, also participated in an offering of industrial revenue bonds which were issued for the purpose of providing funds to construct facilities for the cor-

poration. The staff report discussed disclosures made in the prospectus for the registered stock offering and compared them with disclosures in connection with the industrial development revenue bond offering. The staff report concluded:

"... [T]hat risk factors and other important information relating to the speculative nature of an investment in Marine that were included in the common stock prospectus are absent from the bond 'offering prospectus' and that document contains considerable bullish promotional information that is inappropriate in a prospectus used to sell securities."<sup>136</sup>

Other areas of questionable activities in connection with industrial revenue bonds which were the subject of Commission action this year included alleged situations where bonds were sold prior to issuance, but after collecting the money from purchasers, the promised bonds were not issued to customers and, instead, the customers' funds were converted to the promoter's use<sup>137</sup>; nearly worthless bonds were sold to investors at 94-98 percent of face value<sup>138</sup>; principal and interest payments were made from proceeds of bond sales to conceal the fact that the private corporation was not a going concern<sup>139</sup>; and misleading quotations were placed in interdealer quotations media<sup>140</sup>.

## **Options, Corporate Takeovers and Tender Offers**

During the fiscal year, the Commission brought a number of cases in situations where the investing public was harmed as a result of practices by market professionals and others in connection with trading in options. Additionally, as the Commission noted in last year's annual report<sup>141</sup>, the recent increase in the number of corporate takeovers and tender offers has led to an increasing number of Commission

enforcement actions in this area. In this connection, the Commission has brought an increasing number of cases alleging insider trading based upon material information regarding corporate takeovers and tender offers.

*Options*—The Commission's option cases involved allegations that material misstatements and omissions were made to customers concerning, among other things, the risks inherent in option trading strategies<sup>142</sup>; the potential profits and rates of return involved in options trading<sup>143</sup>; and the suitability of trading strategies used for investors<sup>144</sup>.

*In the Matter of Bear Stearns & Co.*<sup>145</sup>—This case is illustrative of the types of trading practices which the Commission uncovered during the course of its investigations this year. In this case, the Commission's Order Instituting Proceedings and Imposing Remedial Sanctions alleged that transactions executed in accounts as to which discretionary authority existed were excessive in size and frequency in light of the financial resources and character of the accounts and that, in connection with options trading, material misstatements were made concerning the existence of margin accounts, the meaning and purpose of margin call notices sent to customers, the significance of the large number of confirmations slips received by customers and the meaning and purpose of correspondence sent to a customer with regard to activity in the customer's account. Additionally, the Order alleged that transactions in customer accounts were effected which were not authorized by the customers including trading in the options market, trading on a principal basis, and trading in a margin account. Finally, the Order alleged that transactions in customer accounts were effected in unseasoned and speculative securities in disregard of or without inquiry regarding the suitability of the securities

to individual customer needs, circumstances or objectives.

*SEC v. Santangelo & Co.*,<sup>146</sup>—This was another significant action by the Commission in the options area during this year. The case involved fictitious reports of options transactions on the New York Stock Exchange (NYSE) and the American Stock Exchange (Amex). Specifically, the Commission's complaint alleged that in varying periods in 1974, 1975, and 1976, hundreds of transactions in options were printed on the stock and options tape of the Amex when in fact no transactions had occurred. Additionally, the complaint alleged that during 1976 transactions in stocks which should have been reported on the tape of the NYSE as single transactions were reported as several transactions. The complaint further alleged that various of the defendants, either as specialists on the subject exchanges or otherwise, either caused a substantial number of such erroneous reports or had reason to know that those reports were being printed and failed to take reasonable and appropriate steps to prevent such reports from being made.

*Tender Offers*—The Commission's actions in the area of tender offers during the past year involved situations where the Commission alleged that materially false and misleading statements were made to investors concerning, among other matters, the purposes of the tender offer<sup>147</sup>; financing arrangements with respect to the tender offer<sup>148</sup>, and the intentions of the tender offeror<sup>149</sup>.

The defendants, two broker-dealers registered with the Commission and partners of each firm, consented to the entry of judgments of permanent injunction enjoining them from violating the antifraud provision of the Exchange Act.

*SEC v. BOC International Limited*<sup>150</sup>—This was one of the more significant

Commission actions brought in the tender offer area during the past year. In this case, the Commission filed a complaint seeking injunctive relief against BOC International Limited (BOC) a United Kingdom corporation and its wholly-owned subsidiary, BOC-Financial Corporation (BOCF), a Delaware corporation. The complaint alleged that the defendants violated the tender offer and reporting provisions of the Exchange Act in connection with BOC's tender offer for shares of Airco Inc. (Airco).

According to the Commission's complaint, BOC and Airco entered into a series of agreements governing potential tender offers by one firm for the securities of the other. Pursuant to these agreements, BOC acquired a 34 percent interest in Airco and subsequently increased that interest to 49 percent. The latter tender offer was oversubscribed. BOC subsequently announced a tender offer for all Airco shares at the same price as the previous offer. Pursuant to their agreement, Airco disapproved the tender offer for the remaining outstanding shares based upon the inadequacy of the price and sued BOC to rescind the offer. BOC withdrew the offer for all outstanding shares but pursuant to a prior agreement purchased an additional 6 percent of Airco. The latter purchases were designed to frustrate any competing offers for Airco and to avoid entering a bidding contest for Airco. Subsequently, Airco announced an agreement in principle for a takeover of Airco by a third company at \$50 per share. Shortly after this announcement, BOC and Airco announced a settlement of their action, pursuant to which BOC offered an additional \$7 to all those who tendered their shares in the offer that resulted in BOC's obtaining the additional 15 percent of Airco, and agreed to make a

\$50 offer for all remaining Airco shares.

The Commission, in its complaint, charged that BOC Ltd. violated the antifraud provisions of the securities laws in that the tender offer materials failed to disclose that in obtaining a loan for the second tender offer, BOC sought sufficient funds to acquire additional shares, that BOC's agreement with its investment banker included an additional \$1.5 million fee if BOC acquired 100 percent of Airco, and that Airco's investment banker had formed an opinion that a fair price for Airco shares was \$50-\$55 per share. The complaint also charged that BOC failed to amend its statement filed with the Commission with respect to its holding of Airco shares on a timely basis and, when it did so, failed to disclose the purpose of its acquisitions and subsequent action.

BOC consented to the entry of an injunction requiring compliance with the tender offer and reporting provisions of the Federal securities laws. BOC also agreed to pay \$2.75 million to certain individuals who tendered Airco stock and to keep open the \$7 offer to Airco shareholders who tendered their stock.

*SEC v. Sun Company, Inc.*—In last year's annual report, the Commission noted the *Sun* case as one of its important actions in the tender offer area.<sup>151</sup> That case involved, among other things, a Commission allegation that the acquisition of approximately 34 percent of the outstanding common stock of a publicly-held corporation by means of an offer to certain institutional investors which was not made available to the general public nevertheless constituted a tender offer. On July 9, 1979 the United States District Court for the Southern District of New York rendered an opinion which found that, indeed, that acquisition consti-

tuted a tender offer and was, accordingly, made in violation of the tender offer provisions of the Exchange Act.<sup>152</sup>

*Insider Trading*—Among the Commission's actions in the insider trading area during the last year, one of the more important was *In the Matter of Oppenheimer & Co.*<sup>153</sup> The Commission instituted proceedings in this matter to determine whether Oppenheimer & Co., Inc. (Oppenheimer), a registered broker-dealer, failed to supervise Ira J. Hechler (Hechler), a person subject to its supervision with a view to preventing violations of the antifraud provisions of the Exchange Act.

According to the Commission's Order Instituting Proceedings Hechler was retained by Oppenheimer as a consultant for special acquisitions. Hechler occupied offices at Oppenheimer and utilized their facilities. Transactions proposed and the companies recommended by Hechler as potential subjects for special acquisitions were reviewed by senior principals of Oppenheimer.

In his capacity as a consultant for special acquisitions, Hechler researched and investigated publicly-held companies for sale of assets transactions and often engaged in the negotiations involved in such transactions. As result of these activities, Hechler obtained material non-public information concerning the companies involved in such transactions as well as the likelihood that the sale of assets transactions would be consummated. Specifically, Hechler knew that if the transactions were consummated a company involved in the transaction would make a tender offer at substantial premiums above then prevailing market prices.

The Commission determined that Oppenheimer failed to reasonably supervise Hechler and thereby prevent violations of the antifraud provisions.

Pursuant to an offer of settlement, Oppenheimer was censured and agreed to comply with certain undertakings. The undertakings included among other things, (1) that Oppenheimer would obtain a written agreement from Hechler that neither he nor members of his immediate household will maintain any accounts with any other broker-dealer, (2) that as long as he is associated with Oppenheimer neither he nor his immediate family will trade in the stock of any company he is considering as a potential participant in a sale of assets transaction without obtaining prior written approval which Oppenheimer will not give unless the trading is not based upon non-public information, and (3) that as long as Hechler is associated with Oppenheimer he will make all disclosures and reports that Oppenheimer's employees are required to make in accordance with Oppenheimer's regular compliance procedures.

### **Other Significant Enforcement Matters**

*In the Matter of United States Steel Corporation*<sup>154</sup>—The Commission instituted proceedings in this matter to determine whether certain of the filings of United States Steel Corporation (USSC) made with the Commission were deficient with respect to USSC's policy concerning environmental regulation, its capital expenditure for compliance with environmental control and its involvement in legal proceedings arising from its compliance with environmental regulation.

In 1971, in recognition that environmental laws could have a material economic impact on corporations subject to such environmental regulation, the Commission issued a release informing registrants that disclosure of material environmental information including environmental litigation and the capital expenditure, earning pow-

ers, and business charge efforts in connection with compliance with environmental laws was required by Commission rules.<sup>155</sup> In 1973, the Commission adopted specific environmental rules which required disclosure of material effects that compliance with environmental regulation might have upon a Registrant's economic position and disclosure of any administrative or judicial proceedings known to be contemplated by governmental authorities concerning violations of environmental regulations.<sup>156</sup> Subsequently, the Commission adopted a rule requiring registrants to disclose certain material estimated capital expenditures for environmental control facilities.<sup>157</sup>

According to the Commission's Order Instituting Proceedings, USSC was aware that compliance with environmental regulations would require substantial expenditures. USSC prepared its own estimates as to the cost of compliance as regulations were proposed and adopted. USSC, in its filings, set forth amounts spent or authorized for certain periods without disclosing that it had developed estimates of costs for additional years, which costs would involve material capital expenditures. USSC disclosed pending judicial proceedings, but failed to disclose existing administrative proceedings. Additionally, USSC stated in its filings that it intended to resolve its environmental problems. In fact, USSC pursued an environmental policy of actively resisting environmental requirements which it maintained were unreasonable. While the Commission's rules do not require a disclosure of a general corporate policy with respect to environmental regulation, if such a disclosure is made it must be accurate and the disclosing corporation must make any additional disclosures necessary to render the voluntary disclosure not misleading. Also, if a corporation has

a policy toward compliance with environmental regulations which is reasonably likely to result in substantial potential fines or penalties, or other significant effects on the corporation, it may be necessary for the registrant to disclose the magnitude of such fines, penalties and other material offsets in order to prevent from being misleading with regard to required disclosures concerning such matters as descriptions or disclosures relating to the corporation's business, financial statements, capital expenditures for environmental compliance or legal proceedings. USSC did not make such additional, necessary disclosures.

The Commission determined that USSC's reports filed with the Commission for the years and interim periods 1973 to 1977 failed to comply with the disclosure requirements of Section 13 of the Act and the applicable rules relating to disclosures of environmental matters. USSC submitted an Offer of Settlement which the Commission determined to accept. The Commission's Order required USSC to comply with the undertakings set forth in its offer of settlement which include, among other things, that USSC will, by various means, provide notice to its stockholders of the existence of these proceedings and the Commission's Order, that USSC will amend its past filing with the Commission concerning environmental matters and that USSC will retain a consultant to conduct a study for the purpose of estimating potential costs to USSC of complying with environmental regulations.

*SEC v. Rapid American Corporation*<sup>158</sup>—The Commission filed a civil injunctive action against Rapid American Corporation (Rapid), its subsidiary McCrory Corporation (McCrory), Kenton Corporation (Kenton) and Meshulam Riklis (Riklis), Rapid's Chairman of the Board, alleging violations of the reporting provisions of the Federal se-

curities laws. The complaint also alleges that Rapid, McCrory and Riklis violated the proxy provisions and that Riklis and Kenton violated the beneficial ownership reporting provisions of the Federal securities laws.

According to the Commission's complaint, Rapid, McCrory and Kenton failed to disclose that they entered into agreements with and paid fees to persons who were either personal creditors of Riklis or persons who had a personal business relationship with Riklis. The agreements and transactions in question were allegedly either negotiated or approved by Riklis at a time when he was in serious financial difficulty. The complaint also alleged that Riklis was in a conflict of interest position in negotiating and approving transactions with persons with whom he had personal business dealings and that these conflicts were not disclosed to the Boards of Directors of Rapid, McCrory, Kenton, security holders or the public.

The defendants consented to the entry of final judgments of permanent injunction enjoining them from violating the provisions of the Federal securities laws charged in the complaint. In addition to consenting to the entry of an injunction, Rapid agreed to appoint four persons who had no previous affiliation with Rapid to its board of directors, and to form and maintain for five years a Transaction Review Committee, composed of the four new directors, to review transactions between Rapid and its officers, directors and control persons. McCrory agreed to abide by the undertakings of Rapid, while Kenton agreed to adopt similar policies. Riklis agreed to abide by the undertakings instituted by Rapid, McCrory and Kenton.

*SEC v. The Fundpack, Inc.*<sup>159</sup>—In this case the Commission sought injunctive relief against a mutual fund complex, the investment adviser to the

funds and its broker-dealer subsidiaries, and certain directors, officers and employees of these entities. The Commission's complaint alleged violations of the antifraud, registration, reporting, proxy and fiduciary obligation provisions of the Federal securities laws.

The complaint alleged that the investment adviser, in disregard of the interests of the mutual funds and their shareholders and in order to increase profits to the adviser, promoted an investment arrangement known as switching. The switching program permitted and encouraged the funds' shareholders to transfer their investments among the funds immediately upon the placing of a telephone order. This program resulted in frequent fluctuations in the assets of the funds and, accordingly, an extremely high portfolio turnover with an attendant increase in brokerage expenses most of which were rebated to the investment adviser.

The complaint also alleged that each of the directors of the Fundpack, Inc. (Fundpack), in breach of his fiduciary duty involving personal misconduct, favored the management of the funds by acquiescing in this conduct and by renewing the investment advisory contract. The complaint further alleged that the directors failed to conduct inquiries and consider information necessary for them to evaluate the switching program and the self-dealing transactions by the investment adviser.

The mutual funds consented to the entry of an order directing the appointment of independent directors and special counsel. This order concludes the Commission's action against the funds; the action against other corporate and individual defendants continues.

Pursuant to the Final Order, the Funds are required to appoint and thereafter nominate and recommend

for election to their respective boards of directors four individuals satisfactory to the Commission, and the funds must maintain, until at least one year after the next meeting of their shareholders, boards of directors not less than 80 percent of whose members are satisfactory to the Commission. The newly constituted boards are required to call meetings of the Funds' shareholders within six months, at which time they must recommend to shareholders the election of the required proportion of directors satisfactory to the Commission and recommend arrangements for the future management and disposition of the funds.

In addition, the Final Order requires that the Funds retain a Special Counsel to advise them until after the aforementioned shareholders' meetings. The Special Counsel must among other things, (1) supervise the filing and dissemination of registration statements, prospectuses, annual and periodic reports and sales literature, receipts and disbursements by the Funds, portfolio transactions and proxy solicitations; (2) consult with and report to the Commission and the Court; and (3) advise the Funds' boards in their consideration of arrangements for the future management and disposition of the Funds. After the performance of all of his duties, the Special Counsel must submit a final report to the Commission and the Court.

The Final Order also requires that within 20 days, the Funds must report to shareholders concerning the Commission's Complaint, the history of this litigation, and the actions taken and to be taken pursuant to the Final Order and any other consents, undertakings, agreements or orders entered in the action.

*SEC v. Starr Broadcasting Group, Inc.*<sup>160</sup>—In February 1979, the Commission announced the filing of a complaint in the United States District of

Columbia against The Starr Broadcasting Group, Inc. (SBG); William F. Buckley Jr. (Buckley), formerly Chairman of the Board of SBG; Peter H. Starr (Peter Starr), formerly President and a director of SBG; Michael F. Starr (Michael Starr), formerly Vice-President and a director of SBG; Gordon M. Ryan (Ryan), formerly General Counsel and a director of SBG; Glenn E. Burrus (Burrus), formerly a director of SBG; Maurice L. McGill (McGill), formerly a director of SBG; Mack H. Hannah, Jr. (Hannah), a director of SBG; and Columbia Union National Bank & Trust Company (Columbia Union), one of SBG's lenders.

The Commission's complaint alleged that certain of SBG's officers, directors, and others engaged in a five-year course of business ultimately resulting in the purchase by SBG of seventeen theatre properties (the Sitco transaction) from Sitco, Ltd. (a partnership whose members were Buckley, Peter Starr, Michael Starr and Ryan) for the purpose of extricating Buckley, Peter Starr, Michael Starr and Ryan from a financial situation which would have resulted in their personal bankruptcy; that various filings of SBG failed to disclose or contained misleading disclosures with respect to the Sitco transaction; that SBG's outside directors, after acting on behalf of SBG in approving the Sitco transaction, failed to insure the accuracy of SBG's disclosures relating to this transaction; that Burrus, as Columbia Union's senior loan officer responsible for loans to both SBG and Sitco, Ltd., was acting in a manner which benefitted Columbia Union, to the detriment of SBG, by approving the Sitco transaction, and also failed to insure accurate disclosure of these matters.

Pursuant to the consents of the defendants, the Court enjoined SGB from further violations of the reporting, proxy, ownership reporting and margin

requirements provisions of the Federal securities laws. Buckley, Michael Starr, Peter Starr, Ryan, and Burrus, were enjoined from violating the antifraud, reporting, proxy, ownership reporting, and margin requirement provisions of the Federal securities laws. Columbia Union was enjoined from violations of the reporting provisions of the Federal securities laws. Smith, McGill, Francis and Hannah were enjoined from further violations of the reporting, ownership reporting and margin requirement provisions of the Federal securities laws.

In addition to the entry of the injunctions, certain other equitable relief was ordered by the Court or undertaken by the defendants, including an order to make disgorgement and an order compelling Buckley, Michael Starr, Ryan and Burrus to comply with their undertakings that none will seek employment as an officer or director of a publicly-traded corporation responsible for filings with the Commission for a period of years.

*SEC v. American Financial Corporation*<sup>161</sup>—The Commission filed a complaint seeking injunctive relief and other equitable relief against American Financial Corporation (AFC), Carl H. Lindner (Lindner), President, Chairman of the Board and controlling shareholder of AFC, Charles H. Keating Jr. (Keating) former Executive Vice-President and Director of AFC, and Donald P. Klekamp (Klekamp) a former director of a subsidiary of AFC. The complaint alleged that the defendants violated the antifraud, proxy and reporting provisions of the Federal securities laws.

According to the Commission's complaint, Lindner and Keating caused, authorized or permitted a bank subsidiary

of AFC to extend substantial loans on preferential terms to officers and directors of AFC and to other persons associated with AFC, its subsidiaries, Lindner or Keating. The complaint further alleged that as the financial condition of the borrowers deteriorated from 1973 through 1976 demands on the prior loans were not made and new loans were extended enabling the borrowers to pay interest on the prior loans and service loans from other.

The complaint also alleged that Lindner and Keating caused a subsidiary of AFC to advance funds to Klekamp for the purchase of AFC stock on the open market. The subsidiary failed to disclose these loans in a registration statement filed with the Commission. While the subsidiary did disclose the extension of such loans in its annual report filed with the Commission, it failed to disclose relevant facts and circumstances concerning the loans. AFC and its subsidiary also made false reports in filings with the Commission concerning loans to Klekamp. The complaint alleged numerous other violations concerning the extension of loans by AFC subsidiaries.

The defendants consented to the entry of final judgments of permanent injunction enjoining them from further violations of the antifraud, reporting and proxy violations. Additionally, the order consented to by the defendants required AFC to establish and maintain an audit committee of its board of directors consisting of at least two directors not having any previous business affiliations with AFC or its subsidiaries and to amend and correct its prior filings with the Commission with respect to matters alleged in the complaint.

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# Programmatic Litigation and Legal Work

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The Commission, through its Office of the General Counsel, participates as a party and as *amicus* in a substantial amount of litigation in addition to its enforcement actions. The results in these suits often affect existing interpretations of the Federal securities laws and/or the scope of the Commission's authority. The Office of the General Counsel is also involved in important non-litigatory 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 Court Actions

*Touche Ross & Co., et al v. SEC*—Touche Ross raised questions about the Commission's power to regulate the conduct of accountants and other professionals who practice before it. Rule 2(e) of the Commission's rules of practice, first promulgated over 40 years ago, authorizes the Commission to censure, suspend, or bar from Commission practice, professionals found to have engaged in various unethical or unlawful conduct. The rule reflects the Commission's need to rely heavily on the integrity of accountants and other professionals who prepare and certify the accuracy of corporate filings vital to investors.

Pursuant to Rule 2(e), the Commission had instituted proceedings against Touche Ross and three of its former partners. The order for proceedings alleged that in examining two public companies, the accountants had

failed to follow generally accepted accounting standards and had no reasonable basis for their opinions regarding the financial statements of these companies. The respondents filed a district court action attempting to halt the proceedings. They alleged that the Commission was without authority to promulgate Rule 2(e), and had acted "without authority of law" in instituting the proceedings. On a motion from the Commission, the district court dismissed the *Touche Ross* action, holding that the plaintiffs had failed to exhaust their administrative remedies.

On appeal, the United States Court of Appeals for the Second Circuit upheld the Commission's power to promulgate Rule 2(e). The Court first held that the traditional exhaustion doctrine did not apply where plaintiffs had challenged the agency's very authority to promulgate the rule. In such cases, judicial review would not be enhanced significantly by allowing the agency to first develop the facts or apply its expertise. And, although the agency could theoretically hold its own rule invalid, such a result was unlikely.

Turning to the merits, the Court held that, the promulgation of Rule 2(e) was valid as a "legitimate, reasonable and direct adjunct to the Commission's explicit statutory power." The Court reasoned that a central purpose of the securities laws was the protection of investors through the requirement that issuing companies disclose fully to the public information material to investment decision-making. The Commission, with its small staff, could not pos-

sibly review in detail each company's financial statements; necessarily, then, the Commission had to rely heavily on both legal and accounting professionals to perform their tasks diligently and responsibly. The Court concluded that Rule 2(e) represents an attempt by the Commission to protect the integrity of its most important processes, and is therefore a valid exercise of the Commission's general rulemaking power.

*SEC v. Aaron; SEC v. Coven*—The *Aaron* and *Coven* cases raised the important issue of whether the Commission must prove *scienter* in injunctive actions brought under the antifraud provisions of the Securities Act of 1933 (Securities Act) and the Securities Exchange Act of 1934 (Exchange Act). In both cases, the United States Court of Appeals for the Second Circuit held that *scienter* need not be proved in such an action.

The Court of Appeals' holding in *Coven* involved proceedings brought under Section 17(a) of the Securities Act. The Court noted that the language of Section 17(a) does not indicate that liability must be predicated in an intent to manipulate, deceive or defraud, and thus concluded that *scienter* is not an element of a violation of that section. The Court also stated that even negligent conduct is sufficient to impose liability upon an alleged aider and abettor who "should be able to conclude that his act was likely to be used in issuance of the illegal activity. . . ." The Supreme Court thereafter declined to review the Court's decision in *Coven*.

In *Aaron*, the Court's holding involved injunctive proceedings under both Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act, and Rule 10b-5 thereunder. Based on its analysis of the language of Section 10(b), the legislative history of the Exchange Act, the relationship between Section 10(b) and the express private

remedy provisions of the securities laws, and the effect of *scienter* standards on the overall enforcement scheme contemplated by those statutes, the United States Court of Appeals for the Second Circuit rejected Mr. Aaron's contention that the Supreme Court's decision in *Ernst & Ernst v. Hochfelder*, 425 U.S. 185 (1976) in which it was held that *scienter* is necessary in a private damage action under Section 10(b), compels the same result in a Commission injunctive action. The Court also rejected a *scienter* requirement for Commission injunctive actions brought under Section 17(a), relying on its prior decision in *Coven*. Mr. Aaron subsequently filed a petition for certiorari in the Supreme Court.

The imposition of a *scienter* requirement in all Commission proceedings brought to prevent recurrence of conduct that operates as fraud or deceit on public investors, and the resulting difficulty in providing a defendant's state of mind, would erode significantly the Commission's ability to enforce the Federal securities laws and deprive investors of needed protections. Moreover, the question of whether *scienter* is required in an injunctive proceeding of Section 17(a) and Section 19(b) has been and continues to be the subject of substantial litigation. With respect to Section 10(b), there has been great uncertainty in the courts of appeals and the district courts as to whether *scienter* is an element.

Recognizing these factors, the Commission, in responding to Mr. Aaron's petition for certiorari, has urged the Supreme Court to grant the petition in order to bring certainty to the administration of the Federal securities laws and to conserve the resources now being expended by courts and parties, including the Commission, in litigating these issues. (The petition for certiorari was granted by the Supreme Court on October 15, 1979.)

*Burks v. Lasker*—The issue raised in *Burks* involved the extent to which Federal policy, as articulated in the Investment Company Act of 1940 (Investment Company Act), limits the power of directors of an investment company to terminate derivative litigation brought by its shareholders. Shareholders of an investment company registered under the Investment Company Act sued the company's directors and its registered investment adviser. The plaintiffs alleged that the defendants had violated their duties under the Investment Company Act and the Investment Advisers Act in connection with a purchase by the company of Penn Central commercial paper. The investment company's disinterested directors concluded that the suit was contrary to the best interests of the company and its shareholders and moved the district court to dismiss the action, which motion was granted.

The United States Court of Appeals for the Second Circuit held that the Investment Company Act deprives independent directors of an investment company of authority to terminate nonfrivolous derivative litigation. The Commission appeared *amicus* before the Supreme Court, contending that the Investment Company Act does permit investment company directors to terminate such litigation, but only if they are independent, fully informed, and their decision is reasonable. The Commission's primary purpose in participating was to persuade the Court that consideration of State and Federal law must be balanced and that Federal law imposes a minimum standard on directors' decisions to terminate derivative litigation, notwithstanding any lesser standard of State law.

The Supreme Court held that State law governing the authority of independent directors to discontinue derivative suits should be applied to the extent State law is consistent with the

policies of the Investment Company and Investment Advisers Acts. The Court reasoned:

"Although [a] state statute cannot be considered 'inconsistent' with federal law merely because the statute causes the plaintiff to lose the litigation . . . , federal courts must be ever vigilant to insure that application of state law poses no significant threat to any identifiable federal policy or interest. . . .

"And, of course, this means that unreasonable . . . or specific aberrant or hostile state rules . . . will not be applied. . . . The consistency test guarantees that [n]othing that the state can do will be allowed to destroy the federal right . . . , and yet relieves federal courts of the necessity to fashion an entire body of federal corporate law out of whole cloth."

Accordingly, the Court remanded the case so that the Court of Appeals could determine the scope of directors' authority under State law to terminate derivative litigation, and determine whether State law is consistent with the policies of the Investment Company Act and the Investment Advisers Act. With respect to this latter inquiry, the Supreme Court observed that there may well be "situations in which the independent directors could reasonably believe that the best interests of the shareholders call for a decision not to sue. . . ." The implication of this language is that it would be inconsistent with Federal policies to give effect to a board of directors' decision which is unreasonable—a principle urged by the Commission.

*Ludlow Corporation v. SEC*—In *Ludlow*, the United States Court of Appeals for the District of Columbia Circuit affirmed the order of the Commission approving the application of the Boston Stock Exchange (BSE) for unlisted trading privileges in the common stock of Ludlow Corporation (*Ludlow*). *Ludlow* raised the issue of

whether an exchange, in applying for unlisted trading privileges in a stock, must demonstrate that active trading in the stock will take place in its market. In approving the BSE's unlisted trading application, the Commission rejected such a requirement, in keeping with the Commission's long-standing policy, endorsed by Congress, of liberally granting unlisted trading privileges as a means of promoting competition among the nations securities markets.

In affirming the Commission's order, the Court of Appeals emphasized the importance which Congress attached to the liberal grant of unlisted trading privileges as a means to foster competition among exchanges, and the role which unlisted trading must play in achieving the objectives of a national market system. In specific, the Court also clarified that the Commission's grant of unlisted trading privileges does not require a determination that an active market will develop on the applicant exchange. Rather, an applicant need only show that if an active trading should develop, it will proceed in a fair and orderly manner. As a result of *Ludlow*, the Commission has received renewed support to pursue a liberal approach in granting unlisted trading privileges, thereby enhancing the Commission's ability to facilitate intermarket competition in a national market system.

*Belenke v. SEC*—In *Belenke*, the United States Court of Appeals for the Seventh Circuit affirmed the Commission's order approving a proposed rule change of the Chicago Board Options Exchange (CBOE) to improve the CBOE's system for handling and executing "limit" orders of public customers. "Limit" orders are those which specify a minimum price at which a customer is willing to sell, or alternatively, a maximum price at which a customer is willing to buy a particular

security. Prior to the Commission's approval of the CBOE rule, members of the CBOE were given exclusive appointments as board brokers to accept limit orders in particular options from other brokers on the floor, to store those orders in limit order books, and to assure timely execution of those orders when, and if, the prevailing market price matched the specified limit order price. The CBOE rule eliminates the system of exclusive appointment of board brokers, and instead permits the CBOE directly to provide limit order book services through employees known as "order book officials."

In its order approving the CBOE rule pursuant to Section 19(b) of the Exchange Act, the Commission found that the rule would further several purposes of the Act—by improving the efficiency of the CBOE's market, enhancing the floor surveillance capabilities of the CBOE, and fostering competition between the CBOE and other options exchanges. The Court of Appeals, in affirming the Commission's order in all respects, stressed that the Commission's findings were predictive, policy-oriented decisions, and hence judicial deference to the Commission's expertise was particularly appropriate. Applying a limited scope of review, the Court of Appeals found that the Commission's substantive findings were not arbitrary or capricious. The Court also found that the informal notice and comment procedures followed by the Commission comported with the requirements of the Exchange Act. The Court thus rejected petitioners' argument that the more elaborate procedures of Section 6(e) of the Exchange Act were inapplicable, since the fees for limit order services under the CBOE rule were not fees "charged by members," but rather were fees charged by the CBOE itself.

The *Belenke* decision is of importance both to national securities ex-

changes and the Commission as judicial recognition of an exchange's ability to improve the operational efficiency of its market, consistent with the purposes of the Exchange Act. The Court of Appeals' decision reaffirms that judicial deference should be accorded to the decisions of the Commission in exercising regulatory or oversight authority over the operations of the nation's securities markets. Finally, this case gives effect to Congress' intent that the Commission have considerable flexibility in fashioning its administrative procedures where the Commission acts through informal, legislative-type proceedings.

### Other Significant Projects

*Implied Rights of Action*—A number of cases were decided by the Supreme Court in the past term concerning implied rights of action, which have a substantial impact with regard to the Federal securities laws. In *Touche Ross & Company, Inc. v. Redington*, the Court refused to imply a private cause of action for violation of the books and recordkeeping provision of the Exchange Act, because that provision, in the Court's view, neither conferred special rights on particular parties nor prohibited certain conduct as unlawful. Because the Court believed that the provision was intended by Congress to act as an early warning system—so that the Commission could pursue its enforcement obligations after reviewing the filings required to be made—implied actions have by no means been denied entirely.

The Court ordered that reargument be held in *Lewis v. Transamerica Mortgage Advisers, Inc.*, where the sole issue was whether private cause of action was implied for violations of the antifraud provision of the Investment Advisers Act. The Court had recognized the existence of private action under the comparable antifraud provi-

sion of the Exchange Act, in *Superintendent of Insurance v. Bankers Casualty & Life*. While the *Lewis* case has not yet been decided, the Court's opinion in non-securities cases, as well as *Touche Ross*, bear on the continued inability of private actions for the violations of some of the statutory provisions of the Federal securities laws.

*ALI Code*—Over the past ten years, the American Law Institute 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 Institute'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 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, it would make significant substantive changes in many other respects.

For example, the Code would replace the current emphasis on registration of individual offerings of securities with a "continuous disclosure" system based on issuer registration, and providing for less stringent filing and disclosure requirements in connection with certain distributions of the securities of "one-year registrants" (i.e., issuers that have been registered for one year). In addition, certain changes would be made in tender offer regulation, including a ten-day preacqui-

tion notice and publicity requirement, along with express preemption of State tender offer legislation. Also, investment advisers would be subject for the first time to qualification and financial responsibility requirements, and the Commission would be given rulemaking authority over the unethical conduct of securities professionals. In the area of civil liability, there would be many new express rights of action created, along with a grant of authority to the courts to imply private rights of action in certain circumstances. These are but a few of the literally hundreds of modifications that the Code would make as compared with current law.

During the initial review of the proposed Code, members of the Commis-

sion 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 has made a substantial number of technical amendments to the Code. In September 1979, the Commission itself began meeting with Professor Loss, in sessions open to the public, to discuss the issues raised by the staff. As the Code nears the beginning of Congressional consideration, the Commission will be drawing together the results of its review to help it determine what formal position to take before Congress with respect to the Code.

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# PUBLIC UTILITY HOLDING COMPANIES

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## 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 subsidiary companies of registered holding companies.

There are presently 14 registered holding company systems with aggregate assets, as of June 30, 1979, of \$47.5 billion. Total holding company system assets increased by over \$1.1 billion in fiscal 1979, even with the loss of Ohio Edison Company who was granted a Section 3(a)(2) exemption from the Holding Company Act in April 1979. Total operating revenues, as of June 30, 1979, were \$17.9 billion, a \$700 million increase over the previous year. In the 14 systems there are 60 electric and/or gas utility subsidiaries, 70 nonutility subsidiaries, and 20 inactive companies, or a total of 168 system companies, including the top parent and subholding companies. Table 35 in the Appendix lists the systems and Table 36 lists their aggregate assets and operating revenues.

## Financing

During fiscal year 1979, approximately \$2.7 billion of senior securities and common stock financing of the 14 registered systems was approved by

the Commission. Of this amount, approximately \$1.6 billion was long-term debt financing, and over \$1 billion was for equity financing. These amounts represent a 24 percent decrease in long-term debt financing over fiscal year 1978 and a 19 percent increase in the sale of common and preferred stock. In addition, the Commission approved over \$3.5 billion of short-term debt financing and \$291 million of pollution control financing for the 14 registered holding company systems. Table 37 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 1979, the Commission authorized \$460.6 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 38 in the Appendix lists the authorization by holding company system for each fuel program.

Largely as a result of the energy crisis, holding companies have embarked on major and expensive new commitments to acquire substantial additional capital. Generally, the arrangements involve formation of several new subsidiaries for producing, transporting and financing fuel supplies or the investment of capital for the exploration of and development drilling for mineral reserves with a right to production

accruing to such investment. Since 1971, the Commission has authorized expenditures of over \$2.6 billion for fuel programs of holding companies.

### **Service Company Operations**

At the end of calendar year 1978, 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 \$423 million or 2.37 percent of the total revenues generated by the electric and gas operating utilities of the holding company systems. All services are rendered at cost to the operating utilities, with several systems including a return on capital in-

vested by the parent holding company. Because the subsidiary service companies are service oriented, they are heavily labor intensive having 11,061 employees and assets of over \$229 million. During February 1979, the Commission approved a proposed amendment to the Uniform System of Accounts for public utility service companies. The revised system of accounts will (1) provide for closer coordination with the Federal Energy Regulatory Commission's Uniform System of Accounts for electric and gas public utilities, (2) facilities for conduct of audit and account inspection programs, and (3) improve reports filed by service companies subject to the Act. The revised system of accounts is effective January 1, 1980, for the 11 subsidiary service companies.

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# CORPORATE REORGANIZATIONS

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The Commission's role under Chapter X of the Bankruptcy Act, which provides a procedure for reorganizing corporations in the United States district courts; differs from that under the various other statutes which it administers. The Commission does not initiate Chapter X proceedings or hold its own hearings, and it has no authority to determine any of the issues in such proceedings. The Commission participates in proceedings under Chapter X to provide independent, expert assistance to the courts, participants, and investors in a highly complex area of corporate law and finance. It pays special attention to the interests of public security holders who may not otherwise be represented effectively.

Where the scheduled indebtedness of a debtor corporation exceeds \$3 million, Section 172 of Chapter X requires the court, before approving any plan of reorganization, to submit it to the Commission for its examination and report. 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.

The Commission has not considered it necessary or appropriate to participate in every Chapter X case. Apart from the excessive administrative bur-

den, many of the cases involve only trade or bank creditors and few public investors. The Commission seeks to participate principally in those proceedings in which a substantial public investor interest is involved. However, the Commission may also participate because an unfair plan has been or is about to be proposed, public security holders are not represented adequately, the reorganization proceedings are being conducted in violation of important provisions of the Act, the facts indicate that the Commission can perform a useful service, or the court requests the Commission's participation.

The Commission in its Chapter X activities has divided the country into five geographical areas. The New York, Chicago, Los Angeles and Seattle regional offices of the Commission each have responsibility for one of these areas. Supervision and review of the regional offices' Chapter X work is the responsibility of the Division of Corporate Regulation of the Commission which, through its Branch of Reorganization, also serves as a field office for the southeastern area of the United States.

During the fiscal year, the Commission entered three new Chapter X proceedings involving companies with aggregate stated assets of approximately \$69.9 million and aggregate indebtedness of approximately \$93.6 million. Including the new proceedings, the Commission was a party in a total of 97 reorganization proceedings during the fiscal year (a list of these proceed-

ings appears in Table 39 in the Appendix of this report). The stated assets of the companies involved in these proceedings totaled approximately \$4.9 billion and their indebtedness about \$4.5 billion.

During the fiscal year nine proceedings were closed, leaving 88 in which the Commission was a party at year end.

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# ADMINISTRATION AND MANAGEMENT

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During the fiscal year 1979, the Commission stressed, more than ever before, its commitment to improving management information systems and strengthening internal management capabilities. This heightened emphasis on enhanced administrative and managerial support is a direct reflection of increased recognition of potential benefits that can flow to the public from better systems, procedures, plans, and organization structures. It is intended that the initiatives of 1979 will emerge in the form of operational economies, increased effectiveness and greater responsiveness in the 1980's.

## **General Management and Program Developments**

The Commission undertook several projects during the fiscal year which resulted in management improvements and program efficiencies.

A management study conducted by the Executive Director's Office in fiscal year 1978 was the catalyst for organizational changes in the Division of Corporation Finance that will be implemented during the next fiscal year. Major recommendations for the study concerned development of a review strategy for disclosure filings and the need to restructure the division's workload by industry groupings so as to allow Commission staff an opportunity to develop expertise concerning peculiar industry patterns and trends, and to allow more informed review of priority filings. During 1979, a Corporation Finance task force studied these rec-

ommendations to assess their feasibility and to propose a plan for implementation. Based on the findings of the task force, a plan for such a restructuring was accepted and is intended for implementation during fiscal 1980. At the close of the fiscal year, negotiations were underway, with faculty from the Harvard Business School, to provide expertise and assistance in implementing industry specialization, a new and cost effective filings review strategy, and a quality control program.

An intensive workload/cost analysis of the Chicago Regional Office resulted in decisions to close the Cleveland and St. Louis Branch Offices and to consolidate these operations with those of the parent office in Chicago. This decision was based on a changing dispersion of activities due to the emergence of options markets in Chicago, a reduction of enforcement activity in the branches and development of specialized units in Chicago. Apart from major operational improvements, it was also concluded that there were some cost benefits to be derived from taking advantage of the economies of scale available through consolidation of activities at the principal office.

An organizational analysis of the Office of Public Affairs led to a decision to split the legislative and public information functions. A new Office of Legislative Affairs was created within the Office of the Chairman and given responsibility for handling matters relating to legislation and legislative liaison. The Office of Public Affairs will continue to handle general public in-

formation and press relations functions.

The Office of the Executive Director conducted a major management review of the Division of Market Regulation. The study report to the director and management staff of the division resulted in significant changes in both internal procedures and organizational structure. The study also served as a basis for an increased focus, within the division, on such issues as communication, project management, training, recruitment, and financial recordkeeping and controls.

## **Information Systems Management**

In fiscal year 1979 the Commission made vast progress toward improving its information handling processes. Detailed specifications regarding computer processing capabilities that will be required to meet the agency's data processing needs over the next five to eight years were completed, and a formal request for delegated procurement authority was presented to the General Services Administration (GSA). In anticipation of GSA approval, steps were taken to develop solicitation documents that will result in the installation of a new computer system by the end of fiscal year 1980.

*Facilities Improvement*—While much was accomplished in fiscal year 1979 toward meeting its long-term information processing needs, the Commission continued to make more efficient and effective use of the existing IBM 360-65 computer installed in 1978. In this regard, the memory capacity of the central processing unit was increased and several components were added to expand our on-line storage capability—two actions that enabled the Commission to process an immensely increased workload without any degradation in system perform-

ance. Other steps taken to improve processing activities included conversion to a more efficient operating system control program and utilization of on-line programming and file maintenance techniques. As a result of these improvements the Commission has been able to continue to make significant progress in the development and implementation of new information systems while concurrently expanding the use of the teleprocessing network to include all of the Commission's regional offices. The network was scheduled to be further extended to include four of the largest branch offices during the first quarter of fiscal 1980, with the remaining branches scheduled to come on line later in the year.

*Major System Enhancements*—Major information systems implemented during 1979 included two systems for which developmental work was initiated in 1978. The first was a comprehensive records management system which, utilizing microfilm and teleprocessing techniques, provides the staff with the capability for directly entering and retrieving information relating to the receipt and disposition of various reports filed with the Commission. As part of this project, on February 5, 1979, the Commission officially adopted microfilm as a substitute record for many of the paper files previously maintained. Under this mode of operation, microfiche copies of filings can be easily and quickly reproduced and distributed to all requesters, thus ensuring the highest possible level of integrity as the official file is centrally retained at all times. Expansion of the micrographics program to include additional Commission files was scheduled for the first and second quarter in fiscal 1980.

The second system involves an expansion of the Commission's Name and Relationship Search system. The new process provides the staff with a

facility for immediate terminal access to an index of name and associated data on companies and individuals having a direct or indirect relationship with the Commission, and replaces a system of manual requests which very often required several days to process. A third system initiated in 1978, for which extensive development work was accomplished in 1979, is the Commission's Case Activity Tracking System (CATS). Scheduled for operational testing early in fiscal year 1980 and implementation in the second quarter, this system will promote better management by providing the Commission with an efficient means of monitoring current events and status of all active investigations and litigation.

Other important systems work pursued in 1979 included the initiative of a prototype correspondence tracking system to more effectively control the thousands of pieces of correspondence flowing through the Office of the Chairman, refinement and enhancement of various internal personnel, position management, and cost accounting systems; expansion of the complaint processing system to allow for the experimental preparation of letters and notices by means of automated electronic techniques; development of a series of statistical programs for use by the Commission's staff in its special study of the options market; expansion of the broker dealer/investment adviser data base to produce various statistics incidental to a corporate governance study being conducted by the Division of Corporation Finance; and development of a system for maintaining and reporting data filed pursuant to Section 4(2), Rule 146, of the Securities Act of 1933 (Securities Act).

Developmental work on several other information systems was also initiated during fiscal year 1979, many of which will be implemented by fiscal year 1980. These included establish-

ment of a generalized, user-oriented information retrieval capability that will operate through teleprocessing and data base management techniques; expansion of an existing system for analyzing data contained in Investment Company Annual Reports, Form N-1R; creation of an on-line system for retrieving index information relating to releases published in the SEC Docket; and development of a series of computer programs for producing a variety of reports from data filed by certain institutional investors and investment managers under Rules 13d, 13f, and 13g.

*Systems Administration*—In addition to these enhancements of agency information systems and automated processing techniques, several other measures were taken in fiscal year 1979 to enhance the internal management and administration of the Commission's data processing activity. An important event was the reorganization of the Office of Data Processing designed to make it more adaptable and responsive to the changing nature of the Commission's automated data processing (ADP) needs. A second undertaking involved an intensive program to enhance interrelationship between the ADP staff and the users of ADP services. This was accomplished through the adoption of a formal procedure for identifying and requesting ADP support, the creation of a Commission-wide ADP liaison group, and the establishment of more effective communication procedures to insure that critical information was effectively relayed to and from ADP personnel. Another step taken to increase ADP efficiency was the elimination of internal cardpunching and transfer of this function to a commercial concern. In addition to substantial dollar savings, this action has provided the Commission with much more flexibility in re-

sponding to changing data entry requirements.

One final issue receiving much emphasis during 1979 was ADP security. Recognizing that an expanded ADP program would require much tighter control and protection of ADP resources, the Commission has taken several actions toward bolstering its ADP security program. These included the establishment of a full-time position of ADP security officer, the conduct of an ADP risk assessment (to be completed early in fiscal year 1980), formalization of an interagency agreement for back-up computer processing time, and establishment of a personnel screening program for ADP staff, as mandated by the Office of Personnel Management (OPM).

### **Market Oversight Surveillance System**

The Office of the Executive Director, in cooperation with the Divisions of Enforcement and Market Regulation and utilizing the services of an independent systems consultant, has been engaged in the study and design of a market oversight and surveillance system during the past year. That project has resulted in a proposed design, which is presently being reviewed by the Commission staff. In addition, the Commission is undertaking to implement a pilot of the proposed design in order to test the design and evaluate its potential for enhancing the Commission's oversight and surveillance functions. Budgetary approval by the Office of Management and Budget (OMB) and Congress and procurement approval by GSA will be required before any portion of the larger overall system can be implemented. By mid spring 1980 the Commission is hopeful that a determination will have been made as to the scope and timetable for implementation of a larger system.

The proposed system would monitor all securities markets activities and seek to identify possible market irregularities or violations of self-regulatory organization rules and the Federal securities laws. It would thus enhance existing Commission facilities in areas such as market surveillance and inspections of self-regulatory organizations and broker-dealers. Such a system will neither diminish nor supplant the efforts of self-regulatory organizations to regulate their market places and market professionals; rather it is intended to provide the Commission with a greater capability to detect and follow-up on aberrant trading practices, particularly when subjects outside the jurisdiction of the self-regulatory organizations are involved. By providing the Commission with enhanced information analyzed for particular trading patterns, the system will place the Commission in a better position to coordinate, with each self-regulatory organization, the investigation and follow-up of particular matters.

If the proposed system receives the approval of the requisite governmental bodies, implementation is expected to require at least five years. Implementation will be geared to advancements in the securities industry and to developments in the evolving national market system.

### **Financial Management**

The Commission collects fees for the registration of securities, securities transactions on national securities exchanges, and miscellaneous filings, reports and applications. In fiscal year 1979, the Commission collected a record \$33 million dollars in fees, representing approximately 47 percent of the total funds appropriated by the Congress for Commission operations. These figures are up from \$26 million, representing 42 percent of funds appropriated in fiscal year 1978. Nearly

\$4 million of the increase in collections was attributed to Securities Act registration fees resulting from both higher volumes and larger offerings, while higher stock exchange volumes accounted for \$2.3 million of the increase.

In 1979, the Office of the Comptroller initiated implementation of an automated integrated financial management system. By the end of the fiscal year, the system was producing comprehensive accounting and budget execution reports which provide timely information for budgetary review and policy planning both Commission-wide and by organizational unit.

Fiscal year 1979 also saw partial implementation of a budget formulation system. Reports generated by this system present budgetary alternatives at various levels of staffing and funding, and are of considerable benefit in analyzing different zero base budget possibilities.

A position tracking system, developed in fiscal year 1979, has been implemented and will be fully operational in the first quarter of fiscal year 1980.

Other current initiatives intended to improve financial management or conserve resources include completion of a budget handbook, continued automation of payroll, fee collection and budget call procedures, and establishment of uniform agency policies on the use of overtime and the employment of temporaries. These projects will all be carried over into fiscal year 1980.

## Personnel Management

At the close of the fiscal year, the Commission's total strength was approximately 2,020. About two-thirds of these personnel were employed in the agency headquarters in Washington, D.C.; the remaining one-third were located in the nine regional and six branch offices located in major finan-

cial centers throughout the United States.

Although relatively small by Federal agency standards, the Commission recognizes the importance of personnel management as an internal part of overall management effectiveness. It has, therefore, initiated innovative programs leading to both more effective use of personnel resources and the integration of personnel management into general decision-making. Enactment of the Civil Service Reform Act of 1978 (CSRA) has encouraged and accelerated these Commission initiatives. The intent of the CSRA is to place greater stress on performance, to give managers the tools needed to carry out their assignments and to hold managers accountable for the effectiveness of their units. As a result, a very substantial investment of staff time and funds has been devoted to the implementation of the Act, and an even greater commitment will be required in fiscal year 1980. Although the full benefit of this investment will not be realized for several years, significant accomplishments are already noticeable during the first year of the CSRA's existence.

*Senior Executive Service*—The Commission was allotted 46 senior executive positions in the initial Senior Executive Service (SES) allocation, 44 of which were filled by incumbents, as provided by the new law.

Extensive training was given to senior executives regarding the objectives and policies of the senior executive service. This training included in-depth briefings by officials for OPM, working seminars of senior executives conducted by the Chairman and the Executive Director, and training sessions presented by personnel consultants. This training program had as its purpose education of key Commission officials as to the flexibilities and opportunities offered by the CSRA for

increased effectiveness in personnel management.

Based on a careful review of the literature, interviews and personnel specialists from academia and from the private sector, and a review of programs in other agencies, a performance appraisal system has been developed and implemented for the members of the SES. This system, which will be used as a basis for determining assignments and compensation, will be monitored closely to identify necessary refinements and to ensure that it continues to meet all of the objectives prescribed by the CSRA. Finally, an Executive Resource Board and a Performance Review Board have been established to oversee and coordinate manpower planning, recruiting, performance appraisals and other aspects of executive personnel management.

*Performance Appraisal*—A great deal of research and planning has gone into the development of performance appraisal systems at the Commission. A comprehensive promotion appraisal program being conducted by OPM (and reported in the 1978 Annual Report) is continuing. When completed, this program is expected to replace fairly subjective judgments with valid indicators of successful performance in attorney positions. In addition to achieving a higher degree of equity in awarding promotions, it is hoped that the new system will enable Commission managers to predict success in specific positions with a higher degree of accuracy.

This effort is complemented by a separate study being undertaken by a private consultant and an anticipated contract with other consultants from OPM. When these studies are completed, it is expected that they will provide the basis for a comprehensive, valid and equitable appraisal system for managers, supervisors, professional staff members and clerical personnel.

*Other Accomplishments Under the*

*CSRA*—Procedures have been developed and implemented for the establishment of a probationary period for newly appointed managers and supervisors, as provided in Title III of the CSRA. This program enables division directors and office heads to promote qualified technicians and specialists into supervisory positions, with the understanding that they can revert back to prior positions after six months if they do not give evidence of supervisory effectiveness. Planning is currently under way for the merit pay program required by Title V of the CSRA, under which supervisors and middle managers would be compensated on the basis of accomplishments and organizational performance, rather than on the basis of length of service.

*On-going Programs*—Title III of the CSRA authorizes acceptance of volunteer services where they provide educational experiences for students. The Commission is making extensive use of this provision of the CSRA through its student observer program, under which law students work for the Commission for up to 20 hours a week. The students receive course credits in lieu of salary, as well as a first hand acquaintance with Federal employment. A number of student observers have already become permanent staff members following graduation from law school.

Despite the heavy investment of time devoted to implementation of the CSRA, the Commission continued to stress and initiate improvements in other traditional areas of human resource management.

The Commission has continued to refine its attorney recruitment system, with the dual goal of attracting top caliber applicants and ensuring that persons employed represent a cross section of all segments of American society. One notable achievement in fiscal year 1979 was the Commission's

special effort to attract minority law graduates. This was accomplished by means of an enormously successful "job fair" to which 129 law students were invited. The students heard presentations from the Chairman, several Commissioners, the Executive Director and the heads of all major offices, resulting in the permanent employment of 11 minority attorneys and summer job opportunities for four second year students. Another program, carried out under the sponsorship of the Office of General Counsel, resulted in the hiring of four outstanding graduates who had served as law clerks to district and appellate court judges.

The highly successful upward mobility program instituted in fiscal year 1978 was continued and expanded. Ten additional upward mobility positions were established, bringing the total number of positions under this program to 22. This number, however, only partially reflects the Commission's progress in upward mobility. As a direct result of early successes with this program, a number of entry-level positions were established outside the formal program; this will further assist the agency in using the capabilities of its existing staff, while at the same time providing other bonafide advancement opportunities for lower grade employees.

The Commission continued to emphasize staff training in fiscal year 1979. Approximately 850 of the Commission's 2,000 staff members attended formal training or development programs during the year, an approximate 10 percent increase over 1978.

In particular, more staff time and funds were allocated to managerial and executive development than in any previous year. The Commission was represented at the Federal Executive Institute's (FEI) seven week Senior Executive Education Program for the first time, while five other senior managers

participated in FEI's three week leadership program. In addition, other key staff members attended the Program for Senior Managers at Harvard Business School, Managerial Grid, team building programs and a program sponsored by the National Institute of Trial Advocacy at the University of Colorado. This emphasis reflects recognition of the increased attention to executive development that is required by the CSRA, and will be further expanded in fiscal year 1980.

The employee counseling program begun in fiscal year 1978 was expanded in an effort to be more responsive to the needs of employees, and to enhance the role of the Commission as a responsible and concerned employer. A discrete Employee Relations unit was established in the Office of Personnel, and its accomplishments numbered among them expanded retirement counseling, counseling on financial planning, and more comprehensive counseling on insurance plans.

The Commission conducted an aggressive Vietnam Veterans Week program, consistent with the spirit of the Congressional resolution on this subject. The thrust of the program was to sensitize the staff to the particular needs of the Vietnam veteran, to promote the hiring and professional development of these veterans, and to recognize their post-service as well as service accomplishments.

The Commission also continues to emphasize its highly successful program for the recruitment of handicapped persons. This effort reflects a commitment to remove artificial barriers—both architectural and attitudinal—to the employment of full utilization of individuals who, despite handicapping conditions, are able to make a meaningful contribution to Commission objectives.

*Equal Employment Opportunity*—In response to Title III of the CSRA, the

Commission has undertaken extensive efforts to identify underrepresentation of minorities and women on the staff, both by grade level and by occupation. Strategies are being implemented to correct the underrepresentation through enhanced recruiting efforts directed to schools with large minority and female enrollment, maintenance of equal opportunity recruitment files, expansion of the upward mobility program, activation of individual training and development plans, and cooperation with OPM in eliminating many of the complex procedures and requirements which have raised barriers to the recruitment and hiring of minorities and women. These procedural efforts will be combined with seminars for managers and supervisors designed to stress recognition of EEO responsibilities and provide instructions in the strategies which may be employed to eliminate underrepresentation.

In part because of these efforts, the total number of women attorneys in the work force at the Commission continues to increase. Since 1977, 63 women attorneys obtained employment at the Commission, bringing their total representation to 168 as of the end of fiscal 1979. This increase represents a 60 percent rise in female attorney employment during the two year span.

Correspondent to the rise in the number of women attorneys, there has been an overall increase in their total percent of the Commission's attorney work force. In 1977, women attorneys represented 16.4 percent of the total work force, whereas 22.5 percent of attorney positions were held by women in 1979.

Minority attorney employment rose a healthy 21.4 percent during the period between 1977 and 1979. At the end of fiscal year 1979, there were 51 minority attorneys employed at the Commission as compared to 42 in

1977, 33 in 1975, and 11 in 1973.

Minorities generally registered across the board gains in key professional and middle management positions (GS-13-15) between fiscal years 1977 and 1979. At the close of fiscal year 1977, there were only 37 minorities occupying positions in these grades in contrast to 49 at the end of fiscal year 1979, for a 32.4 percent increase during the two year period. Similarly, women also showed an increase during this period—holding 82 GS-13 through 15 positions, up from 56 in 1977.

### **Activity Under The Freedom Of Information Act**

Commission rules implementing the Freedom of Information Act provide that the public may inspect or obtain copies of records maintained by the Commission, with the exception of certain specified categories of information. During 1979, the Commission received 1,318 requests for information; up 5 percent from 1978.

### **Space Management**

Problems stemming from inadequate and poorly planned space continue to present some of the Commission's most serious operational difficulties. Headquarters personnel are scattered among three locations, requiring costly, time consuming and inefficient movement of equipment, personnel and files. Some \$150,000 is spent on alterations each year in an attempt to accommodate changing staff requirements. In fiscal year 1979, documentation for a consolidated Headquarters building was again prepared and submitted to GSA.

In the meantime, the Office of Administrative Services and the Division of Corporation Finance have continued to work with GSA in connection

with the refurnishing and alterations necessary to allow for the eventual movement of Commission personnel

from the sixth and seventh floors of the old Federal Home Loan Bank Board building to the third and fourth floors.



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# FOOTNOTES

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<sup>1</sup>Securities Exchange Act Release No. 15251 (October 20, 1978), 15 SEC Docket 1370.

<sup>2</sup>Securities Exchange Act Release No. 15250 (October 20, 1978), 15 SEC Docket 1355.

<sup>3</sup>Securities Exchange Act Release No. 15671 (March 22, 1979), 17 SEC Docket 24.

<sup>4</sup>Securities Exchange Act Release No. 15770 (April 26, 1979), 17 SEC Docket 369.

<sup>5</sup>Securities Exchange Act Release No. 16214 (September 21, 1979), 18 SEC Docket 467.

<sup>6</sup>Securities Exchange Act Release Nos. 15413 (December 15, 1978) and 16215 (September 21, 1979), 16 SEC Docket 510 and 18 SEC Docket 475.

<sup>7</sup>Securities Exchange Act Release No. 15769 (April 26, 1979), 17 SEC Docket 361.

<sup>8</sup>Securities Exchange Act Release No. 15926 (June 15, 1979), 17 SEC Docket 950.

<sup>9</sup>*Bradford National Clearing Corporation et al. v. Securities and Exchange Commission et al.*, 590 F.2d 1085 (D.C. Cir 1978).

<sup>10</sup>Securities Exchange Act Release No. 15640 (March 14, 1979), 16 SEC Docket 1318.

<sup>11</sup>*Id.*

<sup>12</sup>44th Annual Report at 6.

<sup>13</sup>Securities Exchange Act Release Nos. 13760 (June 18, 1977), 12 SEC Docket 1275; 14056 (October 17, 1977), 13 SEC Docket 366; 14057 (October 17, 1977), 13 SEC Docket 375; 14878 (June 22, 1978), 15 SEC Docket 98; 15026 (August 3, 1978), 15 SEC Docket 494; and 14991 (July 25, 1978), 15 SEC Docket 359.

<sup>14</sup>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).

<sup>15</sup>*Id. at 1.*

<sup>16</sup>*Id.*

<sup>17</sup>Securities Exchange Act Release No. 15575 (February 22, 1979), 16 SEC Docket 1163.

<sup>18</sup>Securities and Exchange Commission file Nos. SR-Amex-79-11, Securities Exchange Act Release No. 16145 (August 29, 1979), 18 SEC Docket 195; SR-CBOE-79-9, Securities Exchange Act Release No. 16127 (August 21, 1979), 18 SEC Docket 162; SR-MSE-79-18, Securities Exchange Act Release No. 16254 (October 5, 1979), 18 SEC Docket 612; SR-Phlx-79-7, Securities Exchange Act Release No. 16253 (October 5, 1979), 18 SEC Docket 611; and SR-PSE-79-13, Securities Exchange Act Release No. 16234 (October 2, 1979), 18 SEC Docket 561.

<sup>19</sup>Securities Exchange Act Release No. 15762 (April 24, 1979), 17 SEC Docket 356.

<sup>20</sup>44th Annual Report at 13.

<sup>21</sup>Securities Exchange Act Release No. 15241 (October 18, 1978), 15 SEC Docket 1319.

<sup>22</sup>Securities Exchange Act Release No. 15765 (April 27, 1979), 17 SEC Docket 416.

<sup>23</sup>Securities Exchange Act Release No. 16017 (July 11, 1979), 17 SEC Docket 1243.

<sup>24</sup>Securities Exchange Act Release No. 15533 (January 29, 1979), 16 SEC Docket 854.

<sup>25</sup>Securities Exchange Act Release No. 16049 (July 27, 1979), 17 SEC Docket 1475.

<sup>26</sup>Securities Exchange Act Release No. 16112 (August 16, 1979), 18 SEC Docket 67.

<sup>27</sup>Securities Exchange Act Release No. 14234 (December 14, 1977), 13 SEC Docket 999.

<sup>28</sup>Securities Act Release No. 6099 (August 2, 1979), 17 SEC Docket 1422.

<sup>29</sup>Securities Act Release No. 5979 (September 19, 1978), 15 SEC Docket 1109.

<sup>30</sup>Securities Exchange Act Release No. 15289, (November 1, 1978), 16 SEC Docket 12.

<sup>31</sup>Securities Exchange Act Release No. 15683 (March 29, 1979), 17 SEC Docket 92.

<sup>32</sup>Securities Exchange Act Release No. 15867 (May 23, 1979), 17 SEC Docket 698.

<sup>33</sup>Exchange Act Rule 10b-10. Certain paragraphs of the rule became effective on June 1, 1977. Securities Exchange Act Release Nos. 13508 (May 5, 1977), 12 SEC Docket 299; and 14942 (July 7, 1978), 15 SEC Docket 245.

<sup>34</sup>Securities Exchange Act Release No. 15219 (October 6, 1978), 15 SEC Docket 1245.

<sup>35</sup>Securities Exchange Act Release No. 15220 (October 6, 1978), 15 SEC Docket 1260.

<sup>36</sup>Securities Exchange Act Release No. 15984 (July 2, 1979), 17 SEC Docket 1167.

<sup>37</sup>Securities Exchange Act Release No. 16018 (July 11, 1979), 17 SEC Docket 1244.

<sup>38</sup>Commodity Exchange Act, 7 U.S.C. §2 (1977).

<sup>39</sup>43 FR 39956 (September 8, 1978).

<sup>40</sup>Securities Exchange Act Release No. 15898 (June 5, 1979), 17 SEC Docket 810.

<sup>41</sup>Securities Exchange Act Release No. 15899 (June 5, 1979), 17 SEC Docket 819.

<sup>42</sup>15 U.S.C. §78aaa-78lll, as amended by the Securities Investor Protection Act Amendments of 1978, Pub. L. No. 95-283, 92 Stat. 249.

<sup>43</sup>Securities Investor Protection Act Release No. 78 (October 20, 1978), 15 SEC Docket 1438.

<sup>44</sup>Securities Investor Protection Act Release No. 86 (March 30, 1979), 17 SEC Docket 235.

<sup>45</sup>17 C.F.R. 300.100 *et seq.*

<sup>46</sup>Securities Exchange Act Release No. 15906 (June 8, 1979), 17 SEC Docket 891.

<sup>47</sup>Securities Exchange Act Release No. 16156 (August 31, 1979), 18 SEC Docket 237.

<sup>48</sup>Securities Exchange Act Release No. 14800 (May 25, 1978), 14 SEC Docket 1178.

<sup>49</sup>Securities Exchange Act Release No. 15827 (May 15, 1979), 17 SEC Docket 589.

<sup>50</sup>Securities Exchange Act Release No. 15998 (July 5, 1979), 17 SEC Docket 1176.

<sup>51</sup>Securities Exchange Act Release No. 15376 (December 1, 1978), 16 SEC Docket 333.

<sup>52</sup>Securities Exchange Act Release No. 16049 (July 27, 1979), 17 SEC Docket 1475.

<sup>53</sup>Securities Exchange Act Release No. 15812 (May 11, 1979), 17 SEC Docket 582.

<sup>54</sup>[1976-1977 Transfer Binder] Fed. Sec. L. Rep. (CCH) ¶95,627 (S.D.N.Y. 1976).

<sup>55</sup>Securities Exchange Act Release No. 15411 (December 13, 1978). 16 SEC Docket 435.

<sup>56</sup>Securities Exchange Act Release No. 15936 (June 19, 1979), 17 SEC Docket 985.

<sup>57</sup>Securities Exchange Act Release No. 15885 (May 30, 1979), 17 SEC Docket 754.

<sup>58</sup>Securities Exchange Act Release No. 16282 (October 16, 1979), 18 SEC Docket 673.

<sup>59</sup>Securities Exchange Act Release No. 15860 (May 23, 1979), 17 SEC Docket 695; Securities Exchange Act Release No. 16208 (September 18, 1979), 18 SEC Docket 403.

<sup>60</sup>Securities Exchange Act Release No. 14531 (March 6, 1978), 14 SEC Docket 356.

<sup>61</sup>Securities Exchange Act Release No. 16294 (October 24, 1979), 18 SEC Docket 728.

<sup>62</sup>Securities Exchange Act Release No. 15838 (May 18, 1979), 17 SEC Docket 678.

<sup>63</sup>Securities Act Release No. 6084 (June 25, 1979), 17 SEC Docket 1048.

<sup>64</sup>Securities Exchange Act Release No. 16226 (September 27, 1979), 18 SEC Docket 509.

<sup>65</sup>Securities Exchange Act Release No. 16162 (September 6, 1979), 18 SEC Docket 241.

<sup>66</sup>Report of the Advisory Committee on Corporate Disclosure, Chapter XIV, Page 427 (1977).

<sup>67</sup>Securities Exchange Act Release No. 13482 (April 28, 1977), 12 SEC Docket 239. Securities Exchange Act Release No. 13901 (August 29, 1977), 12 SEC Docket 1630.

<sup>68</sup>Securities Exchange Act Release No. 15384 (December 6, 1978), 16 SEC Docket 348.

<sup>69</sup>Securities Exchange Act Release No. 16104 (August 13, 1979), 18 SEC Docket 91.

<sup>70</sup>Securities Exchange Act Release No. 16356 (November 21, 1979) 18 SEC Docket 997.

<sup>71</sup>Securities Act Release No. 6003 (December 4, 1978), 16 SEC Docket 320.

<sup>72</sup>Securities Act Release No. 6027 (February 2, 1979), 16 SEC Docket 1138.

<sup>73</sup>Securities Act Release No. 6085 (June 25, 1979), 17 SEC Docket 1057.

<sup>74</sup>Securities Act Release No. 6115 (August 30, 1979), 18 SEC Docket 220.

<sup>75</sup>Securities Exchange Act Release No. 16163 (September 6, 1979), 18 SEC Docket 248.

<sup>76</sup>Securities Act Release No. 6130 (September 27, 1979), 18 SEC Docket 453.

<sup>77</sup>In the Matter of United States Steel Corporation, Securities Exchange Act Release No. 16223 (September 27, 1979), 18 SEC Docket 497.

<sup>78</sup>Securities Act Release No. 6032 (March 5, 1979), 16 SEC Docket 1261.

<sup>79</sup>Securities Act Release No. 6075 (June 1, 1979), 17 SEC Docket 798.

<sup>80</sup>Securities Act Release No. 6049 (April 3, 1979), 17 SEC Docket 153.

<sup>81</sup>*Id.*

<sup>82</sup>Securities Act Release No. 6121 (September 11, 1979), 18 SEC Docket 287.

<sup>83</sup>Securities Act Release No. 6136 (October 16, 1979), 18 SEC Docket 662.

<sup>84</sup>Securities Act Release No. 6022 (February 15, 1979), 16 SEC Docket 973.

<sup>85</sup>Securities Act Release No. 6158 (November 29, 1979), 18 SEC Docket 1053; Securities Act Release No. 6159 (November 29, 1979), 18 SEC Docket 1092; and Securities Act Release No. 6160 (November 29, 1979), 18 SEC Docket 1111.

<sup>86</sup>Securities Act Release No. 6100 (August 2, 1979), 17 SEC Docket 1449.

<sup>87</sup>Securities Exchange Act Release No. 15572 (February 15, 1979), 16 SEC Docket 1155.

<sup>88</sup>44th Annual Report at 21.

<sup>89</sup>Securities Exchange Act Release No. 15920 (June 14, 1979), 17 SEC Docket 877.

<sup>90</sup>Securities Act Release No. 6006 (December 19, 1978), 16 SEC Docket 477; Securities Act Release No. 6007 (December 19, 1978), 16 SEC Docket 492; Securities Act Release No. 6008 (December 19, 1978), 16 SEC Docket 498.

<sup>91</sup>Securities Act Release No. 6127 (September 20, 1979), 18 SEC Docket 384.

<sup>92</sup>Accounting Series Release No. 177 (September 10, 1975).

<sup>93</sup>Investment Company Act Release No. 10891 (October 4, 1979), 18 SEC Docket 637.

<sup>94</sup>Investment Company Act Release No. 10890 (October 4, 1979), 18 SEC Docket 635.

<sup>95</sup>Investment Company Act Release No. 10736 (June 14, 1979), 17 SEC Docket 937.

<sup>96</sup>Investment Company Act Release No. 10828 (August 13, 1979), 18 SEC Docket 122.

<sup>97</sup>Investment Company Act Release No. 10740 (June 20, 1979), 17 SEC Docket 1021.

<sup>98</sup>Investment Company Act Release No. 10690 (May 15, 1979), 17 SEC Docket 611.

<sup>99</sup>Investment Company Act Release No. 10827 (August 13, 1979), 18 SEC Docket 120.

<sup>100</sup>Investment Company Act Release No. 10809 (August 6, 1979), 18 SEC Docket 25.

<sup>101</sup>Investment Company Act Release No. 10862 (September 7, 1979), 18 SEC Docket 271.

<sup>102</sup>Securities Act Release No. 6034 (March 8, 1979), 16 SEC Docket 1267.

<sup>103</sup>*Id.*

<sup>104</sup>Securities Act Release No. 6140 (October 26, 1979), 18 SEC Docket 801.

<sup>105</sup>Securities Act Release No. 6116 (August 31, 1979), 18 SEC Docket 222.

<sup>106</sup>Investment Advisers Act Release No. 664 (January 30, 1979), 16 SEC Docket 901.

<sup>107</sup>Securities Act Release No. 6019 (January 30, 1979), 16 SEC Docket 837.

<sup>108</sup>Investment Advisers Act Release No. 680 (June 19, 1979), 17 SEC Docket 1029.

<sup>109</sup>Investment Advisers Act Release No. 688 (July 12, 1979), 17 SEC Docket 1293.

<sup>110</sup>*SEC v. Lummis*, Civ. Act. No. 75-1089AJ2 (N.D. Cal.), Litigation Release No. 8650 (January 19, 1979), 16 SEC Docket 833.

<sup>111</sup>E.g., *SEC v. International Telephone & Telegraph Corporation*, Civ. Act. No. 78-0807 (D.D.C.), Litigation Release No. 8834 (August 8, 1979), 18 SEC Docket 145.

<sup>112</sup>E.g., *SEC v. Rapid-American Corporation*, Civ. Act. No. 79-2128, (D.D.C., filed August 16, 1979), Litigation Release No. 8841 (August 16, 1979), 18 SEC Docket 149.

<sup>113</sup>E.g., *SEC v. The Starr Broadcasting*

Group, Inc., Civ. Act. No. 79-0357 (D.D.C., filed February 7, 1979), Litigation Release Nos. 8667 (February 7, 1979), 16 SEC Docket 1084, 8702 (March 26, 1979), 17 SEC Docket 147, 8713 (April 9, 1979), 11 SEC Docket 286, and 8792 (June 22, 1979), 17 SEC Docket 1137.

<sup>114</sup>E.g., *SEC v. American Financial Corporation*, Civ. Act. No. 79-1701 (D.D.C., filed July 2, 1979), Litigation Release No. 8806 (July 2, 1979), 17 SEC Docket 1219.

<sup>115</sup>*SEC v. Marlene Industries Corp.*, Civ. Act. No. 79-1959 (S.D.N.Y., filed April 26, 1979), Litigation Release No. 8733 (April 26, 1979), 17 SEC Docket 406.

<sup>116</sup>*SEC v. The Fundpack, Inc.*, Civ. Act. No. 79-0859 (D.D.C., filed March 21, 1979), Litigation Release No. 8698 (March 22, 1979), 17 SEC Docket 72.

<sup>117</sup>*SEC v. Production Oil Corporation*, Civ. Act. No. 135R (D. Miss.), Litigation Release No. 8765 (May 24, 1979), 17 SEC Docket 792.

<sup>118</sup>*SEC v. Advanced Fuel Systems, Inc.*, Civ. Act. No. 78-759M (W.D. Wash., filed December 6, 1978), Litigation Release No. 8621 (December 21, 1978), 11 SEC Docket 581; *In the Matter of Asset Securities, Inc.*, Securities Exchange Act Release No. 16189 (September 12, 1979), 18 SEC Docket 317.

<sup>119</sup>*SEC v. Atlas Oil Exploration, Inc.*, Civ. Act. No. S-79-0259(r) (S.D. Miss., filed July 13, 1979), Litigation Release No. 8835 (August 13, 1979), 18 SEC Docket 146; *SEC v. High Valley Investments, Inc.*, Civ. Act. No. 76-39-M (D. Mont.), Litigation Release No. 8846 (August 21, 1979), 18 SEC Docket 179; *U.S. v. Carter*, Crim. No. SA-78-CR-015 (W.D. Tex.), Litigation Release No. 8641 (January 11, 1979), 16 SEC Docket 801; *SEC v. Martin*, Civ. Action No. 78-918 PHX CAM (D. Ariz., filed December 1, 1978), 16 SEC Docket 582.

<sup>120</sup>*SEC v. Atlas Oil Exploration, Inc.*, *supra* note 10; *U.S. v. Jones*, Crim. Act. No. 78-30019 (W.D. La., indictment filed September 30, 1978), Litigation Release No. 8566 (October 19, 1978) 15 SEC Docket 1349.

<sup>121</sup>*SEC v. Atlas Oil Exploration, Inc.*, *supra* note 10.

<sup>122</sup>*SEC v. Advanced Fuel Systems, Inc.*, *supra* note 9; *U.S. v. Trahan*, Crim. Act. No. 79-50008-01 (W.D. La., filed April 13, 1979), Litigation Release No. 8760 (May 17, 1979), 17 SEC Docket 652.

<sup>123</sup>*SEC v. Atlas Exploration, Inc.*, *supra* note 10.

<sup>124</sup>*SEC v. Advanced Fuel Systems, Inc.*, *supra* note 9.

<sup>125</sup>*SEC v. Hospital Corporation of America*, Civ. Act. No. 78-2027 (D.D.C., filed October 27, 1978), Litigation Release No., 8586 (October 27, 1978), 16 SEC Docket 72.

<sup>126</sup>*SEC v. Schenley Industries, Inc.*, Civ. Act. No. 79-0855 (S.D.N.Y., filed February 26, 1979), Litigation Release No. 8679 (February 26, 1979), 16 SEC Docket 1256.

<sup>127</sup>*SEC v. International Systems & Controls Corporation*, Civ. Act. No. 79-1760 (D.D.C., filed July 9, 1979), Litigation Release No. 8815 (July 9, 1979), 17 SEC Docket 1302.

<sup>128</sup>*SEC Annual Report 1978*, at 34.

<sup>129</sup>Securities Act Release No. 6021 (February 5, 1979), 16 SEC Docket 951.

<sup>130</sup>*Securities and Exchange Commission Staff Report on Transactions in Securities of the City of New York*, October 1977.

<sup>131</sup>*Ibid.*

<sup>132</sup>Securities Act Release No. 6021 (February 5, 1979), 16 SEC Docket 951, 959.

<sup>133</sup>*SEC v. Harwell*, Civ. Act. No. H-78-1916 (S.D. Tex., filed October 5, 1978), Litigation Release No. 8559 (October 5, 1978), 15 SEC Docket 1242; see also Litigation Release Nos. 8417 (May 24, 1978), 14 SEC Docket 1216, 8541 (September 20, 1978), 15 SEC Docket 1150, 8600 (November 21, 1978), 16 SEC Docket 261 and 8690 (March 13, 1979), 16 SEC Docket 1355.

<sup>134</sup>*United States v. Harwell*, Crim. Act. No. 787-H-78-87 (S.D. Tex.), Litigation Release No. 8600 (November 21, 1978), 16 SEC Docket 261.

<sup>135</sup>Securities Exchange Act Release No. 15719 (April 11, 1979), 17 SEC Docket 257.

<sup>136</sup>*Ibid.* at 259.

<sup>137</sup>*U.S. v. Speer*, Crim. Act. Nos. 77-10034-01 and 10062-01 (D. Kan., filed March 15, 1977), Litigation Release Nos. 8758 (May 17, 1979), 17 SEC Docket 651 and 8800 (June 27, 1979), 17 SEC Docket 1142.

<sup>138</sup>*SEC v. Roberts*, Civ. Act. No. 78-809 (W.D. Mo., filed October 16, 1978), Litigation Release Nos. 8564 (October 17, 1978), 15 SEC Docket 1347, and 8595 (November 6, 1978), 16 SEC Docket 139.

<sup>139</sup>*Ibid.*

<sup>140</sup>*Ibid.*

<sup>141</sup>SEC Annual Report 1978, at 31.

<sup>142</sup>In the Matter of E.F. Hutton & Company, Inc., Securities Exchange Act Release No. 15537 (January 30, 1979), 16 SEC Docket 871; SEC v. Fred Blumenstein, 78 Civ. Act. No. 4805 (S.D.N.Y., filed October 13, 1978), Litigation Release No. 8569 (October 19, 1978), 15 SEC Docket 1350; In the Matter of Robert T. O'Donnell, Securities Exchange Act Release No. 15868 (May 24, 1979), 17 SEC Docket 743.

<sup>143</sup>In the Matter of E.F. Hutton & Company, Inc., *supra* note 34; SEC v. Blumenstein, *supra* note 34; In the Matter of Robert T. O'Donnell, *supra* note 34.

<sup>144</sup>In the Matter of E.F. Hutton & Company, Inc., *supra* note 34; In the Matter of Robert T. O'Donnell, *supra* note 34.

<sup>145</sup>Securities Exchange Act Release Nos. 16023 and 16025 (July 16, 1979), 17 SEC Docket 1313-15.

<sup>146</sup>SEC v. Santangelo & Co., Civ. Act. No. 79-2097 (S.D.N.Y., filed April 23, 1979), Litigation Release No. 8729 (April 23, 1979), 17 SEC Docket 404.

<sup>147</sup>SEC v. Telco Marketing Services, Inc., (D.D.C., filed July 13, 1979), Litigation Release No. 8821 (July 13, 1979), 17 SEC Docket 1362.

<sup>148</sup>SEC v. Fuqua Industries, Inc., Civ. Act. No. 79-2204 (D.D.C., filed August 21, 1979), Litigation Release No. 8847 (August

21, 1979), 18 SEC Docket 180; SEC v. BOC International Limited, Civ. Act. No. 79-0888 (S.D.N.Y., filed February 24, 1979), Litigation Release No. 8673 (February 21, 1979), 16 SEC Docket 1193.

<sup>149</sup>SEC v. Telco Marketing Services, Inc., *supra* note 39; SEC v. United Technologies Corporation, Civ. Act. No. 79-1648 (D.D.C., filed June 25, 1979), Litigation Release No. 8793 (June 25, 1979), 17 SEC Docket 1137.

<sup>150</sup>*Supra* note 40.

<sup>151</sup>SEC Annual Report 1978, at 32.

<sup>152</sup>Litigation Release No. 8816 (July 10, 1979), 17 SEC Docket 1303.

<sup>153</sup>Securities Exchange Act Release No. 15994 (July 5, 1979), 16 SEC Docket 1172.

<sup>154</sup>Securities Exchange Act Release No. 16223 (September 27, 1979), 18 SEC Docket 497.

<sup>155</sup>Securities Act Release No. 5170 (July 19, 1971).

<sup>156</sup>Securities Act Release No. 5386 (April 20, 1973), 1 SEC Docket No. 12, p. 1.

<sup>157</sup>Securities Act Release No. 5704 (May 6, 1976), 9 SEC Docket 540.

<sup>158</sup>SEC v. Rapid-American Corporation, *supra* note 3.

<sup>159</sup>SEC v. The Fundpack, Inc., *supra* note 7.

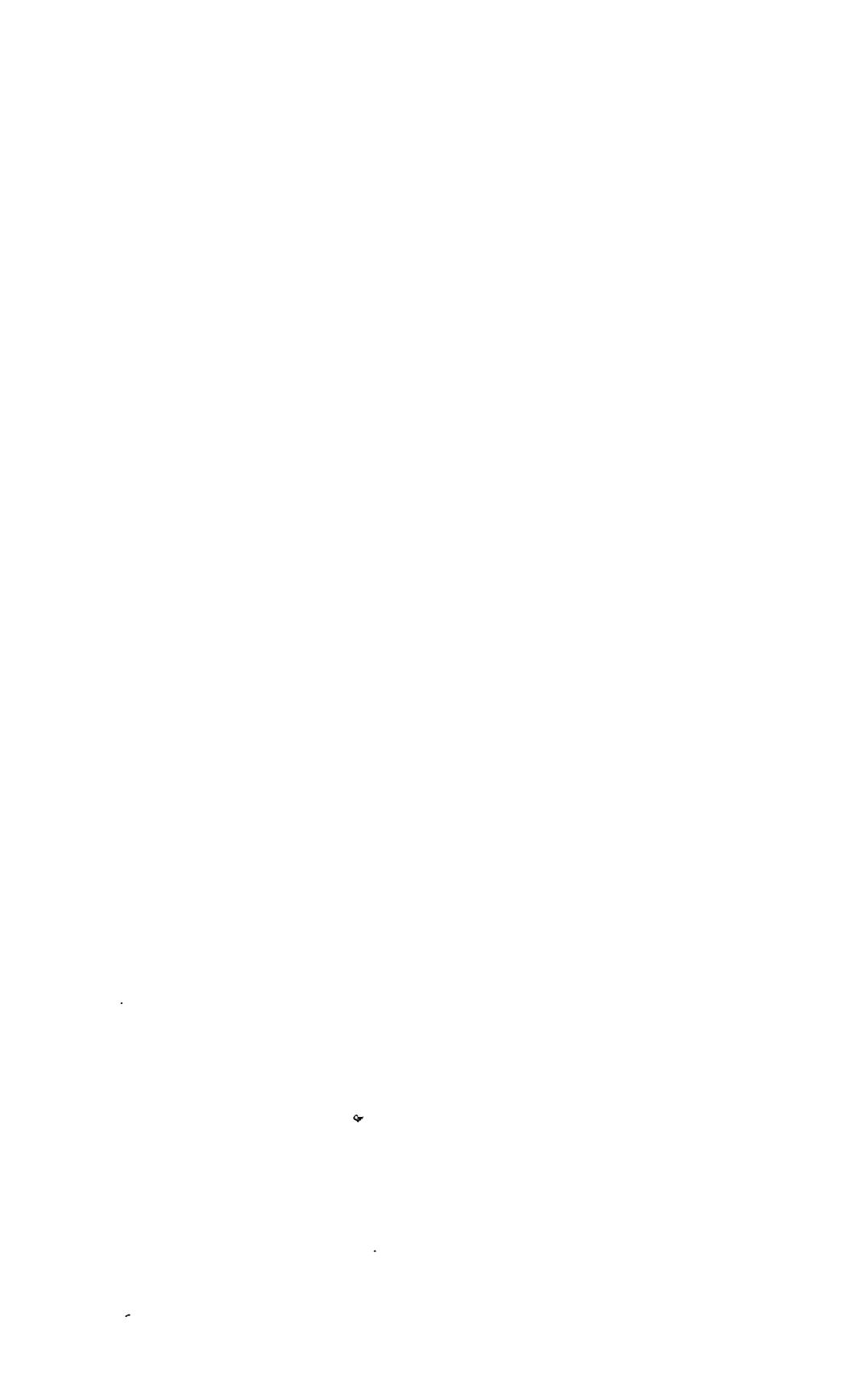
<sup>160</sup>SEC v. The Starr Broadcasting Group, Inc., *supra* note 4.

<sup>161</sup>SEC v. American Financial Corporation, *supra* note 5.



# Appendix





## **THE SECURITIES INDUSTRY**

### **Income, Expenses and Selected Balance Sheet Items**

Registered broker-dealers recorded total revenue of \$11.2 billion in 1978, 25 percent above the level of 1977. Securities commissions increased 34 percent in 1978, inflecting the surge in trading volume, and represented 40 percent of total revenue. Trading profits were 18 percent higher in 1978 and

also represented 18 percent of revenue. Underwriting revenue declined \$42 million in 1978, after a similar \$44 million decline in 1977 and represents 8 percent of total revenue.

Pre-tax income increased \$46 million, or 8 percent, in 1978 because increased expenses nearly matched the growth in revenues. Ownership equity at the end of 1977 was \$4,659 billion, reflecting an increase of \$544 million or 13 percent during the year.

**Table 1**  
**FINANCIAL INFORMATION FOR BROKER-DEALERS**  
**1975-1978**

(Millions of Dollars)

	1975	1976	1977 <sup>R</sup>	1978 <sup>P</sup>
<b>A. Revenue</b>				
1 Securities Commissions	\$ 3,378	\$ 3,657	\$ 3,334	\$ 4,480
2 Gain (Loss) in Trading	1,202	1,828	1,691	1,993
3 Gain (Loss) in Investments	132	269	353	391
4 Profit (Loss) From Underwriting and Selling Groups	930	1,035	991	949
5 Revenue from Sale of Investment Company Securities	140	165	161	162
6 Margin Interest Income	476	557	782	1,223
7 Other Revenue Related to Securities Business	897	1,168	1,055	1,696
8 Revenue from All Other Sources	218	236	564	303
9 Total Revenue	\$ 7,373	\$ 8,915	\$ 8,931	\$11,197
<b>B. Expenses</b>				
10. Registered Representatives' Compensation	\$ 1,284	\$ 1,575	\$ 1,541	\$ 1,945
11 Employee Compensation and Benefits	1,413	1,664	1,769	2,143
12 Commissions and Clearance Paid to Other Brokers	524	535	585	793
13 Interest Expense	668	900	1,246	1,964
14 Communications and Data Processing	488	590	708	780
15 Occupancy and Equipment	472	485	411	439
16 Promotion	159	203	203	218
17 Regulatory Fees and Expenses	76	81	69	72
18 Compensation to Partners and Voting Stockholder Officers	488	572	553	608
19 All Other Operating Expenses	681	805	1,255	1,598
20 Total Expenses	\$ 6,253	\$ 7,410	\$ 8,340	\$10,560
21 Pre-tax Income	\$ 1,120	\$ 1,505	\$ 591	\$ 637
<b>C. Assets, Liabilities and Capital</b>				
22 Total Assets	\$31,851	\$48,983	\$54,670	\$66,470
23 Liabilities				
a Total liabilities (excluding subordinated debt)	26,352	42,842	48,794	59,500
b Subordinated debt	836	858	948	1,181
c Total liabilities (23a + 23b)	\$27,188	\$43,700	\$49,743	\$60,681
24 Ownership Equity	\$ 4,663	\$ 5,283	\$ 4,927	\$ 5,789
25 Total Liabilities and Ownership Equity	\$31,851	\$48,983	\$54,670	\$66,470
Number of Firms	4,079	4,315	4,484	4,998

R = Revised

P = Preliminary

Sources Form X-17A-10 and FOCUS Reports

Office of Securities Industry and Self-Regulatory Economics

Directorate of Economic and Policy Research

## Historical Financial Information of Broker-Dealers with Securities Related Revenue of \$500,000 or More

Brokerage firm revenue increased 23 percent in 1978 on share volume which increased 37 percent over 1977. Commission revenue and trading profits each increased, while underwriting revenue declined somewhat from 1977 levels. Investment profits, interest income, commodity and other revenue

related to the securities business each rose from the previous year. Pre-tax income increased 38 percent with this 23 percent rise in revenue.

Firms that reported securities-related revenue of \$500,000 or more held approximately 89 percent of the industry's assets and reported 90 percent of all revenue in 1978. Balance sheet data for the most recent two years are not comparable with earlier years because of changes made in the brokerage firm 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 <sup>R</sup>	1978 <sup>P</sup>
<b>A. Revenue</b>									
1 Securities Commissions	\$2,267	\$3,287	\$3,404	\$2,816	\$2,438	\$3,220	\$3,516	\$2,984	\$3,964
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
b Gain (loss) in investments	75	243	209	-3	55	131	253	326	356
c Total gain (loss)	898	1,299	1,203	587	777	1,274	2,010	1,838	2,129
3 Profit (Loss) from Underwriting and Selling Groups	601	957	914	494	496	914	1,021	929	838
4 Revenue from Sale of Investment Company Securities	184	196	151	149	79	120	146	138	138
5 Margin Interest Income	379	364	527	621	622	466	550	734	1,107
6 Fees for Account Supervision, Investment Advisory, and Administrative Services	64	82	99	83	85	156	207	176	232
7 Commodity Revenue	88	98	125	178	168	187	236	266	350
8 Other Revenue Related to Securities Business	N/A	N/A	N/A	N/A	N/A	509	691	689	960
9 Revenue from All Other Sources	266	300	306	323	400	167	201	478	410
10 Total Revenue	<b>\$4,747</b>	<b>\$6,583</b>	<b>\$6,729</b>	<b>\$5,250</b>	<b>\$5,065</b>	<b>\$7,013</b>	<b>\$8,577</b>	<b>\$8,232</b>	<b>\$10,128</b>
<b>B. Expenses</b>									
11 Registered Representatives' Compensation	\$ 778	\$1,139	\$1,198	\$ 937	\$ 949	\$1,278	\$1,576	\$1,428	\$ 1,714
12 Employee Compensation and Benefits	1,086	1,300	1,392	1,184	1,097	1,376	1,668	1,593	1,925
13 Commissions Paid to Other Brokers <sup>1</sup>	128	182	186	188	151	209	168	530	707
14 Interest Expense	540	520	634	796	750	582	839	1,149	1,787
15 Communications and Data Processing	370	434	488	461	463	482	590	649	694
16 Occupancy and Equipment	349	413	460	433	440	464	486	372	388
17 Promotion	157	188	214	186	172	157	202	186	190
18 All Other Operating Expenses	606	787	794	686	634	1,416	1,633	1,639	1,776
19 Total Expenses	<b>\$4,013</b>	<b>\$4,962</b>	<b>\$5,365</b>	<b>\$4,871</b>	<b>\$4,655</b>	<b>\$5,963</b>	<b>\$7,162</b>	<b>\$7,546</b>	<b>\$ 9,181</b>
<b>C. Pre-Tax Income</b>									
20 Pre-Tax Income	\$ 734	\$1,621	\$1,365	\$ 378	\$ 410	\$1,050	\$1,415	\$ 686	\$ 947
Number of Firms	655	788	817	652	609	764	930	857	961

<sup>1</sup>Includes clearance paid to others beginning in 1977

R = Revised

P = Preliminary

Sources Form X-17A-10 and FOCUS Reports  
Office of Securities Industry and Self-Regulatory Economics  
Directorate of Economic and Policy Research

**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 <sup>1</sup>	1978
<b>A. Assets</b>									
1 Cash, clearing funds and other deposits	\$ 1,162	\$ 1,221	\$ 1,281	\$ 1,139	\$ 940	\$ 925	\$ 1,135	\$ 979	\$ 1,108
2 Receivables from other broker-dealers									
a Securities failed to deliver	2,319	2,230	2,568	1,844	1,220	1,446	2,215	2,375	2,413
b Securities borrowed	865	1,022	1,364	1,096	889	1,366	2,091	2,307	2,819
c Other receivables	198	295	382	330	905	1,071	1,093	682	899
3 Receivables from customers	7,077	9,644	13,373	9,056	7,450	8,464	12,804	13,728	15,431
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	33,061
5 Exchange memberships at market value	210	200	208	123	101	118	142	117	277
6 Other assets	1,392	1,646	1,704	1,879	1,493	4,535	7,203	3,038	3,211
7 Total assets	<u>\$23,484</u>	<u>\$27,925</u>	<u>\$32,750</u>	<u>\$25,189</u>	<u>\$23,787</u>	<u>\$30,826</u>	<u>\$48,075</u>	<u>\$51,747</u>	<u>\$59,219</u>
<b>B. Liabilities</b>									
8 Money borrowed	\$ 8,994	\$11,286	\$14,398	\$ 9,878	\$10,421	\$ 9,488	\$11,802	\$26,503	\$27,565
9 Payables to other broker-dealers									
a Securities failed to receive	2,706	2,420	2,732	1,724	1,281	1,416	2,152	2,598	2,450
b Securities borrowed	836	984	1,284	847	579	1,064	1,614	1,770	2,143
c Other payables	198	345	354	365	1,059	1,088	1,019	1,092	888
10 Payables to customers	4,242	4,736	5,228	4,978	3,986	4,696	6,174	5,158	7,691
11 Short positions in securities and commodities	707	907	1,525	1,158	1,038	1,165	2,555	4,834	7,097
12 Subordinated borrowings	641	728	774	642	594	767	799	840	973
13 Other liabilities	2,343	2,859	2,505	2,550	2,099	7,203	17,178	4,837	5,753
14 Total liabilities	<u>20,667</u>	<u>24,264</u>	<u>28,802</u>	<u>22,142</u>	<u>21,056</u>	<u>26,887</u>	<u>43,293</u>	<u>47,632</u>	<u>54,560</u>
<b>C. Ownership Equity</b>									
15 Ownership equity	2,818	3,661	3,948	3,047	2,731	3,939	4,782	4,115	4,659
16 Total liabilities and capital	<u>\$23,484</u>	<u>\$27,925</u>	<u>\$32,750</u>	<u>\$25,189</u>	<u>\$23,787</u>	<u>\$30,826</u>	<u>\$48,075</u>	<u>\$51,747</u>	<u>\$59,219</u>
Number of Firms	655	788	817	652	609	770	932	857	961

<sup>1</sup>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  
Office of Securities Industry and Self-Regulatory Economics  
Directorate of Economic and Policy Research

## Securities Industry Dollar: 1978

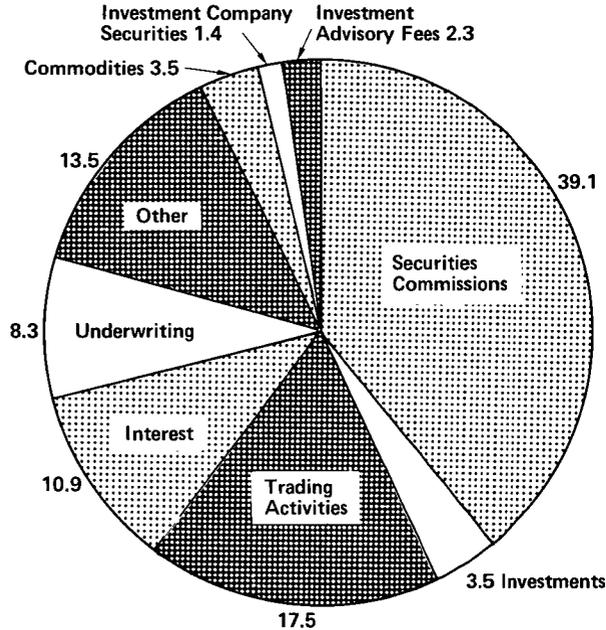
Securities commissions represented 39.1 cents of each dollar of securities industry revenue. Another 17.5 cents of each dollar came from trading activities and underwriting revenue contributed 8.3 cents. Together, these three activities accounted for 64.9 cents of each revenue dollar.

The largest portion of this revenue

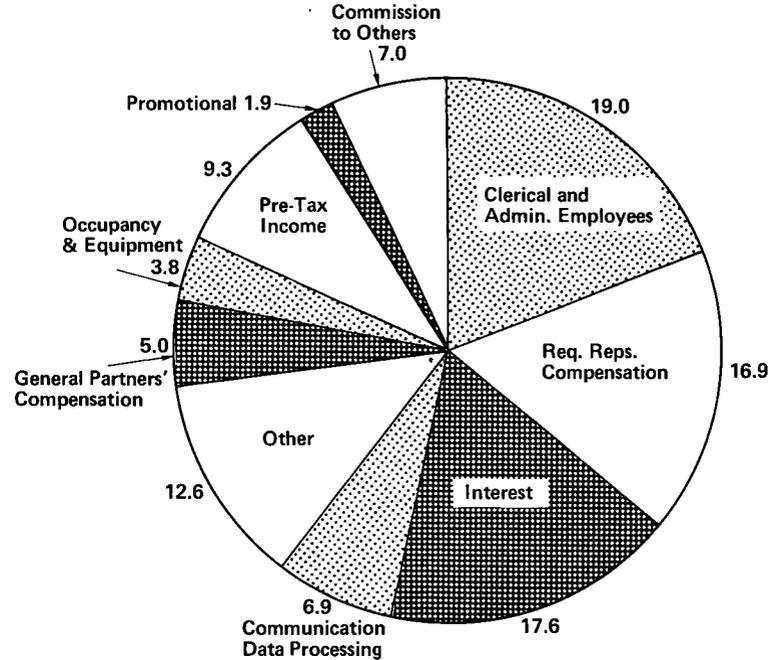
dollar—35.9 cents—went to pay registered representatives and support personnel (clerical and administrative employees). Another 10.7 cents was spent on communications, occupancy and equipment. General partners and voting stockholder officers' compensation amounted to 5.0 cents of each dollar, with 9.3 cents remaining for pre-tax income. This margin was 11 percent above the 1977 figure.

# Securities Industry Dollar: 1978

SOURCES OF REVENUE



EXPENSES AND PRE TAX INCOME



*NOTE: Includes information for firms with securities related revenues of \$500,000 or more in 1978.*

SOURCE: X-17A-5 FOCUS REPORTS

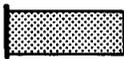
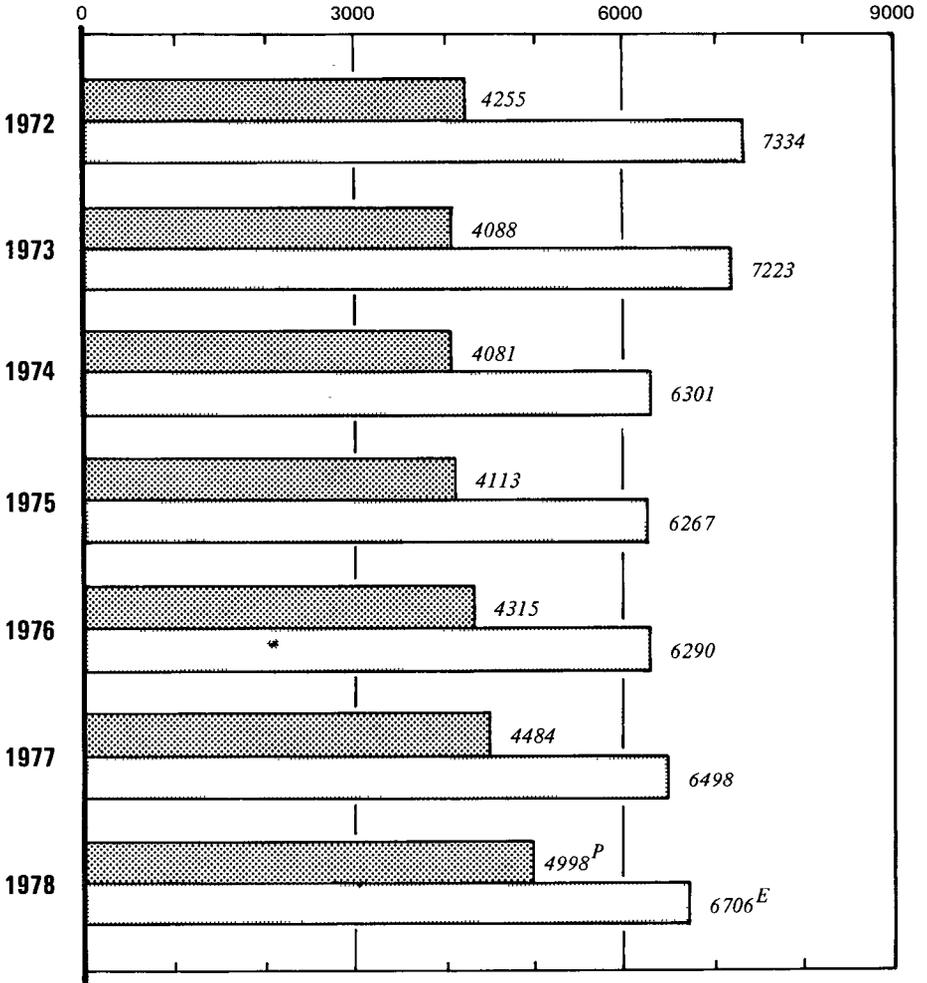
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## **Broker-Dealers, Branch Offices, Employees**

The number of broker-dealers increased from 4,484 in 1977 to 4,998 in 1978. Following the upward trend of broker-dealers, the number of branch offices increased to 6,706.

There were approximately 36,500 full-time registered representatives associated with members of the New York Stock Exchange at the end of 1977.

# Broker-Dealers and Branch Offices



Broker-Dealers



Branch Offices

*P*=Preliminary

*R*=Revised

*E*=Estimate

SOURCE X-17A-10 AND FOCUS REPORTS

Table 4

**BROKERS AND DEALERS REGISTERED UNDER THE SECURITIES ACT OF 1934—EFFECTIVE REGISTRATIONS AS OF SEPTEMBER 30, 1979 CLASSIFIED BY TYPE OF ORGANIZATION AND BY LOCATION OF PRINCIPAL OFFICE**

Location of Principal Offices	Number of Registrants				Number of Proprietors, Partners, Officers, etc			
	Total	Sole Proprietorships	Partnerships	Corporations	Total	Sole Proprietorships	Partnerships	Corporations
Alabama	28	2	1	25	142	2	3	137
Alaska	0	0	0	0	0	0	0	0
Arizona	22	3	1	18	80	3	5	72
Arkansas	18	2	0	16	79	2	0	77
California	533	166	60	307	2,489	166	279	2,044
Colorado	66	2	5	59	365	2	62	301
Connecticut	66	9	8	49	360	9	41	310
Delaware	11	3	0	8	36	3	0	33
District of Columbia	33	2	5	26	270	2	25	243
Florida	161	15	6	140	533	15	12	506
Georgia	44	1	2	41	288	1	4	283
Hawaii	14	0	1	13	75	0	2	73
Idaho	8	2	0	6	24	2	0	22
Illinois	1,854	1,358	145	351	3,438	1,358	694	1,386
Indiana	44	5	1	38	245	5	2	238
Iowa	29	2	0	27	134	2	0	132
Kansas	28	2	2	24	143	2	9	132
Kentucky	10	1	0	9	68	1	0	67
Louisiana	24	5	4	15	188	5	16	167
Maine	8	0	3	5	41	0	19	22
Maryland	46	5	4	37	312	5	122	185
Massachusetts	151	24	14	113	879	24	85	770
Michigan	57	5	4	48	369	5	105	259
Minnesota	76	1	0	75	612	1	0	611
Mississippi	19	0	3	16	80	0	7	73
Missouri	63	2	4	57	683	2	107	574
Montana	4	1	0	3	23	1	0	22
Nebraska	13	0	0	13	92	0	0	92
Nevada	2	1	0	1	4	1	0	3
New Hampshire	5	1	1	3	17	1	3	13
New Jersey	194	37	25	132	685	37	68	580
New Mexico	8	1	0	7	37	1	0	36
New York (excluding NY City)	279	87	24	168	1,092	87	202	803
North Carolina	29	4	0	25	143	4	0	141
North Dakota	4	0	0	4	16	0	0	16
Ohio	86	4	13	69	570	4	193	373
Oklahoma	25	4	0	21	123	4	0	119
Oregon	29	1	1	27	118	1	4	113
Pennsylvania	218	29	48	141	1,092	29	186	877
Rhode Island	18	5	2	11	46	5	8	33
South Carolina	9	1	1	7	34	1	2	31
South Dakota	1	0	0	1	11	0	0	11
Tennessee	45	2	2	41	312	2	29	281
Texas	156	15	7	134	1,063	15	31	1,017
Utah	30	2	2	26	135	2	7	126
Vermont	4	1	1	2	21	1	2	18
Virginia	29	4	4	21	284	4	15	265
Washington	60	5	0	55	315	5	0	310
West Virginia	6	1	0	5	20	1	0	19
Wisconsin	41	8	0	33	378	8	0	370
Wyoming	6	1	0	5	22	1	0	21
Total (excluding NY City)	4,714	1,832	404	2,478	18,588	1,832	2,349	14,407
New York City	1,512	593	269	650	9,045	593	2,119	6,333
Subtotal	6,226	2,425	673	3,128	27,633	2,425	4,468	20,740
Foreign	20	0	2	18	138	0	9	129
Grand Total	6,246	2,425	675	3,146	27,771	2,425	4,477	20,869

<sup>1</sup>Registrants whose principal offices are located in foreign countries or other jurisdictions not listed

<sup>2</sup>Includes directors, officers, trustees and all other persons occupying similar status performing similar functions

<sup>3</sup>Allocations made on the basis of location of principal offices of registrants, not actual locations of persons

<sup>4</sup>Includes all forms of organizations other than sole proprietorships and partnerships

**Table 5**  
**PRINCIPAL BUSINESS OF SECO BROKER-DEALERS**

	Fiscal year-end		
	1977	1978	1979
Exchange member primarily engaged in exchange commission business	28	25	6
Exchange member primarily engaged in floor activities	11	18	8
Broker or dealer in general securities business	61	65	33
Mutual fund underwriter*	9	11	7
Mutual fund distributor*	5	4	2
Broker or dealer selling variable annuity contracts	10	12	8
Solicitor of savings and loan accounts	5	6	5
Real estate syndicator and mortgage broker and banker	33	35	32
Real estate condominium interests*	3	5	1
Limited partnership interests*	23	25	71
Broker or dealer selling oil and gas interests	12	20	19
Put and call broker or dealer or option writer (non-exchange options)	3	5	4
Broker or dealer selling securities of only one issuer or associated issuers (other than mutual funds)	21	23	33
Broker or dealer selling church securities	10	11	9
Government bond dealer (other than municipal)	2	3	0
Broker or dealer in municipal bonds*	5	5	4
Broker or dealer in other securities business	46	28	38
No securities business	22	25	25
Totals	309	326**	305***

\*Not tabulated in prior years, new category on the Form SECO-4-76

\*\*Based on data provided by 326 of the 346 broker-dealers

\*\*\*Based on data provided by 305 of the 387 broker-dealers

**Table 6**  
**APPLICATIONS AND REGISTRATIONS OF BROKERS AND DEALERS**

Fiscal Year 1979

<b>BROKER-DEALER APPLICATIONS</b>	
Applications pending at close of preceding year	865
Applications received during fiscal 1979	1,379
<b>Total applications for disposition</b>	<b>2,244</b>
Disposition of Applications	
Accepted for filing	1,025
Returned	328
Withdrawn	0
Denied	0
<b>Total applications disposed of</b>	<b>1,353</b>
Applications pending as of September 30, 1979	891
<b>BROKER-DEALER REGISTRATIONS</b>	
Effective registrations at close of preceding year	6,007
Registrations effective during fiscal 1979	1,025
<b>Total registrations</b>	<b>7,032</b>
Registrations terminated during fiscal 1979	
Withdrawn	784
Revoked	0
Cancelled	2
<b>Total registrations terminated</b>	<b>786</b>
<b>Total registrations at end of fiscal 1979</b>	<b>6,246</b>
<b>INVESTMENT ADVISER APPLICATIONS</b>	
Applications pending at close of preceding year	926
Applications received during fiscal 1979	1,291
<b>Total applications for disposition</b>	<b>2,217</b>
Disposition of applications	
Accepted for filing	688
Returned	480
Withdrawn	0
Denied	0
<b>Total applications disposed of</b>	<b>1,168</b>
Applications pending as of September 30, 1979	1,049
<b>INVESTMENT ADVISER REGISTRATIONS</b>	
Effective registrations at close of preceding year	5,205
Registrations effective during fiscal 1979	688
<b>Total registrations</b>	<b>5,893</b>
Registrations terminated during fiscal 1979	
Withdrawn	229
Revoked	0
Cancelled	0
<b>Total registrations terminated</b>	<b>229</b>
<b>Total registrations at end of fiscal 1979</b>	<b>5,664</b>

**Table 7**  
**APPLICATIONS AND REGISTRATIONS OF MUNICIPAL SECURITIES**  
**DEALERS AND TRANSFER AGENTS**

Fiscal Year 1979

<b>MUNICIPAL SECURITIES DEALERS APPLICATIONS</b>	
Applications pending at close of preceding year	21
Applications received during fiscal 1979	11
<b>Total applications for disposition</b>	<b>32</b>
Disposition of Applications	
Accepted for filing	10
Returned	1
Withdrawn	0
Denied	0
<b>Total applications disposed of</b>	<b>11</b>
Applications pending as of September 30, 1979	21
<b>MUNICIPAL SECURITIES DEALERS REGISTRATIONS</b>	
Effective registrations at close of preceding year	336
Registrations effective during fiscal 1979	10
<b>Total registrations</b>	<b>346</b>
Registrations terminated during fiscal 1979	
Withdrawn	0
Cancelled	0
Suspended	0
<b>Total registrations terminated</b>	<b>0</b>
<b>Total registrations at end of fiscal 1979</b>	<b>346</b>
<b>TRANSFER AGENTS APPLICATIONS</b>	
Applications pending at close of preceding year	19
Applications received during fiscal 1979	34
<b>Total applications for disposition</b>	<b>53</b>
Disposition of applications	
Accepted for filing	32
Returned	3
Withdrawn	0
Denied	0
<b>Total applications disposed of</b>	<b>35</b>
Applications pending as of September 30, 1979	18
<b>TRANSFER AGENTS REGISTRATIONS</b>	
Effective registrations at close of preceding year	861
Registrations effective during fiscal 1979	32
<b>Total registrations</b>	<b>893</b>
Registrations terminated during fiscal 1979	
Withdrawn	2
Cancelled	0
Suspended	0
<b>Total registrations terminated</b>	<b>2</b>
<b>Total registrations at end of fiscal 1979</b>	<b>891</b>

## Self-Regulatory Organization Revenue and Expenses

Self-regulatory organizations receive approximately 70 percent of their revenue from four sources: transaction charges, listing fees, communication fees and depository fees. The nature of these revenue sources makes the financial condition of self-regulatory organizations highly dependent on trading volume.

Total share volume of securities traded on all national securities exchanges and over-the-counter increased 37 percent between calendar year 1977 and 1978, bringing 1978 share volume to 12.6 billion. As a result of this increased trading activity, combined self-regulatory organization revenue increased to \$261 million, up \$24 million from the 1977 total.

Changes in major revenue components between 1977 and 1978 were as follows:

- Revenue from transaction fees increased to \$52 million, from \$37 million;
- Revenue from communication fees decreased \$1 million to \$41 million;
- Revenue from listing fees increased \$800,000 to \$43 million; and
- Revenue from depository fees increased \$8.7 million, to \$47 million.

The expenses of the self-regulatory organizations are concentrated in two areas, employee costs and communications and data processing costs. These costs accounted for 74 percent of the \$232 million in self-regulatory organization expenditures for 1978.

The individual organizations are quite different in their dependence on particular sources of revenue. Some sources of revenue, such as transaction, clearing and depository fees change directly with changes in share volume. Others are relatively fixed, such as listing fees and membership

dues. The substantial growth in trading volume during 1978 provides an opportunity to examine how changes in volume affect each organization's financial results. The revenue increase which accompanied the growth in share volume was not as dramatic—10 percent above 1977. Since operating costs are largely fixed, however, the growth in revenue yielded dramatically improved pre-tax income. In 1978 the net income of self-regulatory organizations was nearly \$30 million, more than the net income of the previous two years combined.

The New York Stock Exchange (NYSE) derived 44 percent of its revenue from its volume-related transaction and depository fees in 1978. Relatively fixed sources of revenue, such as listing fees paid by corporations and communications fees and memberships dues paid by brokers, generated another 42 percent of revenue, and miscellaneous sources accounted for the remaining 14 percent. Pre-tax income in 1978, at \$18.8 million, was 75 percent higher than in 1977.

The American Stock Exchange (AMEX) generated only 23 percent of its 1978 revenue from volume-related transaction fees. Its listing and communication fees and memberships dues, however, each generated revenue at a higher annual rate in 1978 than 1977. Pre-tax income for 1978 was more than twice the 1977 figure.

Over-the-counter trading of listed and unlisted issues in 1978 was 36 percent above the 1977 level. NASD revenue, however, is derived from sources which do not vary with trading volume. Registration, corporate finance and listing fees, together with membership dues, provided 87 percent of revenue. Revenue in 1978, consequently, was only three percent above 1977 annual revenue, and pre-tax income slipped 55 percent.

The Midwest Stock Exchange's 1978

revenue was substantially reduced as a result of the discontinuance of the exchange's broker service bureau. Nearly 72 percent of revenue, however, is still volume-related, and the combined effects of the discontinued losses and the growth in trading volume resulted in pre-tax income of \$720 thousand in 1978. Pre-tax losses were over \$1 million in 1977.

The Pacific, Philadelphia and Boston Exchanges also depend on volume-related fees for most of their revenue. Sixty-five percent of Pacific's, 81 percent of Philadelphia's and 80 percent of Boston's revenue comes from such sources. The record trading volume in 1978 raised Pacific's 1978 pre-tax income to a level nearly 12 times as high as the 1977 figure. Philadelphia experienced a seven-fold increase, and Boston's pre-tax income figure in 1978 was 10 times higher than in 1977.

The Chicago Board Options Exchange, which is also highly dependent on volume-related sources of revenue, had a pre-tax profit of nearly \$2.6 million in 1978, compared with a pre-tax loss of \$500 thousand in 1977. The Cincinnati Exchange, which began an electronic trading experiment in 1978, now receives less in floor usage revenue and more in communications fees. While its 1978 revenues were higher than the previous year, 1978 operating losses were \$7 thousand, versus \$20 thousand in pre-tax income in 1977.

The MSRB income of \$590,960 during fiscal year 1979 (See Table 12) was derived primarily from three fees established by rules adopted under 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 percent 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 of not less than two years from

the date of the securities, and (3) an annual fee of \$100 which, for this fiscal year, it continued to be possible to offset by underwriting fees paid within the calendar year. The underwriting assessment fee accounted for 70 percent of the MSRB income during the fiscal year 1979. The balance of MSRB income was from other fees and interest income.

During fiscal year 1979, the MSRB had total expenses of \$866,323. The major expense items were staff salaries and employee benefits, including MSRB contribution to an employee retirement plan established in 1978 (41 percent); meetings and travel (26.8 percent); and mailing list, rule manual, postage and other printing (14.9 percent). Expenses exceeded income by \$275,363, due, in part, to a significant reduction in assessment fees received. As of September 30, 1979, the MSRB has a surplus of \$632,823.

Aggregate clearing agency revenues increased approximately \$16 million in 1978 to approximately \$119 million. Aggregate clearing agency expenses increased approximately \$12 million in 1978 to approximately \$112 million.

The 1978 increases in aggregate clearing agency revenues and expenses of 16 percent and 12 percent respectively represent a significant net improvement over 1977 when the respective increases were 10 percent and 12 percent. The 37 percent increase in trading volume *supra* is the fundamental reason for clearing agency revenues increasing at a greater rate than expenses. The 1978 aggregate revenue increase of 16 percent is net of refunds, discounted fees or rebates (collectively, refunds) of unneeded revenue made by some clearing agencies to their participants. These refunds, which have the effect of reducing fees charged, totaled approximately \$12

million in 1978 as compared to approximately \$6 million in 1977.

The 1978 net excess of revenues over expenses provided some clearing agencies with an opportunity to replenish their retained earnings which had

declined during the previous several years when expenses increased at a greater rate than revenues. Expenses exceeded revenues for only one clearing agency in 1978 compared with five in 1977.

**Table 8**  
**REVENUES AND EXPENSES OF SELF-REGULATORY ORGANIZATIONS: 1973-1979**

(Thousands of Dollars)

	1973	1974	1975	1976	1977	1978	1st Qtr 1979	2nd Qtr 1979
<b>Revenues</b>								
Transaction Fees	\$ 26,409	\$ 24,126	\$ 32,844	\$ 38,602	\$ 37,230	\$ 52,085	\$11,388	\$13,108
Listing Fees	26,471	25,419	31,709	40,756	42,277	43,109	9,805	14,637
Communication Fees	21,376	20,822	25,947	33,335	42,293	41,248	7,594	7,928
Clearing Fees	32,602	30,070	35,451	41,185	8,886	10,331	2,623	2,996
Depository Fees	23,586	22,696	27,792	36,227	37,935	46,588	12,334	13,186
Tabulation Services	10,453	11,268	13,553	16,537	16,029	5,429	1,308	1,032
All Other Revenues	38,704	38,666	38,472	42,747	52,294	62,381	16,600	17,190
Membership Dues	11,054	11,111	11,267	13,053	14,437	15,554	3,968	3,936
Registration Fees	6,450	5,136	5,130	4,221	4,361	6,246	1,655	1,725
Floor Usage Revenue	4,764	4,851	6,966	9,022	10,653	11,074	2,776	2,716
Corporate Finance Fees	1,212	816	1,111	1,047	922	1,127	194	288
Other	15,223	16,752	13,999	15,403	21,922	28,380	8,006	8,525
<b>Total Revenues</b>	<b>\$179,601</b>	<b>\$173,068</b>	<b>\$205,770</b>	<b>\$249,388</b>	<b>\$236,944</b>	<b>\$261,172</b>	<b>\$61,651</b>	<b>\$70,077</b>
<b>Expenses</b>								
Employee Costs	\$ 77,667	\$ 79,984	\$ 84,275	\$ 99,340	\$102,013	\$108,934	\$30,474	\$31,139
Occupancy Costs	10,643	12,729	12,887	14,646	15,775	14,897	4,132	4,212
Equipment Costs	1,905	2,478	3,504	4,372	3,242	3,364	696	873
Professional and Legal Services	8,616	5,747	8,001	8,549	9,375	9,808	2,252	2,955
Depreciation and Amortization	3,359	4,091	4,823	5,703	5,875	7,136	1,909	1,796
Advertising, Printing and Postage	5,383	4,876	3,338	3,445	3,550	4,201	1,416	1,375
Communication, Data Processing and Collection	54,833	52,501	58,849	72,862	67,548	62,186	14,583	14,726
All Other Expenses	15,021	11,739	15,856	23,711	16,847	21,068	5,057	5,246
<b>Total Expenses</b>	<b>\$177,427</b>	<b>\$174,144</b>	<b>\$191,532</b>	<b>\$232,628</b>	<b>\$224,224</b>	<b>\$231,594</b>	<b>\$60,520</b>	<b>\$62,322</b>
<b>Pre-Tax Income</b>	<b>\$ 2,174</b>	<b>\$ (1,076)</b>	<b>\$ 14,237</b>	<b>\$ 16,760</b>	<b>\$ 12,719</b>	<b>\$ 29,577</b>	<b>\$ 1,131</b>	<b>\$ 7,755</b>

Source: Survey of Self-Regulatory Organizations and Subsidiaries  
Office of Securities Industry and Self-Regulatory Economics  
Directorate of Economic and Policy Research

**Table 9**  
**DETAILED REVENUES AND EXPENSES FOR EACH SELF-REGULATORY ORGANIZATION**

(Thousands of Dollars)

	AMEX		BSE		CBOE		CSE		ISE	
	1978	Jan-June 1979	1978	Jan-June 1979	1978	Jan-June 1979	1978	Jan-June 1979	1978	Jan-June 1979
	<b>Revenues</b>									
Transaction Fees	10,183	4,944	747	393	10,407	4,824	—	—	1	+
Listing Fees	5,905	2,845	67	31	—	—	16	5	3	2
Communication Fees	23,329	5,692	—	—	1,582	616	59	137	—	—
Clearing Fees	—	—	1,402	730	—	—	—	—	—	—
Depository Fees	—	—	925	522	—	—	—	—	—	—
Tabulation Services	—	—	1,173	581	287	417	30	10	—	—
All Other Revenue	4,237	2,400	1,007	623	4,223	2,156	97	40	29	15
Membership Dues	980	497	222	122	1,013	496	—	—	6	3
Registration Fees	90	47	2	1	435	227	+	1	—	—
Floor Usage Revenue	813	410	27	10	829	455	54	26	—	—
Corporate Finance Fees	—	—	—	—	—	—	—	—	—	—
Other	2,354	1,446	755	491	1,947	978	42	14	23	12
<b>Total Revenues</b>	<b>43,654</b>	<b>15,881</b>	<b>5,321</b>	<b>2,880</b>	<b>16,498</b>	<b>8,014</b>	<b>201</b>	<b>192</b>	<b>33</b>	<b>17</b>
<b>Expenses</b>										
Employee Costs	13,834	6,769	2,279	1,370	6,469	3,947	31	26	10	5
Occupancy Costs	1,677	880	288	135	1,283	696	36	11	9	5
Equipment Costs	858	473	164	111	477	97	15	101	—	—
Professional and Legal Services	1,275	531	364	150	1,098	723	32	21	2	1
Depreciation and Amortization	1,977	627	144	69	1,284	877	—	—	2	1
Advertising, Printing and Postage	1,214	715	260	124	532	603	4	2	—	—
Communication, Data Processing and Collection	17,513	3,492	707	448	1,533	1,407	12	5	1	+
All Other Expenses	2,474	715	782	481	1,264	669	78	13	6	3
<b>Total Expenses</b>	<b>40,822</b>	<b>14,202</b>	<b>4,989</b>	<b>2,888</b>	<b>13,941</b>	<b>9,017</b>	<b>208</b>	<b>179</b>	<b>30</b>	<b>15</b>
<b>Pre-Tax Income</b>	<b>2,832</b>	<b>1,679</b>	<b>332</b>	<b>(8)</b>	<b>2,557</b>	<b>(1,003)</b>	<b>(7)</b>	<b>13</b>	<b>3</b>	<b>2</b>

+ = Less than 500

Note Totals may not add due to rounding

Source Survey of Self-Regulatory Organizations and Subsidiaries  
Office of Securities Industry and Self-Regulatory Economics  
Directorate of Economic and Policy Research

**Table 9—Continued**  
**DETAILED REVENUES AND EXPENSES FOR EACH SELF-REGULATORY ORGANIZATION**  
(Thousands of Dollars)

	MSE		NASDAQ		NYSE		PSE		PHLX		SSE	
	1978	Jan-June 1979	1978	Jan-June 1979	1978	Jan-June 1979	1978	Jan-June 1979	1978	Jan-June 1979	1978	Jan-June 1979
<b>Revenues</b>												
Transaction Fees	2,908	1,133	—	—	22,587	10,383	3,118	1,583	2,136	1,237	—	—
Listing Fees	699	349	2,961	1,606	32,392	19,055	958	470	99	69	9	10
Communication Fees	284	236	—	—	14,943	8,298	821	429	231	113	—	—
Clearing Fees	3,163	1,527	—	—	—	—	2,683	1,446	3,083	1,484	—	—
Depository Fees	4,470	2,382	—	—	37,910	20,887	3,055	1,579	228	150	—	—
Tabulation Services	—	—	—	—	—	—	3,937	1,332	—	—	3	1
All Other Revenues	3,148	1,803	13,247	6,956	30,229	16,656	5,172	3,073	967	486	24	13
Membership Dues	902	411	7,633	3,913	2,518	1,355	1,895	917	371	182	15	7
Registration Fees	207	115	2,366	1,345	3,026	1,627	86	+	34	18	+	—
Floor Usage Revenue	165	78	—	—	8,738	4,297	283	132	164	84	—	—
Corporate Finance Fees	—	—	1,127	482	—	—	—	—	—	—	—	—
Other	1,874	1,198	2,121	1,216	15,947	9,377	2,908	2,025	398	202	9	5
<b>Total Revenues</b>	<b>14,672</b>	<b>7,430</b>	<b>16,208</b>	<b>8,562</b>	<b>138,061</b>	<b>75,279</b>	<b>19,744</b>	<b>9,912</b>	<b>6,744</b>	<b>3,539</b>	<b>36</b>	<b>23</b>
<b>Expenses</b>												
Employee Costs	7,372	4,051	10,327	5,878	59,895	34,459	5,809	3,552	2,901	1,554	7	4
Occupancy Costs	898	642	1,124	565	8,627	4,905	642	312	307	190	5	3
Equipment Costs	368	120	—	—	1,154	488	131	79	194	100	4	2
Professional and Legal Services	932	330	951	539	4,387	2,569	627	272	137	70	1	+
Depreciation and Amortization	325	158	—	—	2,976	1,723	202	121	224	128	1	—
Advertising, Printing and Postage	259	120	—	—	1,460	932	387	236	80	55	6	3
Communication, Data Processing and Collection	1,267	606	—	—	32,116	17,960	8,374	5,063	663	328	+	+
All Other Expenses	2,533	1,504	2,925	1,551	8,647	4,217	999	499	1,352	647	8	5
<b>Total Expenses</b>	<b>13,953</b>	<b>7,533</b>	<b>15,327</b>	<b>8,533</b>	<b>119,263</b>	<b>67,254</b>	<b>17,171</b>	<b>10,133</b>	<b>5,859</b>	<b>3,071</b>	<b>32</b>	<b>17</b>
<b>Pre-Tax Income</b>	<b>720</b>	<b>(103)</b>	<b>881</b>	<b>29</b>	<b>18,799</b>	<b>8,025</b>	<b>2,572</b>	<b>(221)</b>	<b>885</b>	<b>467</b>	<b>4</b>	<b>6</b>

+ = Less than 500

Note Totals may not add due to rounding

Source Survey of Self-Regulatory Organizations and Subsidiaries  
Office of Securities Industry and Self-Regulatory Economics  
Directorate of Economic and Policy Research

**Table 10**  
**SOURCES OF SELF-REGULATORY ORGANIZATION REVENUE: 1973-1978**

	(Thousands of Dollars)											
	AMEX	BSE	CBOE	CSE	ISE	MSE	NASD	NYSE	PSE	PHLX	SSE	Total
<b>Total Revenues</b>												
1973	\$22,436	\$2,252	\$ 1,178	\$109	\$28	\$19,131	\$21,329	\$ 99,129	\$10,079	\$3,911	\$20	\$179,601
1974	19,770	2,556	3,658	115	30	19,473	20,267	93,698	10,221	3,261	19	173,068
1975	24,566	3,289	8,157	130	27	22,466	21,495	109,949	11,874	3,796	20	205,770
1976	33,624	3,956	11,719	84	29	27,122	24,131	129,135	14,959	4,606	21	249,388
1977	36,801	4,006	12,295	146	32	27,637	15,767	118,963	16,297	4,977	23	236,944
1978	43,654	5,321	16,498	201	33	14,672	16,208	138,061	19,744	6,744	36	261,172
<b>Transaction Fees</b>												
1973	3,743	201	360	20	+	1,265	—	18,987	1,260	572	—	26,409
1974	2,302	187	2,109	16	1	1,127	—	17,026	896	463	—	24,126
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	—	52,085
<b>Listing Fees</b>												
1973	4,153	70	—	4	6	334	—	21,333	507	60	3	26,471
1974	4,142	80	—	12	4	330	1,275	18,938	535	101	3	25,419
1975	4,898	90	—	10	4	532	2,581	22,688	822	82	2	31,709
1976	5,298	70	—	13	3	603	2,761	31,002	901	103	2	40,756
1977	5,027	87	—	11	6	640	2,644	32,770	958	132	2	42,277
1978	5,905	67	—	16	3	699	2,961	32,392	958	99	9	43,109
<b>Communication Fees</b>												
1973	9,082	—	62	—	—	3,761	—	8,471	—	—	—	21,376
1974	9,304	—	110	—	—	3,553	—	7,855	—	—	—	20,822
1975	11,082	—	840	8	—	3,474	—	10,543	—	—	—	25,947
1976	15,980	—	1,370	6	—	3,892	—	11,987	59	41	—	33,335
1977	21,580	—	1,637	13	—	4,157	—	13,922	787	197	—	42,293
1978	23,329	—	1,582	59	—	284	—	14,943	821	231	—	41,248
<b>Clearing Fees</b>												
1973	2,279	1,011	—	28	—	1,714	8,298	13,578	3,004	2,689	—	32,602
1974	1,776	988	—	—	—	1,629	7,638	13,275	2,507	2,257	—	30,070
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	—	1,402	—	—	—	3,163	—	—	2,683	3,083	—	10,331
<b>Depository Fees</b>												
1973	—	—	—	—	—	137	—	22,601	848	—	—	23,586
1974	—	—	—	—	—	1,211	—	20,738	747	—	—	22,696
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	—	31,198	2,063	86	—	37,935
1978	—	925	—	—	—	4,470	—	37,910	3,055	228	—	46,588

**Table 10—Continued**  
**SOURCES OF SELF-REGULATORY ORGANIZATION REVENUE: 1973-1978**

(Thousands of Dollars)

	AMEX	BSE	CBOE	CSE	ISE	MSE	NASD	NYSE	PSE	PHLX	SSE	Total
<b>Tabulation Services</b>												
1973	28	107	—	1	—	7,914	—	—	2,403	—	—	10,453
1974	13	454	—	4	—	8,347	—	—	2,450	—	—	11,268
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
<b>All Other Revenues</b>												
1973	3,151	863	756	55	21	4,005	13,031	14,158	2,058	589	17	38,704
1974	2,233	847	1,439	83	25	3,277	11,354	15,866	3,085	440	17	38,666
1975	2,431	845	2,464	98	23	3,787	10,748	14,918	2,274	867	18	38,472
1976	2,648	961	3,583	55	26	2,711	11,909	17,103	2,835	900	16	42,747
1977	3,680	854	4,156	103	26	2,831	13,123	22,979	3,634	892	18	52,294
1978	4,237	1,007	4,223	97	29	3,148	13,247	30,229	5,172	967	24	62,381
<b>Pre-Tax Income</b>												
1973	(696)	256	(516)	23	1	134	(287)	5,310	(2,123)	72	(—)	2,174
1974	(1,046)	11	(445)	97	3	70	(756)	813	517	(341)	+	(1,076)
1975	419	356	1,286	35	4	982	1,310	9,935	(175)	84	+	14,237
1976	1,498	150	1,399	(18)	2	745	1,992	11,507	(686)	230	1	16,760
1977	1,246	34	(580)	20	3	(1,040)	1,940	10,746	216	132	+	12,719
1978	\$ 2,832	\$ 332	\$ 2,557	\$ (7)	\$ 3	\$ 720	\$ 881	\$ 18,799	\$ 2,572	\$ 885	\$ 4	\$ 29,577

+ = Less than 500

(—) = Less than 0 and greater than — 500

Note: Totals may not add due to rounding

Source: Survey of Self-Regulatory Organizations and Subsidiaries  
Office of Securities Industry and Self-Regulatory Economics  
Directorate of Economic and Policy Research

**Table 11**  
**SELF-REGULATORY ORGANIZATIONS—CLEARING AGENCIES**  
**REVENUES AND EXPENSES<sup>1</sup>—FISCAL YEAR 1978**

(Thousands of Dollars)

	Boston Clearing Corporation 9/30/78	Bradford Securities Processing Service Inc. 12/31/78	Depository Trust Company 12/31/78	Midwest Clearing Corporation 12/31/78	Midwest Securities Trust Company 12/31/78	National Securities Clearing Corporation 12/31/78	New England Securities Depository Trust Company 9/30/78	Options Clearing Corporation 6/30/79	Pacific Clearing Corporation 12/31/78 <sup>2</sup>	Pacific Securities Depository Trust Company 12/31/78	Stock Clearing Corporation of Philadelphia 12/31/78	Total
<b>Revenues</b>												
Clearing services <sup>3</sup>	\$ 1,407	\$ 9,375		\$ 3,164		\$38,557		\$ 4,495	\$ 3,121		\$2,368	\$ 62,487
Depository services <sup>3</sup>			\$33,210		\$ 4,577		\$ 801			\$ 3,196		41,784
Interest and other revenue	484	2,064	6,919	157	385	620	119	1,979	488	334	973	14,522
<b>Total revenue</b>	<b>\$ 1,891</b>	<b>\$11,439</b>	<b>\$40,129</b>	<b>\$ 3,321</b>	<b>\$ 4,962</b>	<b>\$39,177</b>	<b>\$ 920</b>	<b>\$ 6,474</b>	<b>\$ 3,609</b>	<b>\$ 3,530</b>	<b>\$ 3,341</b>	<b>\$118,793</b>
<b>Expenses</b>												
Employee costs	\$ 791	\$ 4,240	\$23,451	\$ 1,866	\$ 3,177	\$ 1,200	\$ 493	\$ 2,894	\$ 1,692	\$ 1,300	\$ 1,556	\$ 42,660
Data processing and communication costs	328	425	6,876	501	874		197	1,660	796	717	330	12,704
Occupancy costs	92	778	3,765	285	492		69	515	206	145	232	6,579
Contracted services cost						29,726						29,726
Regulatory fee <sup>4</sup>						4,711						4,711
All other expenses	359	3,008	6,015	639	397	1,288	324	1,325	679	698	698	15,430
<b>Total expenses</b>	<b>\$ 1,570</b>	<b>\$ 8,451</b>	<b>\$40,107</b>	<b>\$ 3,291</b>	<b>\$ 4,940</b>	<b>\$36,925</b>	<b>\$ 1,083</b>	<b>\$ 6,394</b>	<b>\$ 3,373</b>	<b>\$ 2,860</b>	<b>\$ 2,816</b>	<b>\$111,810</b>
<b>Excess of revenues over expenses<sup>5</sup></b>	<b>\$ 321</b>	<b>\$ 2,988</b>	<b>\$ 22</b>	<b>\$ 30</b>	<b>\$ 22</b>	<b>\$ 2,252</b>	<b>\$ (163)</b>	<b>\$ 80</b>	<b>\$ 236</b>	<b>\$ 670</b>	<b>\$ 525</b>	<b>\$ 6,983</b>

<sup>1</sup>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 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.

<sup>2</sup>Interest of \$1,750,000 was earned on excess Clearing and Securities Collection Funds and was recorded as income by the Pacific Stock Exchange. This interest income is not included in Pacific Clearing Corporation's revenues.

<sup>3</sup>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.

<sup>4</sup>This figure represents amounts billed by the New York and American Stock Exchanges and the National Association of Securities Dealers (\$3,291,000, \$616,000 and \$804,000 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.

<sup>5</sup>Before the effect of income taxes, which may significantly impact a clearing agency's net income.

**Table 12**  
**REVENUE AND EXPENSES OF MUNICIPAL SECURITIES RULEMAKING BOARD**

	Year ended September 30	
	1979	1978
<b>Revenues:</b>		
Assessment fees . . . . .	\$413,841	\$ 513,708
Annual fees . . . . .	95,554	96,301
Initial fees . . . . .	17,800	16,800
Interest income . . . . .	62,328	51,667
Other . . . . .	1,637	
	<hr/>	<hr/>
	590,960	678,476
	<hr/>	<hr/>
<b>Expenses:</b>		
Salaries and employee benefits . . . . .	355,721	376,839
Meetings and travel . . . . .	232,738	212,467
Mailing list, Board manual and other printing and postage . . . . .	129,667	132,870
Rent, telephone and other occupancy costs . . . . .	65,939	62,385
Professional and other services . . . . .	42,436	32,886
Payroll taxes . . . . .	17,620	18,163
Depreciation and amortization . . . . .	13,669	13,624
Other . . . . .	8,533	5,469
	<hr/>	<hr/>
	866,323	854,703
	<hr/>	<hr/>
Excess of expenses over revenues . . . . .	(275,363)	(176,227)
Fund balance, beginning of year . . . . .	908,186	1,084,413
	<hr/>	<hr/>
Fund balance, end of year . . . . .	\$632,823	\$ 908,186

## 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 when such granting is not contrary to the public interest or the protection of investors.

For the year beginning October 1, 1978, 43 applications were still pending and 176 applications were filed during the year. Of these 219 applications, 156 were granted, 9 were withdrawn and 2 were denied. Fifty-two applications were pending at the close of the year, of which 26 had been published for notice.

On September 17, 1979 the Commission adopted Rule 12h-4 which automatically suspends an issuer's duty to file Section 13(a) reports as to a class of securities pursuant to Section 15(d) of the Exchange Act for the balance of the issuer's fiscal year if the registration of such securities is ter-

minated under Section 12(d) or 12(g)(4) of the Exchange Act.<sup>1</sup> At the start of the next and each succeeding fiscal year, if the class of securities is held by less than 300 shareholders of record, this suspension of the duty to file would continue under Section 15(d). The resulting reduction in 12(h) applications from issuers who terminate under Section 12(d) or 12 (g)(4) is expected to reduce the processing time for other 12(h) applications.

### 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) thereof which provides an exemption for certain foreign issuers which submit on a current basis material specified in the rule. Such ma-

<sup>1</sup>Securities Exchange Act Release No. 16211 (September 17, 1979), 18 SEC Docket 413.

terial 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, 1979 and contains a total of 161 foreign issuers.<sup>2</sup>

### **Other Exemptions**

The Commission received and granted two requests for exemption from the broker-dealer registration requirement of Section 15(a) of the Exchange Act. Exemptions were granted to the the National Association of Investment Clubs in connection with its stock purchase program and to Mortex Inc. in connection with its automated mortgage trading facility. The Commission determined in each case that an exemption would be consistent with the public interest and the protection of investors.

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 600 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. In addition, Rule 10b-13 under the Exchange Act prohibits purchases of certain securities by persons making a tender offer or exchange offer from the time the offer is publicly announced until the termination of the offer. One exemption from Rule 10b-13 was granted to permit an issuer to effect concurrent tender and exchange offers inasmuch as the transaction did not appear to constitute a manipulative or deceptive device or contrivance comprehended within the purposes of the rule.

The Commission also granted to one individual a temporary waiver of the requirement in MSRB rule G-3 that a person acting as a financial and operations principal take and pass the MSRB Financial Operations Principal Qualification Examination.

## **FINANCIAL INSTITUTIONS**

### **Stock Transactions of Selected Financial Institutions**

During 1978, private noninsured pension funds, open-end investment companies, life insurance companies, and property-liability insurance companies purchased \$47.7 billion of common stock and sold \$42.7 billion, resulting in net purchases of \$5.0 billion. In 1977 purchases were \$36.9 billion, sales \$34.5 billion, and net purchases \$2.4 billion. Their 1978 common stock activity rate was 26.2 percent as compared to 20.6 percent one year earlier.

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<sup>2</sup>Securities Exchange Act Release No. 16212 (September 21, 1979), 18 SEC. Docket 462.

**Table 13**  
**COMMON STOCK TRANSACTIONS AND ACTIVITY RATES OF SELECTED FINANCIAL INSTITUTIONS**

(Millions of Dollars)

	1971	1972	1973	1974	1975	1976	1977	1978
<b>Private Noninsured Pension Funds<sup>1</sup></b>								
Purchases	21,684	23,222	20,324	11,758	17,560	20,329	20,147	24,173
Sales	12,800	15,651	14,790	9,346	11,846	13,089	15,625	18,947
Net purchases (sales)	8,884	7,571	5,534	2,412	5,714	7,240	4,522	5,226
Activity rate	22 1	19 7	17 3	14 1	18 3	16 5	17 3	21 0
<b>Open-End Investment Companies<sup>2</sup></b>								
Purchases	21,556	20,943	15,561	9,085	10,949	10,633	8,704	12,833
Sales	21,175	22,552	17,504	9,372	12,144	13,279	12,210	14,454
Net purchases (sales)	381	(1,609)	(1,943)	(287)	(1,195)	(2,646)	(3,506)	(1,621)
Activity rate	48 2	44 8	39 0	30 5	35 8	32 4	32 2	43 9
<b>Life Insurance Companies<sup>3</sup></b>								
Purchases	6,232	6,912	6,492	3,930	4,920	6,158	5,473	6,307
Sales	2,777	4,427	4,216	2,439	3,630	3,924	4,703	6,478
Net purchases (sales)	3,455	2,485	2,276	1,491	1,290	2,234	770	(171)
Activity rate	31 0	29 5	25 9	18 7	22 3	21 0	20 9	26 1
<b>Property-Liability Insurance Companies</b>								
Purchases	4,171	5,128	4,519	2,400	2,193	3,446	2,605	4,369
Sales	1,944	2,738	2,856	3,223	3,196	2,836	1,955	2,785
Net purchases (sales)	2,227	2,390	1,663	(823)	(1,003)	610	650	1,584
Activity rate	23 2	23 8	20 8	21 3	24 0	24 8	17 2	24 9
<b>Total Selected Institutions</b>								
Purchases	53,643	56,205	46,896	27,173	35,622	40,566	36,929	47,682
Sales	38,696	45,368	39,366	24,380	30,816	33,128	34,493	42,664
Net purchases (sales)	14,947	10,837	7,530	2,793	4,806	7,438	2,436	5,018
Activity rate	30 8	27 8	23 7	19 1	23 2	21 1	20 6	26 2
<b>Foreign Investors<sup>4</sup></b>								
Purchases	11,625	14,360	12,768	7,634	15,316	18,228	14,139	20,060
Sales	10,893	12,173	9,977	7,094	10,637	15,475	11,475	17,700
Net purchases (sales)	732	2,187	2,791	540	4,679	2,753	2,664	2,360

r = revised

<sup>1</sup>Includes deferred profit sharing and pension funds of corporations, unions, multiemployer groups and nonprofit organizations

<sup>2</sup>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

<sup>3</sup>Includes both general and separate accounts

<sup>4</sup>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 1978, the eleven institutional groups listed below held \$358.0-billion of total corporate stock outstanding (both common and preferred). In comparison, they accounted for \$342.2 billion of the stock held a year earlier. The resulting 4.6 percent increase in the value of the stockholdings of these institutions was the same

as the 4.6 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 34.4 percent at year-end 1978 the same as it was a year earlier. During 1978, the shares held by other domestic investors, which consist of individuals, broker-dealers and institutions not listed, dropped to 59.4 percent from 60.0 percent. Foreign investors share of stockholdings increased to 6.2 percent.

**Table 14**  
**MARKET-VALUE OF STOCKHOLDINGS OF INSTITUTIONAL INVESTORS AND OTHERS**

	(Billions of Dollars, End of Year)							
	1971	1972	1973	1974	1975	1976	1977	1978
1 Private Noninsured Pension Funds	88.7	115.2	90.5	63.3 <sup>R</sup>	88.6	109.7	101.9	107.9
2 Open-End Investment Companies	52.6	58.0	43.3	30.3	38.7	43.0	36.2	34.1
3 Other Investment Companies	6.9	7.4	6.6	4.7	5.3	5.9	3.1	2.7
4 Life Insurance Companies	20.6	26.8	25.9	21.9	28.1	34.2	32.9 <sup>R</sup>	35.5
5 Property-Liability Insurance Companies <sup>1</sup>	16.6	21.8	19.7	12.8	14.2	16.9	17.3 <sup>R</sup>	19.7
6 Personal Trust Funds <sup>2</sup>	94.1	110.2	94.7	67.7	81.0	93.0	90.5 <sup>R</sup>	93.1
7 Common Trust Funds <sup>2</sup>	5.8	7.4	6.6	4.3	5.9	7.8	N A <sup>R</sup>	N A
8 Mutual Savings Banks	3.5	4.5	4.2	3.7	4.4	4.4	4.8	4.8
9 State and Local Retirement Funds	15.4	22.2	20.2	20.3	24.3	30.1	30.0	33.3
10 Foundations	25.0	28.5	24.5	18.4	22.7	27.1	26.1	27.0
11 Educational Endowments	9.0	10.7	9.6	6.7	8.8	10.4	9.8	10.2
12 Subtotal	338.2	412.7	345.8	254.1 <sup>R</sup>	322.0	382.5	352.7 <sup>R</sup>	368.3
13 Less Institutional Holdings of Investment Company Shares	5.8	6.5	6.7	6.5	8.6	10.0	10.5	10.3
14 Total Institutional Investors	332.4	406.2	339.1	247.6 <sup>R</sup>	313.4	372.5	342.2 <sup>R</sup>	358.0
15 Foreign Investors <sup>3</sup>	32.9	41.3	37.0	28.4	52.6	63.9	60.1	64.7
16 Other Domestic Investors <sup>4</sup>	638.4	690.6	525.3	365.7 <sup>R</sup>	483.5	623.3	593.0	618.6
17 Total Stock Outstanding <sup>5</sup>	1003.7	1138.1	901.4	641.7	849.5	1059.7	995.3 <sup>R</sup>	1041.3

<sup>R</sup> = revised

<sup>1</sup>Excludes holdings of insurance company stock

<sup>2</sup>Data for years through 1976 exclude common trust fund holdings which were separately available. Common trust data were not separately available after 1976 and personal trust fund data therefore include assets held in these commingled funds

<sup>3</sup>Includes estimate of stock held as direct investment

<sup>4</sup>Computed as residual (line 16 = 17 - 14 - 15). Includes both individuals and institutional groups not listed above

<sup>5</sup>Includes both common and preferred stock. Excludes investment company shares but includes foreign issues outstanding in the U S

**Table 15**  
**COMPANIES REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940 AS OF SEPTEMBER 30, 1979**

	Number of Registered Companies			Approximate Market Value of Assets of Active Companies (Millions)
	Active	Inactive <sup>a</sup>	Total	
Management open-end ("Mutual Funds")	833	53	886	83,676
Funds having no load	276	16	292	32,839
Variable annuity-separate accounts	52	2	54	1,561
Capital leverage companies	2	0	2	28
All other load funds	503	35	538	49,248
Management closed-end	165	56	221	7,855
Small business Investment companies	36	6	42	270
Capital leverage companies	7	0	7	330
All other closed-end companies	122	50	172	7,255
Unit investment trust	368	23	391	17,008 <sup>b</sup>
Variable annuity-separate accounts	69	1	70	1,067
All other unit investment trusts	299	22	321	15,941
Face-amount certificate companies	5	4	9	33
<b>Total</b>	<b>1,371</b>	<b>136</b>	<b>1,507</b>	<b>108,572</b>

<sup>a</sup> Inactive refers to registered companies which as of September 30, 1979, 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 registered only until such time as the Commission issues order under Section 8(f) terminating their registration

<sup>b</sup> Includes about 3.6 billion of assets of trusts which invest in securities of other investment companies, substantially all of them mutual funds

**Table 16**  
**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	28,000
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

\* Began Fiscal Year Ending September 30, 1977

**Table 17**  
**NEW INVESTMENT COMPANY REGISTRATIONS**

	1979
<b>Management open-end</b>	
No-loads	7
Variable annuities	1
All others	42
Sub-total	<u>50</u>
<b>Management closed-end</b>	
SBIC's	1
All others	12
Sub-total	<u>13</u>
<b>Unit investment trust</b>	
Variable annuities	4
All others	16
Sub-total	<u>20</u>
<b>Face amount certificates</b>	0
<b>Total Registered</b>	<u>83</u>

**Table 18**  
**INVESTMENT COMPANY REGISTRATIONS TERMINATED**

	1979
<b>Management open-end</b>	
No-loads	5
Variable annuities	1
All others	30
Sub-total	<u>36</u>
<b>Management closed-end</b>	
SBIC's	0
All others	8
Sub-total	<u>8</u>
<b>Unit investment trust</b>	
Variable annuities	1
All others	2
Sub-total	<u>3</u>
<b>Face amount certificates</b>	0
<b>Total terminated</b>	<u>47</u>

## Private Noninsured Pension Funds: Assets

The assets of private noninsured pension funds totaled \$202.2 billion at book value and \$201.5 billion at market value on December 31, 1978. A year earlier their comparable asset totals were \$181.5 billion and \$181.6 bil-

lion. The book value of common stock holdings increased to \$100.4 billion at year-end 1978 from \$97.0 billion the previous year. Valued at market, those holdings also increased to \$106.7 billion, or 53.0 percent of total assets, at the end of 1978 from \$100.9 billion, or 55.6 percent of total assets, one year earlier.

**Table 19A**  
**ASSETS OF PRIVATE NONINSURED PENSION FUNDS**

Book Value, End of Year

(Millions of Dollars)

	1971	1972	1973	1974	1975	1976	1977	1978
Cash and Deposits	1,641	1,857	2,336	4,286	2,962	2,199	3,721	8,110
U.S. Government Securities	2,732	3,689	4,404	5,533	10,764	14,713	20,138	19,695
Corporate and Other Bonds	29,013	28,207	30,334	35,029	37,809	39,070	45,580	53,824
Preferred Stock	1,767	1,481	1,258	1,129	1,188	1,250	1,168	1,274
Common Stock	62,780	74,585	80,593	79,319	83,654	93,359	96,984	100,424
Own Company	3,608	3,868	4,098	4,588	5,075	N A	N A	N A
Other Companies	59,172	70,717	76,495	74,731	78,579	N A	N A	N A
Mortgages	3,660	2,728	2,377	2,372	2,383	2,369	2,497	2,789
Other Assets	4,826	4,933	5,229	6,063	6,406	7,454	11,421	16,121
<b>Total Assets</b>	<b>106,419</b>	<b>117,530</b>	<b>126,531</b>	<b>133,731</b>	<b>145,166</b>	<b>160,414</b>	<b>181,509</b>	<b>202,237</b>

N A Not Available

Note Includes deferred profit sharing funds and pension funds of corporations, unions, multiemployer groups, and nonprofit organizations

**Table 19B**  
**ASSETS OF PRIVATE NONINSURED PENSION FUNDS**

Market Value, End of Year

(Millions of Dollars)

	1971	1972	1973	1974	1975	1976	1977	1978
Cash and Deposits	1,641	1,857	2,336	4,286	2,962	2,199	3,721	8,110
U.S. Government Securities	2,772	3,700	4,474	5,582	11,097	14,918	20,017	18,767
Corporate and Other Bonds	26,111	26,232	27,664	30,825	34,519	37,858	42,754	48,633
Preferred Stock	2,014	1,869	985	703	892	1,212	1,009	1,162
Common Stock	86,636	113,369	89,538	62,582	87,669	108,483	100,863	106,732
Own Company	7,691	8,750	6,947	5,230	6,958	N A	N A	N A
Other Companies	78,945	104,619	82,591	57,352	80,711	N A	N A	N A
Mortgages	3,184	2,427	2,108	2,063	2,139	2,160	2,362	2,554
Other Assets	4,560	4,908	5,140	5,681	6,341	7,073	10,838	15,585
<b>Total Assets</b>	<b>126,921</b>	<b>154,363</b>	<b>132,247</b>	<b>111,724</b>	<b>145,622</b>	<b>173,906</b>	<b>181,564</b>	<b>201,545</b>

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 \$268.5 billion in 1978. Of this total, \$249.3 billion or 92.8 percent represented stock trading, \$18.9 billion or 7.0 percent, option trading, and the balance, trading in rights and warrants. The value of New York Stock Exchange transactions was \$210.6 billion in 1978. NYSE share volume increased 35.7 percent from the 1977 total. On the American Stock Exchange, value of shares traded increased 78.2 percent to \$15.2 billion. The AMEX

volume of 922.2 million shares was up 41.5 percent from the 1977 figure. Share volume on regional exchanges increased 30.9 percent from the 1977 figure to 992.2 million shares, valued at \$23.6 billion.

The Chicago Board Options Exchange contract volume for 1978 was 33.7 million, up 35.9 percent from 24.8 million in 1977. The value was \$13.7 billion, an increase of 71.6 percent from \$8.0 billion in 1977. The American Stock Exchange Option volume was 17.6 million contracts in 1978, an increase of 74.3 percent from the 10.1 million contracts in 1977, an increase of 74.3 percent from the 10.1

million contracts in 1977. The value of AMEX options trading in 1978 was \$3.5 billion. Philadelphia Stock Exchange option volume was 2.9 million in 1978 up 43.9 percent from the 1977 volume with a value of \$472 million in

1978. Pacific Stock Exchange contract volume in 1978 was 3.1 million with a value of \$766 million. The Midwest Stock Exchange contract volume was 2.3 million contracts with a value of \$419 million in 1978.

**Table 20**  
**MARKET VALUE AND VOLUME OF SALES ON REGISTERED AND EXEMPTED SECURITIES EXCHANGES<sup>1</sup>**

(All data are in thousands)

Calendar Year	Total Market Value (Dollars)	Stocks <sup>2</sup>		Options <sup>3</sup>		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									
1973	187,158,618	177,879,464	5,723,424	448,498	1,119	973,076	124,740	11,082	51,515
1974	125,285,044	118,434,721	4,846,492	1,660,222	5,683	389,251	67,174	4,301	37,167
1975	166,901,078	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
Breakdown of 1978 Data by Registered Exchange									
All Registered Exchanges	18,943,355	15,204,973	992,179	3,525,010	17,619	212,966	35,468	407	568
*American Stock Exchange	1,535,923	1,535,839	57,665	0	0	81	43	2	235
*Boston Stock Exchange	433,287	433,287	15,127	0	0	0	0	0	0
*Cincinnati Stock Exchange	10,880,316	10,461,239	343,185	419,077	2,288	0	0	0	0
*Midwest Stock Exchange	210,550,436	210,426,412	7,617,958	0	0	122,589	28,988	1,435	12,796
*New York Stock Exchange	7,872,090	7,099,249	297,904	766,462	3,063	5,900	3,018	479	289
*Pacific Stock Exchange	4,560,103	4,085,804	142,687	519,910	3,166	2,189	547	0	0
*Philadelphia Stock Exchange	815	815	2,281	0	0	0	0	0	0
Intermountain Stock Exchange	9,655	9,655	13,723	0	0	0	0	0	0
Spokane Stock Exchange	13,722,745	0	0	13,722,745	33,712	0	0	0	0
*Chicago Board Options									
All Exempted Exchanges for past six years									
Calendar Year									
1973	1,899	1,897	260	0	0	0	0	0	0
1974	1,174	1,174	149	0	0	0	0	0	0
1975	524	524	69	0	0	0	0	0	0
1976	383	383	94	0	0	0	0	0	0
1977	298	298	64	0	0	0	0	0	0
1978	0	0	0	0	0	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.

<sup>1</sup>Data on the value and volume of securities sales are reported in connection with fees paid under Section 31 of the Securities Exchange Act of 1934. They include all securities sales effected on exchanges except sales of bonds of the United States Government which are not subject to the fee. The data cover odd-lot as well as round-lot transactions.

<sup>2</sup>Includes voting trust certificates, certificates of deposit for stocks, and American Depositary Receipts for stocks, but excludes rights and warrants.

<sup>3</sup>Exercises are not included in these totals.

## 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 1978, there were 2,582 issues in the NASDAQ system, an increase of 0.3 percent from 2,575 in 1977. Volume for 1978 was 2.8 billion shares, up 47.0 percent from 1.9 billion in 1977. This

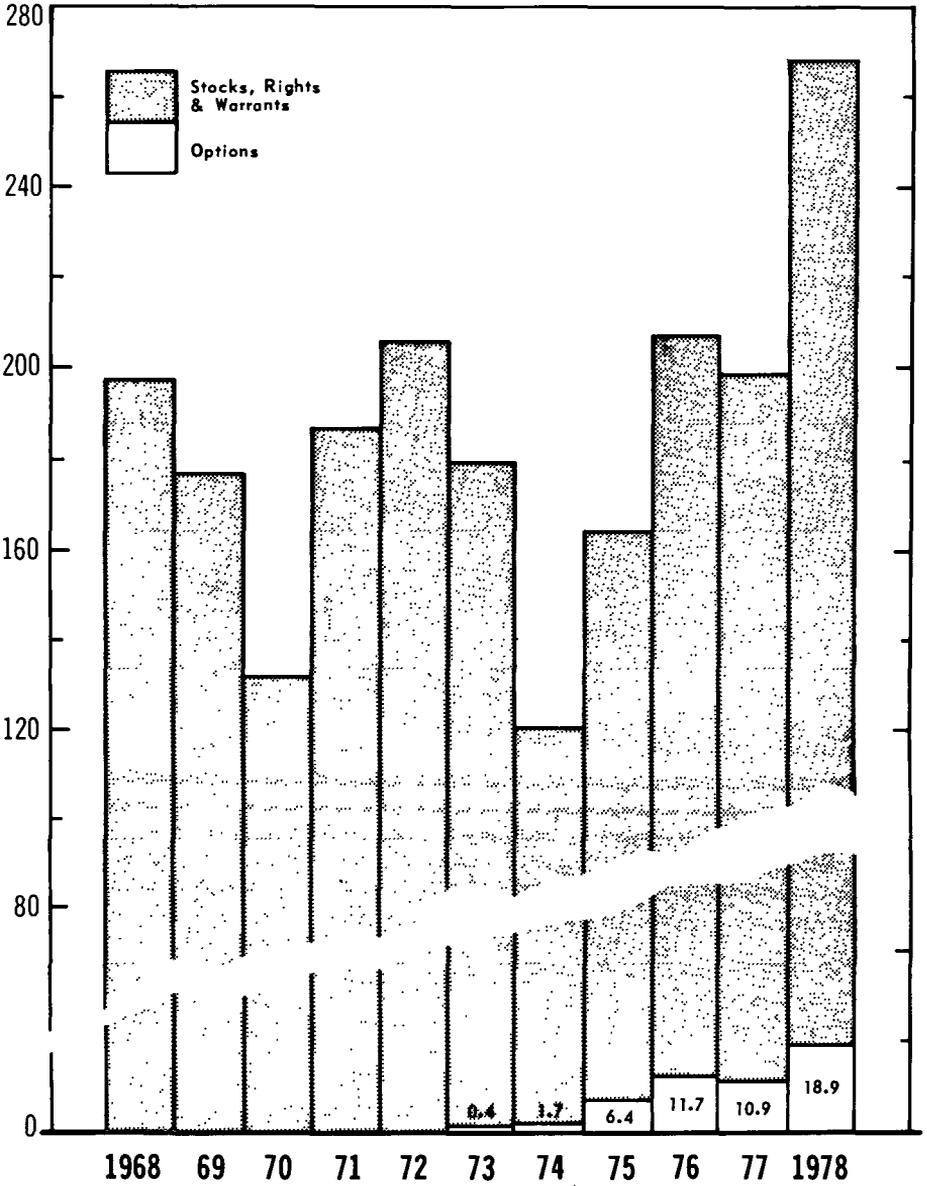
trading volume reflects the number of shares bought and sold by market makers plus their net inventory changes.

## Share and Dollar Volume by Exchange

Share volume of all stocks, rights and warrants totaled 9.6 billion, a 34.1 percent increase from 7.1 billion in

# Market Value Of Securities Traded On All U.S. Stock Exchanges

Dollars Billions



1978. New York Stock Exchange accounted for 80.08 percent of all share volume; American Stock Exchange, 10.75 percent; and Midwest and Pacific Stock Exchanges, 3.59 and 3.15 percent, respectively.

Dollar volume of all stocks, rights

and warrants was \$249.6 billion, a 33.2 percent increase from \$187.4 billion in 1978. New York Stock Exchange dominated the dollar volume accounting for 84.35 percent of the total. American and Midwest Stock Exchanges had 6.18 and 4.19 percent of the total.

**Table 21A**  
**SHARE VOLUME BY EXCHANGES<sup>1</sup>**

Year	Total Share Volume (thousands)	In Percentage							
		NYSE	AMEX	MIDW	PSE	PHLE	BOSE	CNSE	Other <sup>2</sup>
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	1,428,552	69.08	22.46	2.22	3.14	0.89	0.39	0.04	1.41
1961	2,121,050	65.65	25.84	2.24	3.45	0.80	0.30	0.04	1.33
1962	1,659,346	71.84	20.26	2.36	2.97	0.87	0.31	0.04	0.95
1963	1,874,718	73.17	18.89	2.33	2.83	0.83	0.29	0.04	1.10
1964	2,118,326	72.81	19.42	2.43	2.65	0.93	0.29	0.03	0.86
1965	2,663,495	70.10	22.59	2.63	2.34	0.82	0.26	0.05	0.64
1966	3,306,386	69.54	22.89	2.57	2.68	0.86	0.40	0.05	0.51
1967	4,641,215	64.68	28.45	2.36	2.46	0.87	0.43	0.02	0.57
1968	5,406,582	62.00	29.74	2.63	2.65	0.89	0.78	0.01	0.95
1969	5,133,498	63.17	27.61	2.84	3.47	1.22	0.51	0.00	1.00
1970	4,835,222	71.27	19.02	3.16	3.68	1.63	0.51	0.02	0.57
1971	6,172,668	71.34	18.42	3.52	3.72	1.91	0.43	0.03	0.44
1972	6,518,132	70.47	18.22	3.71	4.13	2.21	0.59	0.03	0.45
1973	5,899,678	74.92	13.75	4.09	3.68	2.19	0.71	0.04	0.39
1974	4,950,833	78.47	10.27	4.39	3.48	1.82	0.86	0.04	0.44
1975	6,371,545	81.05	8.97	4.06	3.10	1.54	0.85	0.13	0.15
1976	7,125,201	80.03	9.35	3.87	3.93	1.41	0.78	0.44	0.17
1977	7,134,882	79.54	9.73	3.95	3.71	1.49	0.66	0.64	0.28
1978	9,364,763	80.08	10.75	3.59	3.15	1.50	0.61	0.16	0.16

<sup>1</sup>Share Volume for exchanges includes Stocks, Rights, and Warrants

<sup>2</sup>Others include all exchanges not listed above

**Table 21B**  
**DOLLAR VOLUME BY EXCHANGES<sup>1</sup>**

Year	Total Dollar Volume (thousands)	In Percentage							
		NYSE	AMEX	MIDW	PSE	PHLE	BOSE	CNSE	Other <sup>2</sup>
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	45,276,616	83.86	9.35	2.72	1.95	1.04	0.60	0.07	0.03
1961	64,032,924	82.48	10.71	2.75	1.99	1.03	0.49	0.07	0.05
1962	54,823,153	86.37	6.81	2.75	2.00	1.05	0.46	0.07	0.04
1963	64,403,991	85.23	7.52	2.72	2.39	1.06	0.42	0.06	0.04
1964	72,415,297	83.54	8.46	3.15	2.48	1.14	0.42	0.06	0.04
1965	89,498,711	81.82	9.91	3.44	2.43	1.12	0.42	0.08	0.03
1966	123,643,475	79.81	11.84	3.14	2.85	1.10	0.56	0.07	0.02
1967	162,136,387	77.31	14.48	3.08	2.79	1.13	0.67	0.03	0.03
1968	197,061,776	73.57	18.00	3.12	2.66	1.13	1.04	0.01	0.08
1969	176,343,146	73.50	17.60	3.39	3.12	1.43	0.67	0.01	0.12
1970	131,707,946	78.44	11.11	3.76	3.81	1.99	0.67	0.03	0.04
1971	186,375,130	79.07	9.98	4.00	3.79	2.29	0.58	0.05	0.03
1972	205,956,263	77.77	10.37	4.29	3.94	2.56	0.75	0.05	0.05
1973	178,863,622	82.07	6.06	4.54	3.55	2.45	1.00	0.06	0.01
1974	118,828,272	83.62	4.39	4.89	3.50	2.02	1.23	0.06	0.01
1975	157,555,360	85.04	3.66	4.82	3.25	1.72	1.18	0.17	0.00
1976	195,224,815	84.35	3.88	4.76	3.83	1.69	0.94	0.53	0.00
1977	187,393,082	83.96	4.60	4.79	3.53	1.62	0.74	0.75	0.01
1978	249,603,320	84.35	6.18	4.19	2.85	1.64	0.62	0.17	0.00

<sup>1</sup>Dollar Volume for exchanges includes Stocks, Rights, and Warrants

<sup>2</sup>Others include all exchanges not listed above

## Special Block Distributions

In 1978, the total number of special block distributions decreased by 31.7 percent. The value of these distributions increased 117.0 percent to \$610.0 million from \$280.9 billion in 1977.

Secondary distributions accounted for 86.0 percent of the total number of special block distributions in 1978 and 93.4 percent of the total value of these distributions.

The special offering method was em-

ployed 3 times, accounting for 7.0 percent of the total number of special block distributions in 1978, but, with an aggregate value of \$36.2 million, these offerings accounted for only 5.9 percent of the value of all special block distributions.

The exchange distribution method was employed 3 times in 1978. The value of exchange distributions was \$4.3 million, representing less than 1 percent of the value of all special block distributions.

**Table 22**  
**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	9,324,599	339,062	33	390,832	15,855	5	63,408	1,845
1958	122	9,508,505	361,886	38	610,876	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	1,126,266	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	29,045,039	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	72,801,243	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	57	24,089,636	581,560	16	752,600	13,623	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	569,478	3	79,000	4,321	3	130,675	36,209

## Value and Number of Securities Listed on Exchanges

The market value of stocks and bonds listed on U.S. Stock Exchanges at year-end 1978 was \$1,335 billion, an increase 3.4 percent from the previous year-end figure of \$1,291 billion. The total was composed of \$865 billion in stocks and \$470 billion in bonds. The value of listed stocks increased 5.8 percent in 1978 and the value of listed bonds decreased less than 1 percent. Stocks with primary listing on the New York Stock Exchange were valued at \$823 billion and represented 95.1 percent of the common and preferred stock listed on all U.S. exchanges. The value of NYSE listed stocks increased from their 1977 year-end total by \$46

billion or 5.9 percent. Stocks with primary listing on the AMEX accounted for 4.5 percent of the total and were valued at \$39 billion. The value of AMEX stocks increased \$2 billion or 4.3 percent in 1978. Stocks with primary listing on all other exchanges were valued at \$2.9 billion, a decrease of 12.1 percent from the 1977 total.

The net number of stocks and bonds listed on exchanges increased 176 issues or 21.4 percent in 1978. The New York and Pacific Stock Exchanges listed 291 and 4 additional securities, respectively. Spokane showed no change while all other exchanges showed a drop in the number of listings. Honolulu Stock Exchange ceased operations December 31, 1977.

**Table 23**  
**SECURITIES LISTED ON EXCHANGES<sup>1</sup>**

December 31, 1978

	Common		Preferred		Bonds		Total Securities	
	Number	Market Value (Million)	Number	Market Value (Million)	Number	Market Value (Million)	Number	Market Value (Million)
<b>Registered</b>								
American	964	\$ 37,097	100	\$ 2,145	193	\$ 3,886	1,257	\$ 43,128
Boston	64	247	2	1	1	1	67	249
Cincinnati	6	31	3	8	5	42	14	81
Midwest	16	256	5	58	0	0	21	314
New York	1,552	798,764	642	23,971	2,895	464,895	5,089	1,287,630
Pacific	39	861	9	180	24	540	72	1,581
Philadelphia	21	122	91	1,072	20	1,124	132	2,318
Intermountain	27	50	0	0	0	0	27	50
Spokane	24	\$ 6	0	\$ 0	0	\$ 0	24	\$ 6
<b>Total</b>	<b>2,713</b>	<b>\$837,434</b>	<b>852</b>	<b>\$27,435</b>	<b>3,138</b>	<b>\$470,488</b>	<b>6,703</b>	<b>\$1,335,357</b>
<b>Includes the following foreign stocks</b>								
<b>Registered</b>								
New York	36	\$ 23,117	1	\$ 81	169	\$ 8,061	206	\$ 31,259
American	66	13,521	0	0	8	NA	74	13,521
Pacific	3	\$ 139	0	\$ 0	0	\$ 0	3	\$ 139
<b>Total</b>	<b>105</b>	<b>\$ 36,777</b>	<b>1</b>	<b>\$ 81</b>	<b>177</b>	<b>\$ 8,061</b>	<b>283</b>	<b>\$ 44,919</b>

<sup>1</sup>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 24**  
**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		74.7
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	432.5	27.9	4.0	514.4
1967	605.8	43.0	3.9	652.7
1968	692.3	61.2	6.0	759.5
1969	629.5	47.7	5.4	682.6
1970	636.4	39.5	4.8	680.7
1971	741.8	49.1	4.7	795.6
1972	871.5	55.6	5.6	932.7
1973	721.0	38.7	4.1	763.8
1974	511.1	23.3	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

## Securities on Exchanges

As of September 30, 1979, a total of 6,783 securities, representing 3,129 issuers, were admitted to trading on securities exchanges in the United States. This compares with 6,777 issues, involving 3,179 issuers, a year earlier. Over 5,000 issues were listed

and registered on the New York Stock Exchange, accounting for 60.5 percent of the stock issues and 90.2 percent of the bond issues. Data below on "Securities Traded on Exchanges" involves some duplication since it includes both solely and dually listed securities.

**Table 25**  
**SECURITIES TRADED ON EXCHANGES**

	Issuers	Stocks			Total	Bonds <sup>1</sup>
		Registered	Temporarily exempted	Unlisted		
American	1,049	1,044	1	43	1,088	209
Boston	805	133		715	848	15
Chicago Board of Options	1	1		2	1	
Chicago Board of Trade	3	1			3	
Cincinnati	340	44		309	353	15
Intermountain	48	47		1	48	
Midwest	590	340	1	318	659	28
New York	1,910	2,223	2		2,225	2,803
Pacific Coast	808	797	1	166	964	115
PBS	908	337		731	1,068	77
Spokane	35	34		4	38	

<sup>1</sup>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 26**  
**UNDUPLICATED COUNT OF SECURITIES ON EXCHANGES**

(September 30, 1979)

Registered exchanges	Stocks	Bonds	Total Involved	
Registered and Listed	3,638	3,090	6,728	3,099
Temporarily exempted from registration	3	2	5	2
Admitted to unlisted trading privileges	36	14	50	28
<b>Total</b>	<b>3,677</b>	<b>3,106</b>	<b>6,783</b>	<b>3,129</b>

## 1933 ACT REGISTRATIONS

### Effective Registration Statements Filed

During the fiscal year ending September 30, 1979, 3,112 registration statements valued at \$77 billion became effective. The number of effective registrations in fiscal 1979 rose 2.5 percent from fiscal 1978. The value of registration statements increased 18.5 percent in 1979 from \$65 billion in fiscal 1978. With the adoption of

Rule 24f-2 (17CFR270.24f-2) effective November 3, 1977, the dollar value of investment company registrations are no longer available.

Among the registration statements effective, there were 684 first-time registrants in fiscal 1979 as compared with 647 in fiscal 1978.

The number of registration statements filed rose 0.8 percent to 3,229 in fiscal 1979 from 3,204 in the previous fiscal year.

**Table 27**  
**EFFECTIVE REGISTRATIONS**  
(Dollars in Millions)

Fiscal year	Total		Cash Sale for Account of Issuers			Total
	Number of Statements	Value	Common Stock	Bonds, Debentures and Notes	Preferred Stock	
Fiscal Year ended June 30						
1935 <sup>1</sup>	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	1,351	407	2,714
1946	651	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	7,325
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	16,236
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	48,193
1971	2,989	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 July-September 1976	639	15,010	6,767	5,066	413	12,246
Fiscal year ended September 30						
1977(r)	2,915	92,580	47,116	28,026	2,426	77,568
1978	3,037	65,043 <sup>2</sup>	25,330 <sup>2</sup>	23,251	2,128	50,709
1979	3,112	77,375	22,697	28,894	1,714	53,305
Cumulative Total	62,519	\$1,193,543	\$498,534	\$395,100	\$38,522	\$932,156

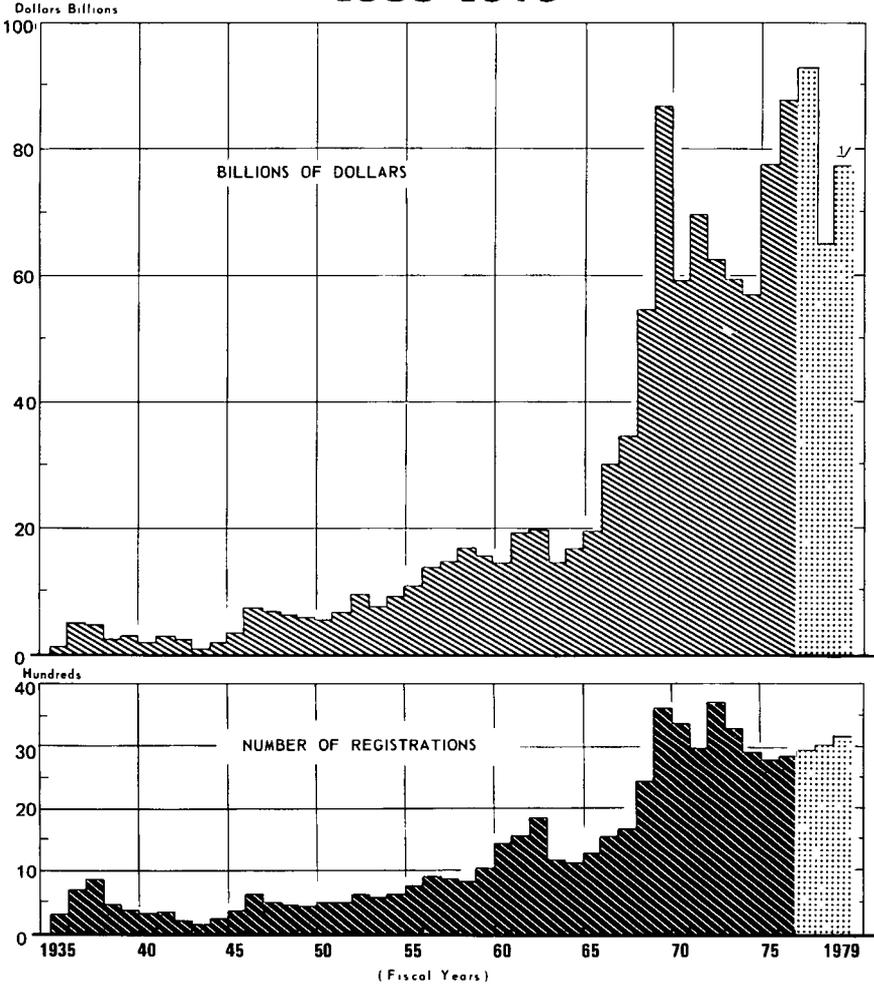
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<sup>1</sup>For 10 months ended June 30, 1935

<sup>2</sup>The adoption of Rule 241-2 (17 CFR 270 241-2) 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. 1935-1979



..... 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  
✓ DOES NOT INCLUDE INVESTMENT COMPANIES AS OF 1/1/78 DUE TO RULE CHANGE

## Purpose of Registration

Effective registrations for cash sale for the account of corporate issuers amounted to \$34 billion<sup>1</sup> in fiscal 1979 as compared to \$29 billion in fiscal 1978. With respect to distribution of these registrations between equity and debt offerings, equity offerings increased from \$10.0 billion in fiscal 1978 to \$10.1 billion—a 1 percent increase. Corporate debt offerings increased from \$19.0 billion to \$24.2 billion—a 27.4 percent increase.

Among the securities registered for cash sale in fiscal 1979, nearly all debt issues were for immediate offerings, whereas 41.2 percent of the equity

registrations were for immediate offerings. Registrations of extended offerings totaled \$14.3 billion with employee plan offerings accounting for \$10.8 billion.

Securities registered for the account of the issuer for other than cash sale totaled \$23.0 billion, \$14.7 billion of which was common stock. The bulk of these registrations were common stock issues relating to exchange offers, mergers and consolidations. In fiscal 1979 common stock effectively registered for this purpose totaled \$9.8 billion, an increase of 58.1 percent from fiscal 1978.

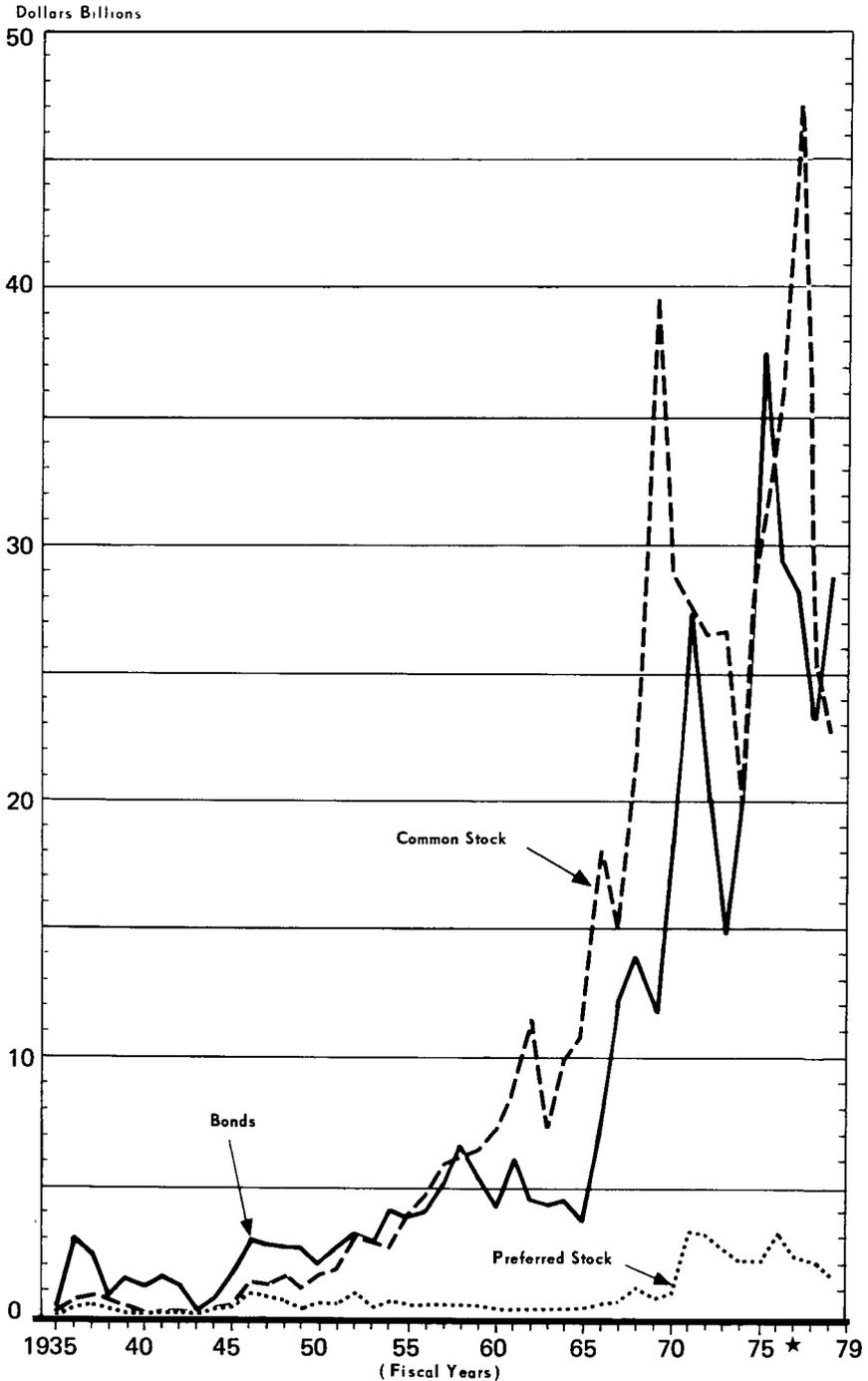
Registrations for the purpose of secondary offerings (proceeds going to selling security holders) typically concern sales of common stock. In fiscal 1979 these registrations amounted to \$1.1 billion, or a 7.7 percent decline from fiscal 1978.

<sup>1</sup>The adoption of Rule 24f-2 (17 CFR 270.24f-2) effective November 3, 1977, made it impossible to report the dollar value of securities registered.

**Table 28**  
**EFFECTIVE REGISTRATIONS BY PURPOSE AND TYPE OF SECURITY: FISCAL YEAR: 1979**  
(Dollars in Millions)

Purpose of registrations	Type of security			
	Total	Bond, debentures and notes	Preferred Stock	Common Stock
All registrations (estimated value)	\$77,375	\$33,135	\$5,784	\$38,456
For account of issuer for cash sale	53,303	28,894	1,712	22,697
Immediate offering	38,963	28,894	1,662	8,408
Corporate	34,267	24,198	1,662	8,408
Offered to				
General Public	33,412	24,169	1,659	7,584
Security Holders	856	29	3	824
Foreign Governments	4,696	4,696	0	0
Extended cash sale and other issues	14,339	0	50	14,289
For account of issuer for other than cash sale	23,011	4,238	4,057	14,715
Secondary Offerings	1,062	3	15	1,044
Cash Sale	457	0	4	453
Other	605	3	11	591

# Effective Registrations Cash Sale For Account Of Issuers 1935-1979



★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 \$4.4 BILLION, COMMON STOCK \$6.8 BILLION

## Regulation A Offerings

During fiscal year 1979, 347 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 29**  
**OFFERINGS UNDER REGULATION A**

	Fiscal 1979	Fiscal 1978	Fiscal 1977
<b>Size</b>			
\$100,000 or less	10	23	17
\$100,000-\$200,000	33	33	30
\$200,000-\$300,000	27	36	30
\$300,000-\$400,000	30	25	24
\$400,000-\$500,000	44	120	117
\$500,000-\$1,500,000	203	5	0
<b>Total</b>	<b>347</b>	<b>242</b>	<b>218</b>
<b>Underwriters</b>			
Used	98	55	52
Not Used	249	187	166
<b>Total</b>	<b>347</b>	<b>242</b>	<b>218</b>
<b>Offerors</b>			
Issuing Companies	331	223	205
Stockholders	3	5	7
Issuers and Stockholders jointly	13	14	6
<b>Total</b>	<b>347</b>	<b>242</b>	<b>218</b>

## 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 secu-

rities 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 30**  
**TYPES OF PROCEEDINGS**

ADMINISTRATIVE PROCEEDINGS	
Persons Subject to, Acts Constituting, and Basis for, Enforcement Action	Sanction
<b>Broker-dealer, municipal securities dealer, investment adviser or associated person</b>	
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)) *
<b>Registered securities association</b>	
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 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))
<b>Member of registered securities association, or associated person</b>	
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))
<b>National securities exchange</b>	
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, unjustified 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))
<b>Member of national securities exchange, or associated persons</b>	
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))
<b>Registered clearing agency</b>	
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))
<b>Participant in registered clearing agency</b>	
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))
<b>Securities information processor</b>	
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))
<b>Transfer agent</b>	
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))
<b>Any person</b>	
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))

\*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 30—Continued**  
**TYPES OF PROCEEDINGS**

ADMINISTRATIVE PROCEEDINGS	
Persons Subject to, Acts Constituting, and Basis for, Enforcement Action	Sanction
<b>Officer or director of self-regulatory organization.</b>	
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))
<b>Principal of broker-dealer</b>	
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))
<b>1933 Act registration statement</b>	
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))
<b>Persons subject to Sections 12, 13 or 15(d) of the 1934 Act.</b>	
Material noncompliance with such provisions	Order directing compliance (1934 Act, § 15(c)(4))
<b>Securities issue</b>	
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))
<b>Registered investment company</b>	
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))
<b>Attorney, accountant, or other professional or expert</b>	
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))
<b>Attorney suspended or disbarred by court, expert's license revoked or suspended; conviction of a felony or misdemeanor involving moral turpitude.</b>	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 or practice before Commission (17 C.F.R. § 201.2(e)(3))
<b>Member of Municipal Securities Rulemaking Board</b>	
Willful violation of securities laws, rules thereunder, or rules of the Board	Censure or removal from office (1934 Act, § 15B(c)(8))
CIVIL PROCEEDINGS IN FEDERAL DISTRICT COURTS	
Persons Subject to, Acts Constituting, and Basis for, Enforcement Action	Sanction
<b>Any person</b>	
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))

**Table 30—Continued**  
**TYPES OF PROCEEDINGS**

CIVIL PROCEEDINGS IN FEDERAL DISTRICT COURTS

Persons Subject to, Acts Constituting, and Basis for, Enforcement Action	Sanction
<b>Securities Investor Protection Corporation</b>	
Refusal to commit funds or act for the protection of customers	Order directing discharge of obligations or other appropriate relief (SIPA, § 7(b))
<b>National securities exchange or registered securities association</b>	
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))
<b>Registered clearing agency</b>	
Noncompliance by its participants with its own rules	Writ of mandamus, injunction, or order directing clearing agency to enforce compliance (1934 Act, § 21(e))
<b>Issuer subject to reporting requirements</b>	
Failure to file reports required under § 15(d) of 1934 Act	Forfeiture of \$100 per day (1934 Act, § 32(b))
<b>Registered investment company or affiliate</b>	
Name of company or of security issued by it deceptive or misleading	Injunction against use of name (Investment Company Act, § 35(d))
<b>Officer, director, member of advisory board, adviser, depositor, or underwriter of investment company.</b>	
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))
<b>Any person having fiduciary duty respecting receipt of compensation from investment company</b>	
Breach of fiduciary duty	Injunction (Investment Company Act § 36(a))
REFERRAL TO ATTORNEY GENERAL FOR CRIMINAL PROSECUTION	
Basis for Enforcement Action	Sanction or Relief
<b>Any person</b>	
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)
REFERRAL TO ATTORNEY GENERAL FOR CRIMINAL PROSECUTION	
Persons Subject to Acts Constituting, and Basis for Enforcement Action	Sanction
<b>Any person</b>	
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)
<b>Any issuer which violates Section 30(a) of the 1934 Act.</b>	Maximum penalty \$1,000,000 fine (1934 Act Sec 32(c)(1))
<b>Any officer or director of an issuer, or any stockholder acting on behalf of such issuer, who willfully violates Section 30(a) of the 1934 Act.</b>	Maximum penalty \$10,000 fine and 5 years imprisonment (1934 Act Sec 32(C)(2))
<b>Any employee or agent (subject to the jurisdiction of the United States) of an issuer found to have violated Section 30(a) of the 1934 Act, who willfully carried out the act or practice constituting such violation.</b>	Maximum penalty \$10,000 fine and 5 years imprisonment (1934 Act Sec 32(C)(3))

**Table 30—Continued**  
**TYPES OF PROCEEDINGS**

REFERRAL TO ATTORNEY GENERAL FOR CRIMINAL PROSECUTION	
Persons Subject to Acts Constituting, and Basis for Enforcement Action	Sanction
<b>Any person</b>	
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)
<b>Any issuer which violates Section 30A(a) of the 1934 Act (foreign corrupt practices).</b>	Maximum penalty \$1,000,000 fine (1934 Act Sec 32(C)(1))
<b>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.</b>	Maximum penalty \$10,000 fine and 5 years imprisonment (1934 Act Sec 32(C)(2))
<b>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.</b>	Maximum penalty \$10,000 fine and 5 years imprisonment (1934 Act Sec 32(C)(3))

**Table 31**

**INVESTIGATIONS OF POSSIBLE VIOLATIONS OF THE ACTS ADMINISTERED BY THE COMMISSION**

Pending September 30, 1978	1,356
Opened	296
Total for Distribution	1,652
Closed	481
Pending September 30, 1979	1,171

During the fiscal year ending September 30, 1979, 157 formal orders were issued by the Commission upon

recommendation of the Division of Enforcement.

**Table 32**

**ADMINISTRATIVE PROCEEDINGS INSTITUTED DURING FISCAL YEAR ENDING SEPTEMBER 30, 1979**

Broker Dealer Proceedings	42
Investment Adviser Proceedings	25
Stop Order, Reg. A Suspension and Other Disclosure Cases	14

## Injunctive Actions 1978-1979

During fiscal 1979, 108 suits for injunctions and 28 miscellaneous actions were instituted in the United States district courts by the Commission, and 37 district court proceedings were brought against the Commission. During that year this office handled 11 appellate cases involving petitions for review of Commission decisions, 3 ap-

peals in reorganization matters and 42 appeals in injunction and miscellaneous cases. SEC participated and filed 15 amicus curiae briefs in 15 cases.

During fiscal 1979, the General Counsel referred to the Department of Justice 45 criminal reference reports. (This figure includes 4 criminal contempt actions.)

**Table 33**  
**INJUNCTIVE ACTIONS**

Fiscal Year	Cases Instituted	Injunctions Ordered	Defendants Enjoined
1970	111	97	448
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

## Criminal Proceedings

During the past fiscal year 45 cases were referred or access was granted to the Department of Justice. (This figure includes 4 criminal contempt actions.) As a result of these actions and those prior referrals, 42 indictments were returned against 112 defendants during the fiscal year. There were also 87 convictions in 56 cases. Convictions were

affirmed in 3 cases that had been appealed, and appeals were still pending in 8 other criminal cases at the close of the fiscal year. Of 20 defendants in 14 criminal contempt cases handled during the fiscal year, 10 defendants were convicted, prosecution was declined as to 5 defendants, and 7 defendants in 7 cases are still pending. Three cases are pending in a Suspense Category.

**Table 34**  
**CRIMINAL CASES**

Fiscal year	Number of cases referred/access Justice Dept	Number of Indictments	Defendants Indicted	Convictions
1970	35	36	102	55
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

## Trading Suspensions

During fiscal 1979, the Commission suspended trading in the securities of 23 companies, a decrease of 73 percent from the 86 securities suspended in fiscal 1978 and a 79 percent decrease from the 111 securities suspended in fiscal 1977. Of the 23 companies whose securities were the subject of trading suspensions in fiscal 1979, 10 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 availability 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 is-

sued 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 were no new corporations added to the Foreign Restricted List. The total number of corporations on the list is 101.

The complete list of all foreign corporations and other foreign entities on the Foreign Restricted List on September 30, 1978, 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)  
Atholl Brose (Exports) Ltd. (England)  
Atholl Brose, Ltd. (England)  
Atlantic and Pacific Bank 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 Banano, 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)  
 Empresa Minera Caudalosa de Panama, S.A. (Panama)  
 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 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)  
 Pyrotex 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 1979, 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, 90 non-utility subsidiaries, and 20 inactive companies, or a total of 168 system companies including the top parent and subholding companies. The following table lists the active systems.

Table 35  
 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	5	28	3 <sup>a</sup>
Central and South West Corporaton (CSW)	1	1	3	4	1	10	1 <sup>b</sup>
Colonial Gas Energy System (CGES)	1	0	2	12	2	17	—
Columbia Gas System (CGS)	1	0	8	10	0	19	—
Consolidated Natural Gas Company (CNG)	1	0	5	6	0	12	—
Eastern Utilities Associates (EUA)	1	0	3	1	2	7	4 <sup>c</sup>
General Public Utilities (GPU)	1	0	4	5	0	10	—
Middle South Utilities (MSU)	1	0	7	2	3	13	1 <sup>b</sup>
National Fuel Gas Company (NFG)	1	0	1	3	0	5	—
New England Electric System (NEES)	1	0	4	2	0	7	4 <sup>c</sup>
Northeast Utilities (NEU)	1	0	5	8	6	20	4 <sup>c</sup>
Philadelphia Electric Power Co (PEP)	0	1	1	0	1	3	—
Southern Company (SC)	1	0	5	3	0	9	—
<b>Total Companies</b>	<b>13</b>	<b>5</b>	<b>60</b>	<b>70</b>	<b>20</b>	<b>168</b>	<b>8</b>

<sup>a</sup>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% 8 other companies

<sup>b</sup>Arklahoma Corp  
 —32% CSW  
 34% MSU  
 34% Oklahoma Gas & Elec

<sup>c</sup>Yankee Atomic Electric Co 30% NEES, 31.5% NEU  
 4.5% EUA  
 Connecticut Yankee Atomic Power Co 15% NEES, 44% NEU, 4.5% EUA  
 Vermont Yankee Nuclear Power Corp 20% NEES, 12% NEU, 2.5% EUA  
 Maine Yankee Atomic Power Co 20% NEES, 15% NEU, 4% EUA  
 —Statutory utility subsidiaries

Table 36

## KEY FINANCIAL STATISTICS OF REGISTERED PUBLIC UTILITY HOLDING COMPANY SYSTEMS

Name of Company	As of June 30 1979 (000 omitted)	
	Total Assets	Operating Revenues
Allegheny Power System (APS)	\$ 2,754,956	\$ 933,886
American Electric Power Company, Inc. (AEP)	8,345,337	2,624,968
Central and South West Corporation (C&SW)	3,312,473	1,374,618
Colonial Gas Energy System (CGES) <sup>1</sup>	100,918	44,443
Columbia Gas System, Inc., The (CGS)	3,467,108	2,560,385
Consolidated Natural Gas Company (CNG)	2,374,954	1,745,798
Eastern Utilities Associates (EUA)	329,962	163,997
General Public Utilities Corporation (GPU)	4,894,928	1,385,832
Middle South Utilities, Inc. (MSU)	6,056,223	1,669,778
National Fuel Gas Company (NFG)	599,272	580,114
New England Electric System (NEES)	1,883,844	818,531
Northeast Utilities (NEU)	3,063,662	968,683
Philadelphia Electric Power Co. (PEP) <sup>2</sup>	60,789	6,829
Southern Company, The (SC)	10,281,747	2,980,889
	<b>\$47,526,173</b>	<b>\$17,858,751</b>

<sup>1</sup>As of July 31, 1979<sup>2</sup>As of December 31, 1978

**Table 37**  
**PUBLIC FINANCING OF HOLDING COMPANY SYSTEMS**  
(Fiscal 1979)

	In Millions of Dollars					
	Bonds	Long-term Notes and/or Debentures	Pollution Control Financings	Stock		Short Term Debt
				Preferred	Common	
Allegheny Power System Inc	\$	\$	\$	\$	\$ 80 0	\$ 70 0
Monogahela Power Co	45 0		25 0			50 0
Potomac Edison Power Co						48 0
West Penn Power Co						84 0
American Electric Power Co					136 0	165 0
Appalachian Power Co	105 0		50 0	40 0		200 0
Indiana-Michigan Electric Co	80 0		20 0	40 0		150 0
Kentucky Power Co						35 0
Ohio Power Co	40 0					150 0
Ohio Valley Electric Co			101 0			
Central & South West Corp					55 0	250 0
Central Power & Light Co				50 0		100 0
Public Service of Oklahoma						90 0
Southwestern Electric Power Co	75 0					75 0
West Texas Utilities Co	25 0					35 0
Central & South West Services						2 0
Colonial Gas Energy Co				5 5		
Lowell Gas Co	6 9					
Cape Cod Gas Co	4 2					
Columbia Gas System		175 0			45 0	270 0
Consolidated Natural Gas Co		75 0			20 0	
Eastern Utilities Associates		22 5			15 0	
Blackstone Valley Electric						25 0
Eastern Edison						47 5
General Public Utilities						150 0
Jersey Central Power & Light Co	50 0	70 0				140 0
Metropolitan Edison Co						97 0
Pennsylvania Electric Co	50 0					116 0
Middle South Utilities					142 5	175 0
Arkansas-Missouri Power Co						6 6
Arkansas Power & Light Co	60 0			40 0		
Louisiana Power & Light Co	60 0		8 3	95 0		130 0
Middle South Energy	400 0					
Mississippi Power & Light Co	10 0					
New Orleans Public Service	15 0					
National Fuel Gas Co		40 0				34 5
New England Electric System					60 0	25 0
Granite State Electric						2 0
Massachusetts Electric						25 0
Narragansett Electric						27 0
New England Power Co						78 0
Northeast Utilities					40 0	15 0
Connecticut Light & Power Co						150 0
Hartford Electric Light Co						35 0
Holyoke Water Power Co						6 0
Northeast Utilities Service Co						3 0
Western Massachusetts Electric Co		20 0				40 0
Philadelphia Electric Power Co						4 3
Susquehanna Power Co						4 0
Southern Company, The					134 0	100 0
Alabama Power Co						150 0
Georgia Power Co	225 0	4 4	80 0	50 0		
Gulf Power Co	30 0			10 0		93 0
Mississippi Power Co						20 0
Connecticut Yankee Atomic Power						25 0
Yankee Atomic Electric Co						16 0
<b>Total</b>	<b>\$1,281 1</b>	<b>\$336 9</b>	<b>\$291 3</b>	<b>\$330 5</b>	<b>\$727 5</b>	<b>\$3,513 9</b>

Total<sup>a</sup> = \$6,481.2 million

## Fuel Programs

During fiscal year 1979, the Commission authorized \$460.6 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 38**  
**REGULATED EXPENDITURES OF HOLDING COMPANY SYSTEMS**

(Fiscal 1979)

Holding Company Systems	(In Millions of Dollars)					
	Gas and/or Oil Exploration	Coal, Lignite Exploration & Development	Uranium Exploration	Nuclear Fuel Procurement	Coal Gasification	Fuel Transportation & Storage
American Electric Power Co	\$ 26.6	\$115.0	\$ 1.3	\$ 78.0	\$	\$ 5.658
Central & South West Corp		9.1				
Columbia Gas System, Inc					18.5	
Consolidated Natural Gas Co					4.0	
Middle South Utilities	17.4	3.3	6.9	42.7		9
New England Electric System	25.0					
Northeast Utilities				30.0		
Southern Company						15.6
	\$69.0	\$127.4	\$8.2	\$150.7	\$22.5	\$82.8

Total = \$460.6 million

**FUEL PROGRAMS**

During fiscal year 1979, the Commission authorized \$460.6 million of fuel explorations and development capital expenditures for the holding company systems. Of this amount \$196.4 million was for fossil fuel exploration and development. Uranium exploration and leasing of nuclear fuel amounted to \$158.9 million. Approximately \$82 million of fuel transportation and storage was for coal hopper cars and maintenance equipment. These expenditures cover annual fuel programs subject to regulation under the Holding Company Act defined on geographical and functional terms.

**CORPORATE REORGANIZATIONS**

In the fiscal year, the Commission entered three new Chapter X proceedings involving companies with aggregate stated assets of approximately \$69.9 million and aggregate indebtedness of approximately \$93.6 million. Including the new proceedings, the Commission was a party in a total of 97 reorganization proceedings during

the fiscal year. The stated assets of the companies involved in these proceedings totaled approximately \$4.9 billion and their indebtedness about \$4.5 billion.

During the fiscal year, nine proceedings were closed, leaving 88 in which the Commission was a party at year end.

**Table 39**  
**REORGANIZATION PROCEEDINGS UNDER CHAPTER X OF THE BANKRUPTCY ACT**  
**IN WHICH THE COMMISSION PARTICIPATED**

(Fiscal Year 1979)

Debtor	District Court	Petition Filed	SEC Notice of Appearance Filed
Aldersgate Foundation, Inc	M D Fla	Sept 12, 1974	Oct 3, 1974
American Associated Systems, Inc	E D Ky	Dec 24, 1970	Feb 26, 1971
American Land Corp <sup>3</sup>	S D Ohio	Aug 8, 1973	Sept 25, 1973
American Mortgage & Investment Co	D S C	Dec 13, 1974	Feb 6, 1975
Arlan's Dept Stores, Inc <sup>3</sup>	S D N Y	March 8, 1974	March 8, 1974
Bankers Trust <sup>3</sup>	S D Ind	Oct 7, 1966	Nov 1, 1966
Bankers Trust Co <sup>3</sup>	S D Miss	Dec 16, 1976	April 5, 1977
Beck Industries, Inc	S D N Y	May 27, 1971	July 30, 1971
Bermeo Corp <sup>3</sup>	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	S D N Y	Jan 15, 1974	June 10, 1974
C I P Corp <sup>3</sup>	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 <sup>1</sup>	D Mass	Oct 5, 1978	Nov 1, 1978
Coast Investors, Inc <sup>3</sup>	W D Wash	April 1, 1964	June 10, 1964
Combined Metals Reduction Co	D Nev	Sept 30, 1970	Sept 7, 1972
Commonwealth Corp	N D Fla	June 28, 1974	July 17, 1974
Commonwealth Financial Corp <sup>3</sup>	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 <sup>3</sup>	E D N Y	July 10, 1963	Aug 7, 1963
Davenport Hotel, Inc <sup>3</sup>	E D Wash	Dec 20, 1972	Jan 26, 1973
Detroit Port Development Corp <sup>3</sup>	E D Mich	Sept 14, 1976	Nov 17, 1976
Diversified Equity Corp	S D Ind	Jan 24, 1977	Feb 17, 1977
Diversified Mountaineer Corp <sup>3</sup>	S D W Va	Feb 8, 1974	April 24, 1974
Dumont Airplane & Marine <sup>1</sup>	S D N Y	Oct 22, 1958	Nov 10, 1958
Duplan Corp	S D N Y	Oct 5, 1976	Oct 5, 1976
E T & T Leasing, Inc <sup>3</sup>	D Md	Dec 20, 1974	June 5, 1975
Farrington Manufacturing Co <sup>3</sup>	E D Va	Dec 22, 1970	Jan 14, 1971
First Baptist Church, Inc of Margate, Fla	S D Fla	Sept 10, 1973	Oct 1, 1973
First Home Investment Corp of Kansas, Inc <sup>3</sup>	D Kan	April 24, 1973	April 24, 1973
First Research Corp <sup>3</sup>	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	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
Gro-Plant Industries, Inc <sup>2</sup>	N D Fla	Aug 30, 1972	Sept 13, 1972
Guaranty Trust Co	W D Okla	April 9, 1979	April 9, 1979
Gulfco Investment Corp	W D Okla	March 22, 1974	March 28, 1974
Gulf Union Corp	M D La	Aug 29, 1974	Nov 5, 1974
Harmony Loan, Inc	E D Ky	Jan 31, 1973	Jan 31, 1973
Hawaii Corp	D Hawaii	March 17, 1977	March 17, 1977
Hawkeye Land, Ltd <sup>2</sup>	S D Iowa	Dec 19, 1973	Jan 21, 1974
Home-Stake Production Co	N D Okla	Sept 20, 1973	Oct 2, 1973
Houston Educational Foundation, Inc <sup>3</sup>	S D Texas	Feb 16, 1971	March 2, 1971
Imperial-American Resources Fund, Inc	D Colo	Feb 25, 1972	March 6, 1972
Imperial '400' National, Inc <sup>2</sup>	D N J	Feb 18, 1966	Feb 23, 1966
Indiana Business & Investment Trust <sup>2</sup>	S D Ind	Oct 10, 1966	Nov 4, 1966
Interstate Stores, Inc <sup>3</sup>	S D N Y	June 13, 1974	June 13, 1974
Investors Associated, Inc <sup>3</sup>	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 <sup>3</sup>	N D Ga	Oct 20, 1972	Nov 7, 1972
King Resources Co <sup>3</sup>	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 <sup>3</sup>	E D Pa	June 23, 1970	July 6, 1970
Mid-City Baptist Church <sup>2</sup>	E D La	July 30, 1968	Oct 23, 1968
Mount Everest Corp <sup>3</sup>	E D Pa	May 29, 1974	June 28, 1974

See footnotes at end of table

**Table 39—Continued**  
**REORGANIZATION PROCEEDINGS UNDER CHAPTER X OF THE BANKRUPTCY ACT**  
**IN WHICH THE COMMISSION PARTICIPATED**

(Fiscal Year 1979)

Debtor	District Court	Petition Filed	SEC Notice of Appearance Filed
National Telephone Co., Inc	D Conn	July 10, 1975	May 27, 1976
Nevada Industrial Guaranty Co	D Ney	May 7, 1963	July 2, 1963
North American Acceptance Corp	N D Ga	March 5, 1974	March 28, 1974
North Western Mortgage Investors Corp <sup>3</sup>	W D Wash	Dec 12, 1973	Dec 12, 1973
Omega-Alpha, Inc <sup>3</sup>	N D Texas	Jan 10, 1975	Jan 10, 1975
Pacific Homes	C D Cal	Dec 9, 1977	Feb 2, 1978
Pan American Financial Corp	D Hawaii	Oct 2, 1972	Jan 9, 1973
Parkview Gem, Inc	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 <sup>3</sup>	D Utah	Jan 16, 1970	Feb 6, 1970
Reliance Industries, Inc	D Hawaii	May 24, 1976	Aug 10, 1976
Riker Delaware Corp	D N J	April 21, 1967	May 23, 1967
Royal Inns of America, Inc	S D Cal	April 24, 1975	June 24, 1975
Scranton Corp <sup>3</sup>	M D Pa	April 3, 1959	April 15, 1959
Sierra Trading Corp <sup>3</sup>	D Colo	July 7, 1970	July 22, 1970
Sound Mortgage Co., Inc <sup>3</sup>	W D Wash	July 27, 1965	Aug 31, 1965
Southern Land Title Corp	E D La	Dec 7, 1966	Dec 31, 1966
Standco Developers, Inc	W D N Y	Feb 5, 1974	March 7, 1974
Stirling Homex Corp	W D N Y	July 11, 1972	July 24, 1972
Sunset International Petroleum Corp <sup>3</sup>	N D Texas	May 27, 1970	June 10, 1970
TMT Trailer Ferry, Inc <sup>3</sup>	S D Fla	June 27, 1957	Nov 22, 1957
Thermo-Dyne, Inc <sup>3</sup>	W D Okla	Feb 24, 1978	June 5, 1978
Tilco, Inc <sup>3</sup>	D Kans	Feb 7, 1973	Feb 22, 1973
Tower Credit Corp <sup>3</sup>	M D Fla	April 13, 1966	Sept 6, 1966
Traders Compress Co <sup>3</sup>	W D Okla	May 12, 1972	June 6, 1972
Trans-International Computer Investment <sup>2</sup>	N D Cal	March 22, 1971	July 26, 1971
Trinity Baptist Church of Jacksonville, Inc	N D Fla	June 24, 1977	Oct 3, 1977
"U" District Building Corp <sup>3</sup>	W D Wash	Dec 9, 1974	Dec 9, 1974
U S Financial, Inc	S D Cal	Sept 23, 1975	Nov 3, 1975
University Baptist Church of Jacksonville, Florida Inc	M D Fla	May 23, 1977	Oct 3, 1977
Virgin Island Properties, Inc <sup>3</sup>	D V I	Oct 22, 1971	April 11, 1972
Washington Group, Inc	M D N C	June 20, 1977	July 25, 1977
Webb & Knapp, Inc <sup>2</sup>	S D N Y	May 7, 1965	May 11, 1965
Western Growth Capital Corp	D Ariz	Feb 10, 1967	May 16, 1968
Westgate California Corp.	S D Cal	Feb 26, 1974	March 8, 1974
Wonderbowl, Inc	C D Cal	March 10, 1967	June 7, 1967
Yale Express System, Inc <sup>2</sup>	S D N Y	May 24, 1965	May 28, 1965

<sup>1</sup>Commission filed notices of appearance in fiscal year 1979

<sup>2</sup>Reorganization proceedings closed during fiscal year 1979

<sup>3</sup>Plan has been substantially consummated but no final decree has been entered because of pending matters

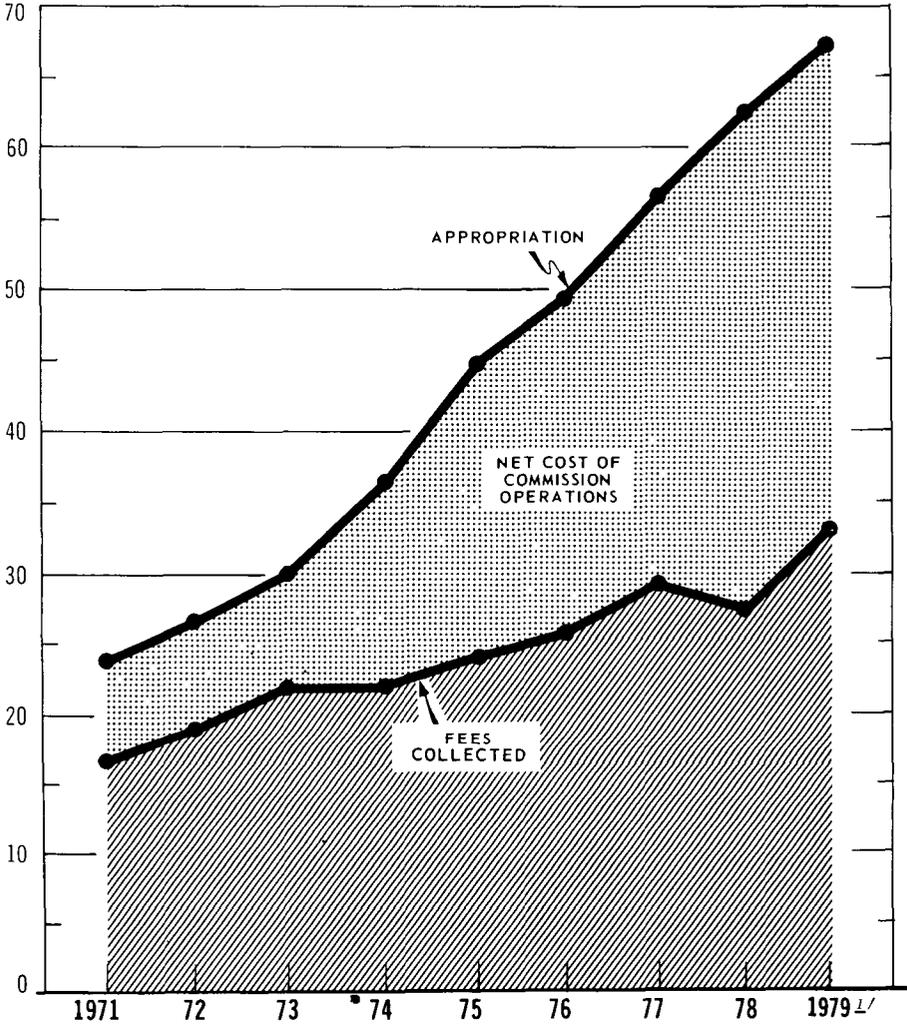
## **SEC OPERATIONS**

The Commission collects fees for the registration of securities, securities transactions on national securities exchanges, and miscellaneous filings, reports and applications. In fiscal year 1979, the Commission collected a record \$33 million dollars in fees, representing approximately 47 percent of the total funds appropriated by the Congress for Commission operations.

These figures are up from \$26 million, representing 42 percent of funds appropriated in fiscal year 1978. Nearly \$4 million of the increase in collections was attributed to Securities Act registration fees resulting from both higher volumes and larger offerings, while higher stock exchange volumes accounted for \$2.3 million of the increase.

# Appropriated Funds vs Fees Collected

Dollars Millions



<sup>1/</sup> Estimated

**Table 40**  
**BUDGET ESTIMATES AND APPROPRIATION**

Action	Fiscal 1975		Fiscal 1976		Transitional Quarter		Fiscal 1977		Fiscal 1978		Fiscal 1979		Fiscal 1980	
	Posi- tions	Money	Posi- tions	Money	Posi- tions	Money	Posi- tions	Money	Posi- tions	Money	Posi- tions	Money	Posi- tions	Money
Estimate submitted to the Office of Management and Budget	2,219	\$43,674,000	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
Action by the Office of Management and Budget	-225	-1,543,000	-276	-7,390,000			-283	-1,724,000	-41	-710,000	-47	-1,800,000	-144	-3,439,000
Amount allowed by the Office of Management and Budget <sup>1</sup>	1,994	42,131,000	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
Action by the House of Representatives	+150	+946,000		-302,000		-75,000		-98,000		-290,000	-7	-150,000		-93,000
Sub-total	2,144	43,077,000	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
Action by the Senate			+126	+2,000,000		+250,000				+290,000				+40,000
Subtotal	2,144	43,077,000	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	2,144	43,077,000	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		68,986,000
Supplemental appropriation		1,350,000		1,406,000		502,000		3,270,000		4,375,000		2,450,000		
Total appropriation	2,144	44,427,000	2,081	49,291,000	2,081	12,177,000	2,117	56,270,000	2,092	62,475,000	2,125	67,100,000		

<sup>1</sup>Adjusted by \$2,688,000 pay increase supplemental for fiscal year 1979 not included in fiscal year 1980 OMB submission base

