22*nd* Annual Report

of the

Securities and Exchange Commission

Fiscal Year Ended June 30, 1956

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SECURITIES AND EXCHANGE COMMISSION

Headquarters Office

425 Second Street NW.

Washington 25, D. C.

COMMISSIONERS

January 3, 1957

J. SINCLAIR ARMSTRONG, *Chairman*
ANDREW DOWNEY ORRICK
HAROLD C. PATTERSON
EARL F. HASTINGS
JAMES C. SARGENT
ORVAL L. DUBOIS, *Secretary*

LETTER OF TRANSMITTAL

SECURITIES AND EXCHANGE COMMISSION,
Washington, D. C., January 3, 1957.

SIR: On behalf of the Securities and Exchange Commission, I have the honor to transmit to you the Twenty-Second Annual Report of the Commission covering the fiscal year July 1, 1955 to June 30, 1956 in accordance with the provisions of Section 23 (b) of the Securities Exchange Act of 1934, approved June 6, 1934; section 23 of the Public Utility Holding Company Act of 1935, approved August 26, 1935; section 46 (a) of the Investment Company Act of 1940, approved August 22, 1940; section 216 of the Investment Advisers Act of 1940, approved August 22, 1940; and section 3 of the act of June 29, 1949, amending the Bretton Woods Agreements Act.

Respectfully,

J. SINCLAIR ARMSTRONG,
Chairman.

THE PRESIDENT OF THE SENATE,
THE SPEAKER OF THE HOUSE OF REPRESENTATIVES,
Washington, D. C.

TABLE OF CONTENTS

PART VI

PART VII

PART VIII

PART IX

PART X

PART XI

PART XII

APPENDIX—STATISTICAL TABLES

FOREWORD

The 22d Annual Report of the Securities and Exchange Commission to the Congress for the fiscal year July 1, 1955, to June 30, 1956 (herein called "1956"), describes the work of the Commission during the year in discharging its duties under the Federal securities laws which it was established by the Congress to administer. These include supervision of the registration of securities for sale in interstate commerce to the public, the surveillance of the interstate securities markets, regulation of the activities of brokers and dealers and investment advisers, the regulation of public utility holding company systems and investment companies, and litigation in enforcement of the Federal securities laws in the courts.

The year 1956 has been one of great activity in the regulation and supervision of securities markets by the Commission. The increasing responsibility of the Commission was brought about by the sustained high level of economic activity in the country, and the accompanying stepped-up activity in the Nation's capital markets.

In 1956 new issues of securities registered for public sale totaled $13.1 billion, the largest amount in the Commission's history and more than $2 billion in excess of the amount registered in the preceding year. The value of securities traded on stock exchanges during 1956 was $38 billion, more than double the figure of fiscal 1953. Stockholders in publicly owned American corporations are estimated by the New York Stock Exchange to include about 8.5 million domestic individuals, 2 million more than 5 years ago. About 4,600 brokers and dealers were registered with the Commission as compared with 4,100 3 years ago.

Enforcement activities such as broker-dealer inspections and investigations of fraud and market manipulations have been greatly expanded to meet current needs occasioned by abuses incident to the marketing of certain types of securities of speculative quality. The Commission's Enforcement Program, to assure fair disclosure of material facts in connection with the marketing of corporate securities and for the prevention, detection and punishment of fraud in the sale of securities, has been intensively pursued in the interest of the investing public. Administrative and legal actions taken under the Enforcement Program have exceeded those of any prior year. These include 100 suspensions of offerings for which the small issues exemption was claimed, 8 stop orders of securities for which

registration statements were filed, 45 revocation and denials proceedings against broker-dealers and investment advisors; 33 injunctive and one subpoena enforcement actions and 20 criminal referrals to the Department of Justice.

The Commission has continued its program of strengthening and simplifying its rules, forms and procedures with a view to the more effective dissemination of information to investors, the prevention, detection and punishment of fraud and the elimination of unnecessary complexities and duplications. An intensive study of the problems of small business in marketing securities, particularly for equity capital, was conducted by the Commission in 1956, and shortly after the close of the year our exemptive regulations for issues of $300,000 or less were revised and streamlined so as to provide better protection to the investing public without unnecessary or burdensome compliance requirements on small business enterprises seeking access to the interstate capital markets. There was also established shortly thereafter a Branch of Small Issues in our Division of Corporation Finance in Washington, D. C., to coordinate and facilitate the handling in our nine regional offices throughout the country of the filings for small issues.

During the year, the Commission and its staff have appeared before committees of the Congress on many occasions in connection with proposed legislation dealing with the Commission's work and other subjects of interest to the Congress. Various legislative proposals considered are discussed in this report. This work of the Commission in assisting the Congress is of great importance to the public interest.

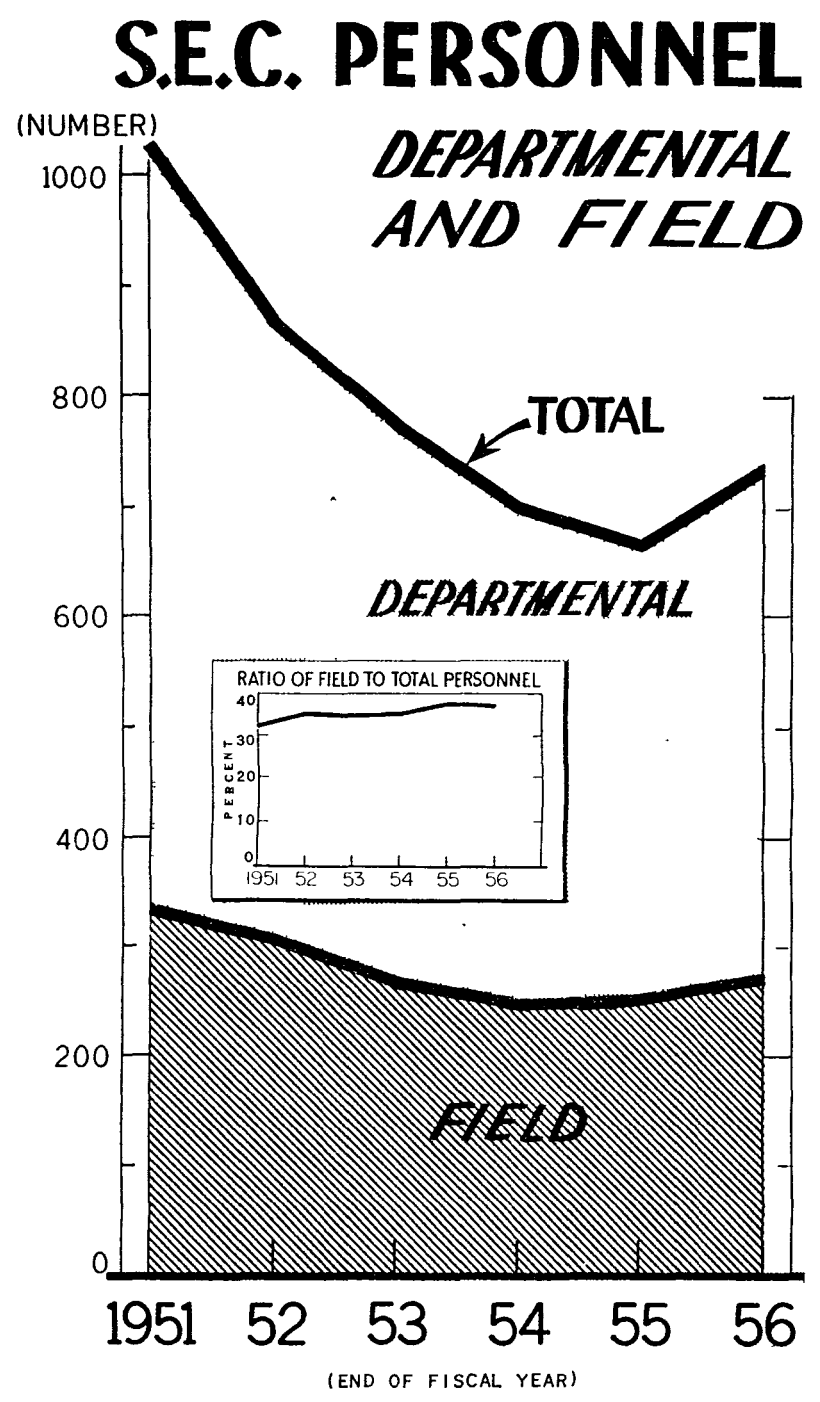
To meet the greatly increased workload in accordance with the recommendation contained in the President's Budget, the Congress granted the Commission an appropriation for an average employment of about 730, in 1956, which represented a small increase from 1955 and, most significant, an end of successive annual curtailments of staff from a high of over 1,700 in 1942 to an all-time low of 666 on June 30, 1955. For 1957, the Congress, recognizing this Commission's request in light of the vastly expanded economy and capital markets, appropriated funds for an average employment of 794.

Statutory fees for registration of new issues of securities and trading in issues registered for trading on stock exchanges are imposed by the Federal securities laws. These fees are not available to the Commission for expenditure and are covered into the Treasury as miscellaneous receipts. These fees, however, amounted to 39 percent of the 1956 appropriation for the Commission and therefore represent a reduction in the cost of the Commission which must be provided by the general taxpayer.

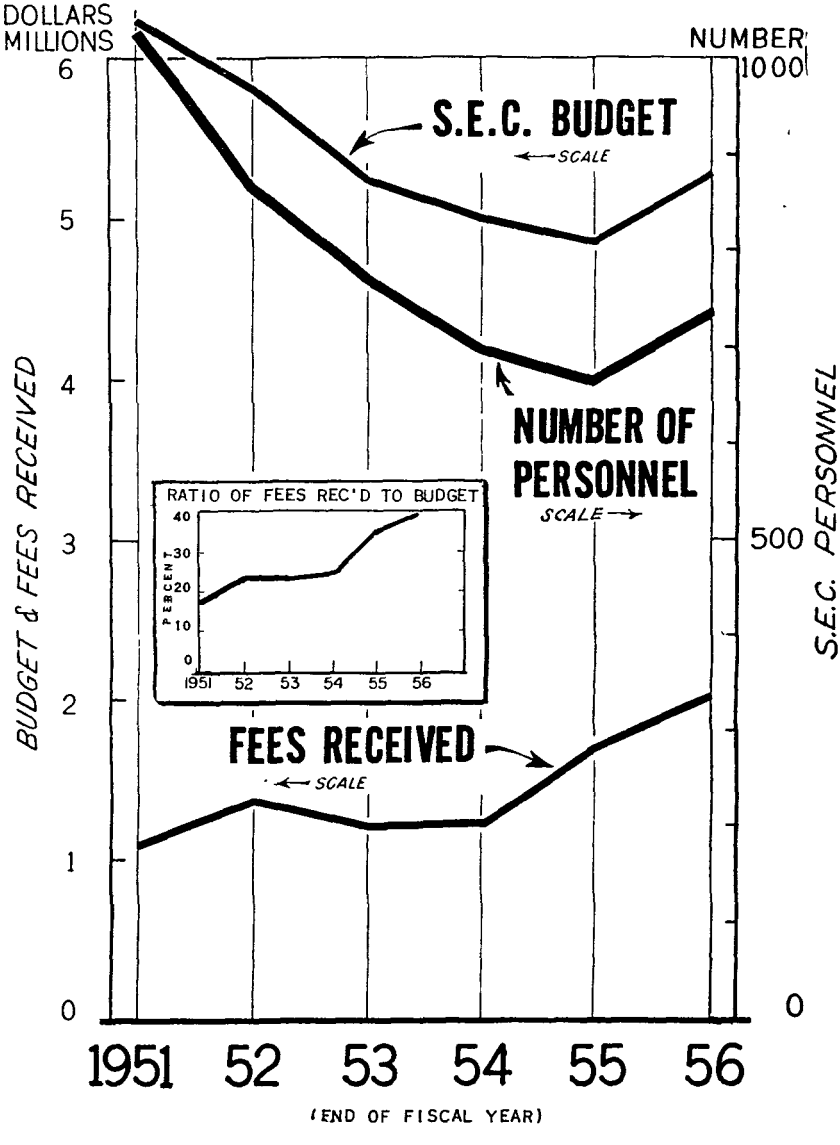
During 1956 the Commission has rendered an effective administration at a minimum cost. However, constantly increasing regulatory and supervisory responsibility brought about by the great activity in the securities markets makes it essential that the Congress provide funds for this Commission adequately to fulfill its statutory function of protection of the investor, the consumer and the public in accordance with the acts of Congress which it has the responsibility to administer.

The work of the Securities and Exchange Commission in protecting the investor, the consumer and the public according to the standards established bv the Congress in the Federal securities laws is vitally important to the maintenance of confidence in the securities markets which is essential to the preservation of the free enterprise system.

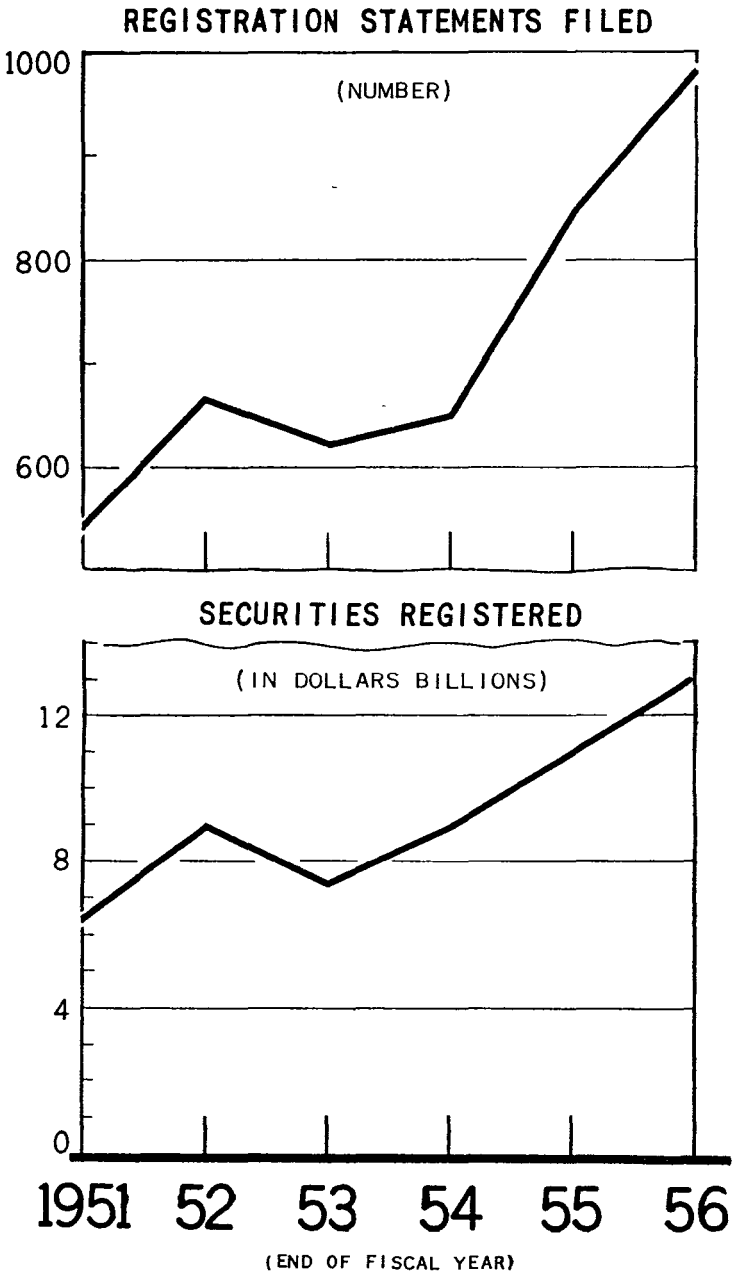
The charts which follow show in graphic form various aspects of the activities and personnel of the Commission relating to its increased workload.


S.E.C. PERSONNEL
(NUMBER)
1000
800
600
400
200
0
DEPARTMENTAL AND FIELD
TOTAL
DEPARTMENTAL
FIELD
RATIO OF FIELD TO TOTAL PERSONNEL
40
30
20
10
0
PERCENT
1951 52 53 54 55 56
1951 52 53 54 55 56
(END OF FISCAL YEAR)
DS- 37 48

S.E.C. BUDGET, FEES RECEIVED, AND NUMBER OF PERSONNEL



SECURITIES REGISTERED WITH S.E.C.



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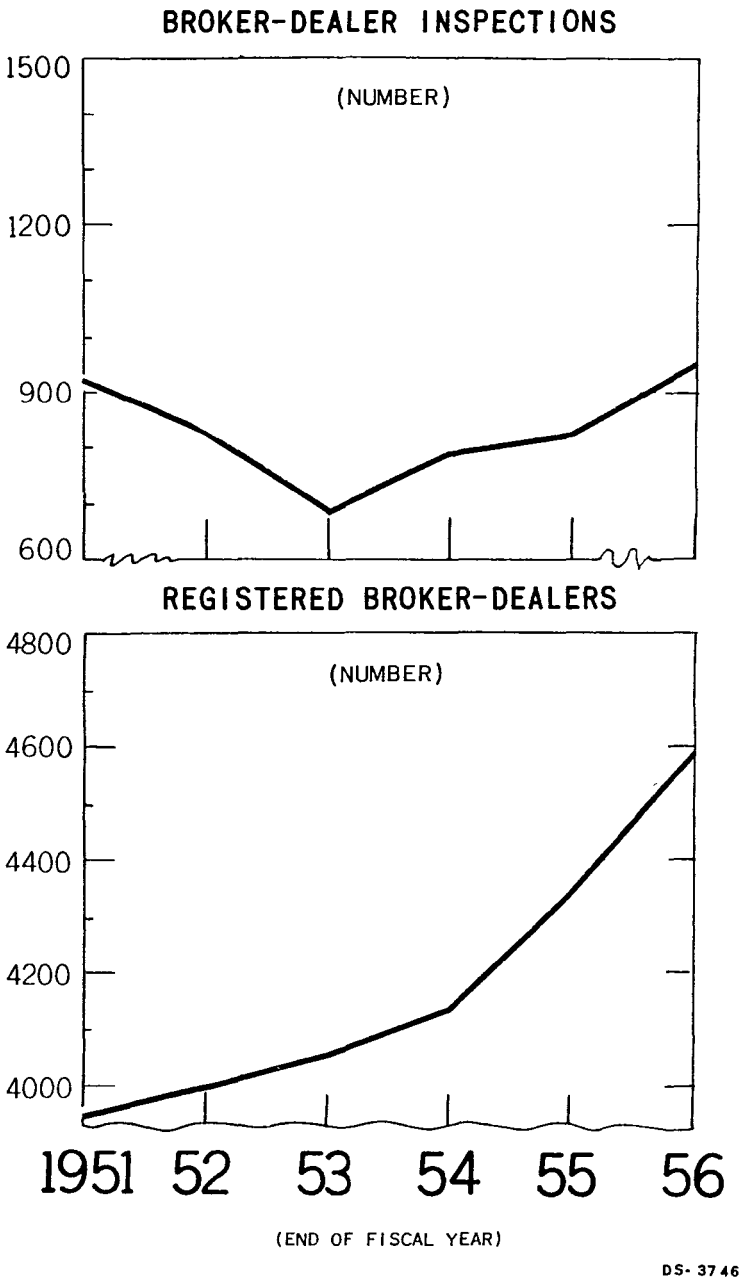
S.E.C. BROKER-DEALER REGISTRATION AND INSPECTION



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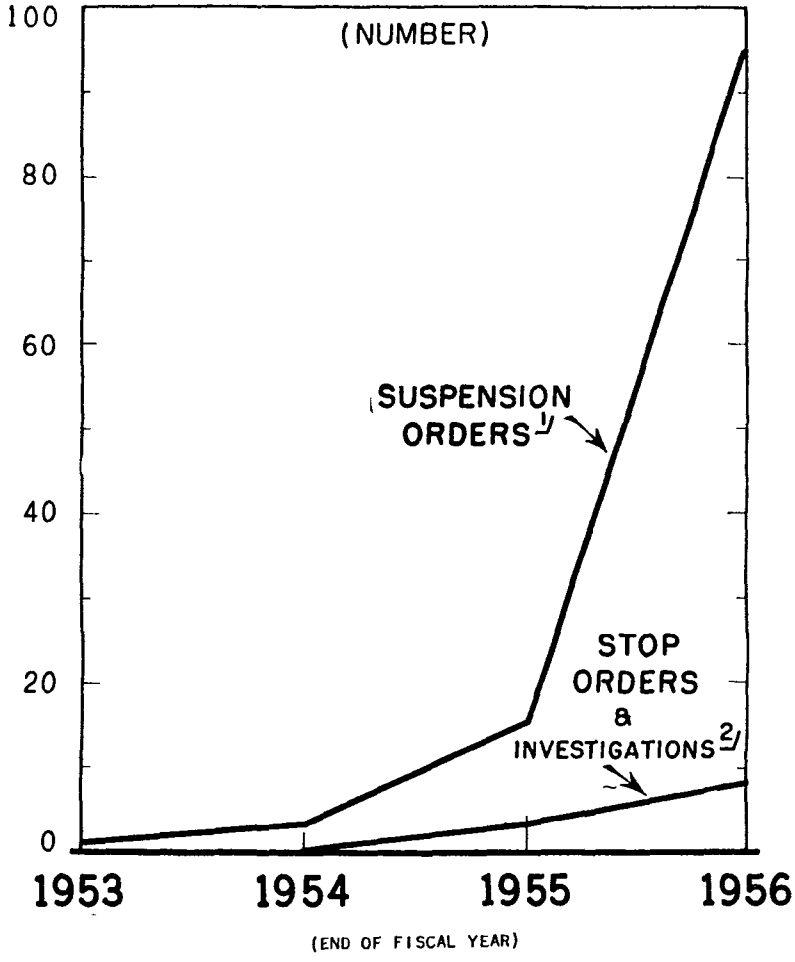
CERTAIN ENFORCEMENT ACTIONS UNDER THE SECURITIES ACT OF 1933



1/ **SUSPENSION ORDERS** - ORDERS DENYING EXEMPTIONS FROM REGISTRATION UNDER REGULATION A.

2/ **STOP ORDERS & INVESTIGATIONS** - NUMBER OF REGISTRATION STATEMENTS ON WHICH ORDERS WERE ISSUED AUTHORIZING STOP ORDERS OR INVESTIGATIONS.

DS-3745

COMMISSIONERS AND STAFF OFFICERS

(As of June 30, 1956)

Commissioners	*Term expires June 5*
J. SINCLAIR ARMSTRONG of Illinois, *Chairman*	1958
ANDREW DOWNEY ORRICK of California	1957
HAROLD C. PATTERSON of Virginia	1960
EARL F. HASTINGS of Arizona	1959
JAMES C. SARGENT of New York [1]	1961

Secretary: ORVAL L. DUBOIS

Staff Officers

ALBERT K. SCHEIDENHELM, Executive Director.

F. BOURNE UPHAM, III, Assistant Executive Director.

FRANK G. URIELL, Executive Assistant to the Chairman.

BYRON D. WOODSIDE, Director, Division of Corporation Finance.

GEORGE A. BLACKSTONE, Associate Director.

RAY GARRETT, Jr., Director, Division of Corporate Regulation.[2]

PHILIP A. LOOMIS, Jr., Director, Division of Trading and Exchanges.

THOMAS G. MEEKER, General Counsel.

BRUCE L. CARSON,[3] Associate General Counsel.

EARLE C. KING, Chief Accountant.[4]

LEONARD HELFENSTEIN, Director, Office of Opinion Writing.

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[1] Assumed office June 29, 1956. Succeeded Clarence H. Adams, term of office expired June 5, 1956.

[2] Joseph C. Woodle designated Associate Director, Division of Corporate Regulation, effective November 2, 1956.

[3] Resigned September 21, 1956 Daniel J. McCauley, Jr., designated Associate General Counsel, effective October 5, 1956.

[4] Resigned November 16, 1956. Andrew Barr designated Chief Accountant, effective, November 17, 1956.

REGIONAL AND BRANCH OFFICES

Regional Administrators

Region 1. New York, New Jersey. Daniel J. McCauley, Jr. (Acting),[1] 225 Broadway, New York 7, New York.

Region 2. Massachusetts, Connecticut, Rhode Island, Vermont, New Hampshire, Maine. Philip E. Kendrick, United States Post Office and Courthouse, Post Office Square, Boston 9, Massachusetts.

Region 3. Tennessee, North Carolina South Carolina, Georgia, Alabama, Mississippi, Florida, and that part of Louisiana lying east of the Atchafalaya River. William Green, Peachtree-Seventh Building (Room 350), Atlanta, 23, Georgia.

Region 4. Illinois, Indiana, Iowa, Kansas City (Kansas), Kentucky, Michigan, Minnesota, Missouri, Ohio, Wisconsin. Thomas B. Hart, Bankers Building (Room 630), 105 West Adams Street, Chicago 3, Illinois.

Region 5. Oklahoma, Arkansas, Texas, that part of Louisiana lying west of the Atchafalaya River, and Kansas (except Kansas City). Oran H. Allred, United States Courthouse (Room 301), 10th and Lamar Streets, Fort Worth 2, Texas.

Region 6. Wyoming, Colorado, New Mexico, Nebraska, North Dakota, South Dakota, Utah. Milton J. Blake, New Customhouse (Room 573), 19th and Stout Streets, Denver 2, Colorado.

Region 7. California, Nevada, Arizona, Hawaii. Arthur E. Pennekamp.[2] Pacific Building (Room 339), Fourth and Market Streets, San Francisco 3, California.

Region 8. Washington, Oregon, Idaho, Montana, Alaska. James E. Newton, 905 Second Avenue Building (Room 304), Seattle 4, Washington.

Region 9. Pennsylvania, Maryland, Virginia, West Virginia, Delaware, District of Columbia. Daniel J. McCauley, Jr.,[3] 425 Second Street NW. (Room 105), Washington 25, D. C.

Branch Offices

Cleveland, Ohio. Standard Building (Room 1628), 1370 Ontario Street.

Detroit, Michigan. Federal Building (Room 1074).

Los Angeles, California. United States Post Office and Courthouse (Room 1737), 312 North Spring Street.

St. Paul, Minnesota. Main Post Office and Courthouse (Room 1027), 180 East Kellogg Boulevard.

Salt Lake City, Utah. Boston Building (Room 201).

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[1] Designated Acting Regional Administrator, June 29, 1956, succeeding James C. Sargent, who was appointed Commissioner, June 29, 1956. Paul Windels, Jr., designated Regional Administrator, August 6, 1956.

[2] Succeeded George A. Blackstone, who was appointed Associate Director, Division of Corporation Finance, March 8, 1956. Mr. Pennekamp designated Regional Administrator, May 7, 1956.

[3] Designated Associate General Counsel, October 5, 1956. James J. Duncan designated Acting Regiona Administrator.

COMMISSIONERS

J. Sinclair Armstrong, Chairman

Chairman Armstrong was born in New York, N. Y., on October 15, 1915. He received an A. B. degree from Harvard College in 1938 and an LL.B. degree from Harvard Law School in 1941. After passing the New York State Bar Examination in 1941 he moved to Chicago, Ill., in July 1941; was admitted to practice in Illinois in that year, and from 1941 to 1945 was associated with the law firm of Isham, Lincoln & Beale. From 1945 to 1946 he was on active duty in the United States Naval Reserve, assigned to the Office of the General Counsel for the Department of the Navy in Washington. In 1946 he returned to Isham, Lincoln & Beale, becoming a partner of the firm in 1950. On July 16, 1953, he took office as a member of the Securities and Exchange Commission for a term of office expiring June 5, 1958, and was designated Chairman of the Commission on May 25, 1955. He has also served as the Commission's delegate as a member of the President's Conference on Administrative Procedure in 1954.

Andrew Downey Orrick

Commissioner Orrick was born in San Francisco, Calif., on October 18, 1917. He received his B. A. degree from Yale College in 1940 and an LL.B. degree from the University of California (Hastings College of Law) in 1947. From 1942 to 1946 he was on active duty with the United States Army as a captain in the Transportation Corps. After being admitted to practice in California in 1947 he was associated with the law firm of Orrick, Dahlquist, Herrington & Sutcliffe, in San Francisco, until February 1954, when he became Regional Administrator of the San Francisco Regional Office of the Securities and Exchange Commission. He served in that capacity until May 24, 1955, when he was appointed a member of the Commission for a term of office expiring June 5, 1957.

Harold C. Patterson

Commissioner Patterson was born in Newport, R. I., on March 12, 1897, and attended public schools in Massachusetts and Maryland. He attended George Washington University after graduating from Randolph Macon Academy. In 1918 he enlisted in the United States Naval Reserve for service in World War I, was commissioned ensign, United States Naval Reserve, in 1918; in June 1919 commissioned ensign United States Navy; and resigned in 1923. Prior to 1954, he had for many years been a partner of Auchincloss, Parker & Redpath,

members of the New York Stock Exchange, in Washington, D. C. He resigned from the firm June 1, 1954. He served as a Board Member of the National Association of Securities Dealers, Inc., and was active over the years in its securities industry policing work. On June 15, 1954, he was appointed Director of the Division of Trading and Exchanges of the Securities and Exchange Commission and served in that capacity until August 5, 1955, when he took office as a member of the Commission for a term of office expiring June 5, 1960.

Earl F. Hastings

Commissioner Hastings was born in Los Angeles, Calif., on April 27, 1908, and resides in Glendale, Ariz. He attended Texas Western University and the University of Denver. He is a registered professional engineer. During the years 1932 to 1941 he served as a consulting engineer with mining and industrial firms. From 1941 to 1942 he worked with Hawaiian constructors on a military installation on Oahu, T. H. From 1942 to 1947 he served in various engineering and managerial capacities. At that time he became a general partner of the firm, Darlington, Hastings & Thorne, which served as industrial consultants and managers. In 1949 he was appointed Director of Securities, Arizona Corporation Commission, Phoenix, and he served in that capacity until March 1, 1956, when he was appointed a member of the Securities and Exchange Commission for a term of office expiring June 5, 1959.

James C. Sargent

Commissioner Sargent was born in New Haven, Conn., on February 26, 1916, and holds degrees of B. A. and LL.B. from the University of Virginia. He was admitted to the New York Bar in 1940 and became associated with the firm of Clark & Baldwin, New York City. From January 1941 to July 1951, except for military service, he was employed as a trial attorney by Consolidated Edison Co. of New York. He enlisted in the United States Army Air Force in 1942 and served in this country as an Air Intelligence school instructor and as a combat and special intelligence officer in the Southwest Pacific. He was separated to inactive duty in January 1946 with the rank of captain and holds that rank in the organized reserve. In the fall of 1948, he served as an Assistant Attorney General of the State of New York in the Election Frauds Bureau in New York City. From July 1951 to August 1954 he was employed as law assistant to the Appellate Division, First Department, Supreme Court, State of New York. He was associated with the firm of Spence & Hotchkiss, New York City, from August 1954 until November 1955. In November 1955 he was appointed Administrator of the Commission's New York Regional Office. He served in that capacity until June 29, 1956, when he was sworn in as a member of the Commission for a term of office expiring June 5, 1961.

PART I

ENFORCEMENT PROGRAM

The most important aspect of the Commission's activities during 1956 has been its Enforcement Program. The aim of the Enforcement Program is to assure fair disclosure of all material facts about corporations offering securities to the public in interstate commerce and to prevent fraud, deceit and manipulation in the sale, purchase and trading of securities, and thus to provide the protection to public investors which is the objective of the Congress expressed in the Federal securities laws. The Enforcement Program, under the day-to-day direction of the Commission, has been carried out by the Commission's operating divisions and offices in Washington, and by its 14 regional and branch offices in principal cities throughout the Nation. The necessity for an increasingly vigorous Enforcement Program has arisen from the tremendous economic activity of the country, which has been reflected in the most active capital markets in our Nation's history. Enforcement problems confronted by the Commission during the relative economic stagnation of the 1930's, the World War II period of market quiescence, and the postwar recovery have been dwarfed by the problems confronting the Commission in the past 2 years of dynamic economic growth and the accompanying requirements for capital.

At no time in the Commission's experience have activities and prices in the securities markets reached such highs. This upsurge has taken place in a relatively short period of time. For example, the dollar amount of securities registered under the Securities Act of 1933 increased by 75 percent from $7.5 billion in the comparatively recent fiscal year 1953 to $13.1 billion in fiscal 1956. During the 1930's, the average dollar amount of securities registered was about $2.5 billion, and in some years was below $1 billion. In the postwar years from 1945 to 1950 it was $4.5 billion a year on the average.

Of the $400 billion gross national product annual rate figure, over $60 billion is applied for capital purposes of industry, that is to say, to provide plant facilities, tools and working capital needed by American industry. Much of the $60 billion amount is supplied from internal sources, such as depreciation accruals and retained earnings. The capital formation process supplies the balance estimated at $7 to $8 billion annually through investments in the capital markets by the American people.

The work of the Commission in sustaining the investors' confidence in the integrity of the capital markets must take into account conditions which if permitted to exist can only result, ultimately, in the destruction of investor confidence and the thwarting of the Congressional objectives set forth in the securities laws. Our free enterprise system will be damaged if these conditions grow and are not stamped out. A few of these problems with which the Commission has been faced and our efforts to cope with them are deserving of consideration by the Congress and the public generally.

1. *The problem of new, inexperienced and, in some cases, dishonest brokers and dealers registering under the Exchange Act.* The activity in the capital markets has attracted many new brokers and dealers to the securities business. The number of registered broker-dealers increased from 3,924 at June 30, 1949, to 4,591 at June 30, 1956. Many of the new broker-dealers are inexperienced and unfamiliar with the obligations owed to their customers. Some have been drawn into the business in the hope of a quick profit rather than the establishment of a sound business reputation built painstakingly upon just and equitable principles of trade.

The aggregate market value of all stock on all stock exchanges, which never exceeded $100 billion before 1946, except briefly in 1929, increased from $111 billion at December 31, 1950, to over $250 billion at June 30, 1956. The Dow Jones Industrial average of stock prices on the New York Stock Exchange reached an all-time high of 521.05 on April 6, 1956. During the years 1933 to 1949 it never exceeded 220. The value of the gross national product broke through the $400 billion annual rate figure in 1956 as compared with $340 billion in 1952.

The dollar value of securities which changed hands on the New York Stock Exchange rose to $32 billion in fiscal 1956, more than double the comparable figures of fiscal 1953, and like increases were registered on the regional exchanges and are believed to have also occurred in the over-the-counter market.

Attending this rapid expansion has been a favorable climate for the marketing of new securities issues, including securities of speculative quality, a marked increase in the number of stockholders (estimated by the New York Stock Exchange to include 8½ million domestic individuals), including many inexperienced investors.

Capital markets such as these, which have no precedent in the Commission's history, have been accompanied by adverse conditions which have required intensified enforcement activities by the Commission so as to assure to the investing public the protection which the Congress intended should be provided by the securities acts. A number of new brokers and dealers either lack adequate financial resources or speculate unwisely, thus getting into financial difficulties which threaten the safety of customers' funds or securities entrusted to them.

The Commission has no authority under the Exchange Act to bar a person from registration (absent proof of earlier violations of law) nor is there any financial or educational requirement. Expanded and more frequent broker-dealer inspections, prompt investigations of irregularities discovered in inspections or complaints received from the public, and prompt and vigorous legal action in the case of violations have been the Commission's program for the protection of investing customers.

2. *The problem of "boiler rooms."* The term "boiler room" is used to refer to a securities sales organization employing high-pressure, fraudulent, and deceptive sales techniques to "tout" highly speculative securities over the telephone. An increasing number of securities of speculative quality have been sold to unsophisticated investors lured by representations of large profits under present market conditions and willing to buy securities on the basis of representations made over the long distance telephone by complete strangers. Prevention and detection of fraud in such sales has been a particularly difficult task necessitating the careful collection of evidence from widely scattered sources.

The Commission's program has been threefold—to bring broker-dealer revocation proceedings against broker-dealers found to be selling or purchasing securities by misrepresentation or fraud, to bring injunction actions in the Federal courts to prevent such transactions, and to prevent broker-dealers from doing business in violation of any of the Exchange Act protective provisions or the Commission's rules, such as the net capital rule, the rule against improper extension of credit (regulation T) and the like, and, where the violation is willful, reference of the case to the Department of Justice for criminal prosecution.

One particularly difficult aspect of the "boiler room" problem is the gullibility of the public. The Commission has had a public information program under which Commissioners have talked at public gatherings, particularly to professional and civic groups, to the press and on radio and television, seeking to acquaint the public with the dangers of stock transactions with unknown persons calling on the long distance phone and holding out promises of riches if the person called will only buy the stock. The public is asked to tell the person calling to put a letter in the mail about the securities (this often ends the call because use of the mails gives Federal jurisdiction under the Exchange Act and the Mail Fraud Act) or to put the official prospectus or offering circular (which in the case of a new issue is required to be filed with, and is examined by, the Commission) in the mail.

The press, radio and television news media have rendered great service to the American people by helping to get this message across.

But, fundamentally, a government agency can do just so much in protecting the public, and in the final analysis the American people must learn to use ordinary care and prudence in investing their money. The Commission needs the help of the investing public which should report to us transactions in which it is believed misrepresentation and fraud have occurred and the public has been bilked. But the public must also learn not to buy the proverbial "gold brick." The tragedy from the standpoint of the public interest is that the widow, the wage earner, the person of small income is often the victim of the "boiler room" salesman. The Commission will welcome every help from the public in reporting to us fraudulent transactions and in using common sense in their securities transactions.

3. *Sales of unregistered securities based on claimed exemptions.* It appears that a substantial but undetermined number of securities have been sold in violation of the registration, prospectus and antifraud provisions of the Securities Act pursuant to claimed exemptions which, in fact, were not available. We believe that these sales have been made in the main under claims of exemption pursuant to the so-called "private offering" exemption [1] and the intrastate exemption.[2] In most of these cases the Commission has no means to discover facts showing the unavailability of a particular exemption until it receives, months after sales have been made, reports or complaints from unwary public investors who have been "taken" for substantial sums. Further complicating the Commission's problems in this area has been the fact that an increasingly large number of securities claimed to have been issued pursuant to these exemptions have been transferred to United States citizens through Canadian, Swiss, Lichtenstein, and other foreign financial institutions, under foreign laws which preclude the Commission from tracing the transactions in which the securities have been publicly sold or the availability or unavailability of the claimed exemption. The Commission has increased its efforts to make factual discoveries of sales made without registration at the earliest opportunity in order to determine the availability or unavailability of these exemptions and thus to take legal action to afford the protection to public investors contemplated by the Securities Act.

4. *The problem of illegal sales from Canada.* The Commission has been concerned about the illegal sale of issues in the securities markets of the United States by issuers and broker-dealers located in Canada. These transactions have appeared to reach public investors in the United States as a result of primary distributions effected on Canadian securities exchanges or through Canadian

[1] Securities Act of 1933, sec. 4 (1)—second clause.
[2] Securities Act of 1933, sec. 3 (a) (11).

brokers and dealers. Although it has not been possible, in many instances to directly reach Canadian issuers or broker-dealers, the Commission has attempted to review more closely the activities of broker-dealer firms in this country suspected of participating in the illegal marketing of Canadian securities or of American securities sold through Canadian sources in order to protect United States public investors more effectively. Efforts are also being made through appropriate diplomatic channels to correct the virtual nullification of the Extradition Treaty between the United States and Canada which, as amended in 1952, provides for the extradition of persons indicted for securities frauds perpetrated in Canada upon persons in the United States. This resulted from a decision of Canadian Extradition judge in 1954,[3] in the first case under the 1952 treaty amendment, denying extradition though conceding the fraud. During the year, continued excellent cooperation on law enforcement matters by Canadian officials, both Federal and Provincial, aided greatly our efforts to detect, thwart and proceed against fraudulent securities sales.

5. *The problem of the "front money" racket.* Under the Commission's exemptive regulation for new issues not in excess of $300,000 in aggregate public offering price (Regulation A) and sometimes under registration, it has been discovered that "rings" have developed through which groups of promoters, dealers, attorneys, and engineers collaborate in the creation of a series of companies primarily employed to "manufacture" securities for public sale in the guise of legitimate promotions. Often these facts have not been developed or discovered until after public investors have bought securities which have little or no actual value. These various transactions frequently have been carefully timed so that it is difficult to relate one issue with another even though a particular issue may have been part of a scheme of the character mentioned. Under the revised regulation A, the Commission now requires disclosure of the names of such individuals in connection with the filing of Form 1–A which will greatly assist its enforcement program.

6. *Evasion of the registration requirements through the "no sale" theory.* By Commission Rule No. 133, certain types of corporate mergers, consolidation, reclassifications of securities and acquisition of assets of another person in conformity with statutory provisions of the state of incorporation, have been deemed not to constitute a "sale" of securities issued in the transactions for purposes of section 5 of the Securities Act. The rule, in effect, exempts such issues from the requirement of registration under that Act. The rule has been used by numerous issuers, domestic and foreign, to distribute securities without registration. As in the case of the "private offering" and "intrastate" exemptions, many transactions ostensibly exempted

[3] See 20th Annual Report, p. 103; 21st Annual Report, p. 113.

under the rule, in fact involve violations of the registration provisions. The Commission recently released a notice of a proposed revision of the rule which is designed to make exemptions unavailable in the cases now exempted under it.[4] If adoption of the proposal results, it will involve a substantial increase in the number of registration statements filed under the Securities Act and in the annual and periodic reports filed under the Securities Exchange Act.

7. *The problem of promotional stocks.* In addition to the problems created by the sale of promotional uranium stocks, the Commission has been concerned with the sale of new insurance company securities in both exempt and registered issues. Many of these new insurance company ventures are located in the South Central, Southwestern and Southeastern parts of the country. A large number of these issues have given the appearance of involving abuses or probable violations of either the Securities Act or of the Securities Exchange Act, necessitating thorough investigation.

8. *Stop order and suspension proceedings for new issues.* For the protection of public investors, the Commission has instituted a substantially increased number of stop-order proceedings and suspension orders. Each of these has been preceded by an investigation, and, in many instances, has required a formal administrative hearing. These actions have involved the establishment of facts and the obtaining of testimony. Securities, which, if sold, would have defrauded the public, have thus been kept off the market.

The effectiveness of the Enforcement Program depends in large measure upon a staff, both in the headquarters and regional offices, adequate to discharge the exacting duties which this program places upon it, and upon the availability of travel funds necessary to give this personnel the mobility necessary to cover the large geographical areas in which the investigative work has to be done. Further, the Enforcement Program has been related to the complex and ever-changing pattern of the securities markets and the securities industry. The facts concerning the business, property, and financing of a security issuer must be ascertained and related to the representations made to investors. Investors must be identified and interviewed. Books and records of brokers, dealers, issuers and others must be examined and analyzed. Frequently, securities must be traced, often through intricate channels, to ascertain whether they have been offered by an issuer or underwriter in violation of the registration and prospectus requirements of the acts. The information thus obtained has had to be then developed in a form which would permit its introduction in evidence in legal proceedings, which is not a simple matter, where complex legal and economic facts and theories are concerned.

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[4] Securities Act Release 3698 (October 2, 1956).

Violations, however, have often been carefully concealed and, under present conditions, frequently have involved elaborate and shrewdly conceived schemes carried out on a large scale. Such activities could be properly dealt with only by assigning a competent team of attorneys, accountants, analysts, and investigators to concentrate on the particular case until it has been completed.

Careful and painstaking work usually over a period of many months has preceded formal enforcement action by the Commission. In some cases the work of the Commission has led to some form of restitution to public investors; in others, the violations have been discovered in time to prevent serious injury to the public; and in others, the violators have been forced out of business or prosecuted.

As a further implementation of the Enforcement Program, and as a means of giving greater protection to public investors, the Commission has undertaken through the media of public speeches made to various civic groups and other organizations, and through adequate coverage in the press and on radio and television, to warn the American people against hasty investments in companies whose financial and background facts have not been disclosed. Such warnings inevitably have had a great deterrent effect and have caused companies which are seeking to raise money in the capital markets to comply with the registration requirements by making the disclosures so necessary to informed investment by the public.

If the confidence and faith of the American public in the capital markets is to be maintained so that the essential supply of capital can be continued at the high rate of demand anticipated by present estimates of industrial production with the resultant high standard of living, it is essential that this agency continue its Enforcement Program by supervising the capital markets in accordance with the standards established by the Congress in the Federal securities laws.

PART II

LEGISLATIVE ACTIVITIES

Statutory Amendments Proposed by the Commission

During 1956 the Commission submitted to the Committee on Banking and Currency of the Senate and the Committee on Interstate and Foreign Commerce of the House of Representatives, which have the duty of exercising watchfulness over the execution of the securities laws pursuant to section 136 of the Legislative Reorganization Act of 1946, a proposal to adopt a number of amendments to these statutes in order to assist the Commission in its enforcement activities. The proposed amendments do not alter the basic provisions and purposes of the statutes. Most of the proposals relate to provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934. They were introduced on May 9, 1956, in the House of Representatives as H. R. 11129, 84th Congress, by the late Representative J. Percy Priest, then chairman of the Committee on Interstate and Foreign Commerce. They were also introduced (by request) in the Senate on May 23, 1956, as S. 3915 by Senator J. William Fulbright, chairman of the Committee on Banking and Currency. No action was taken on these bills during the remainder of the session because there was insufficient time to consider them.

The Commission's amendment proposals were designed to strengthen the jurisdictional provisions of the statutes, to correct certain inadequacies, and to facilitate criminal prosecutions and other enforcement activities. The various proposals would prohibit embezzlement of money or securities of, or entrusted to the care of, a registered broker-dealer; extend criminal liability to false statements in documents filed with the Commission under section 3 (b) of the Securities Act of 1933, in connection with small, exempted securities offerings; enact the antifraud provisions of the Commission's Rule X–10B–5 under the Securities Exchange Act of 1934 in statutory form as an aid to criminal prosecutions; make it clear that a showing of past violations is a sufficient basis for injunctive relief; make it clear that a registration statement under the Securities Act may be withdrawn only with the consent of the Commission; clarify and strengthen the statutory provisions relating to financial responsibility of brokers and dealers; and authorize the Commission, by rule, to regulate the borrowing, holding or lending of customers' securities by a broker or dealer. Many other minor amendments were also proposed. The

Commission expects to request further consideration of these and similar proposals in the 85th Congress.

Registration of Unlisted Securities of Certain Companies Having Large Public Investor Interest

On May 24, 1955, Senator J. W. Fulbright, chairman of the Committee on Banking and Currency, introduced S. 2054, a bill to extend the reporting, proxy and insider-trading provisions of sections 12, 13, 14, and 16 of the Securities Exchange Act to additional corporations. The bill was introduced at the conclusion of the Committee's "Stock Market Study," during which the Commission had testified and had submitted much background material for the information of the committee and for inclusion in the committee's staff report of April 30, 1955, on Factors Affecting the Stock Market. In its final report,[1] a majority of the committee expressed the view that "as a general policy, it is in the public interest that companies whose stocks are traded over the counter be required to comply with the same statutory provisions and the same rules and regulations as companies whose stocks are listed on national securities exchanges." A minority concurred in recommending further study of over-the-counter markets, with the objective of developing specific legislation if needed.

S. 2054 was introduced to carry out the committee's recommendation, by making sections 12, 13, 14 and 16, which now apply only to securities listed and registered on national securities exchanges, applicable also to certain unregistered securities that are traded in the over-the-counter market. A similar bill (H. R. 7845) was introduced in the House on August 2, 1955, by Representative Arthur G. Klein, chairman of the Subcommittee on Commerce and Finance of the Committee on Interstate and Foreign Commerce.

Hearings were held on S. 2054 in June 1955 at which the Commission expressed its support of the broad principles and objectives of the bill, subject to further study.[2] On July 19, 1955, the Commission submitted a preliminary report in which it recommended certain revisions in the bill, but withheld final comment pending a complete factual study.[3] On August 5, 1955, the subcommittee on Securities reported favorably a revised Committee Print of S. 2054, which included some of the changes suggested by the Commission and certain other changes, including a new provision exempting securities of regulated insurance companies from the coverage of the bill. As revised, the bill would be subject to sections 7, 12, 13, 14, and 16 of the Act corporations having 750 or more stockholders, or debt securities

[1] S. Rept. 376, 84th Cong.

[2] Hearings before Subcommittee of Senate Committee on Banking and Currency, 84th Congress, 1st session, on S. 2054, June 27–July 1, 1955, pp. 1037 *et seq.*

[3] Hearings, *supra*, p. 1062 *et seq.*

of $1 million or more outstanding in the hands of the public, and $2 million of assets.

In order to determine the companies which might be affected by this bill, the extent of their present compliance with applicable financial reporting requirements of the Commission, and their practices in soliciting proxies, questionnaires were sent to 1,600 corporations inquiring whether the company had within the past 3 years sent an annual report to its stockholders and requesting a copy. The response received (from approximately 90 percent of those to which requests were sent) indicated that approximately 1,200 corporations would be subject to the bill (of which 617 were presently filing financial statements with the Commission). Such 1,200 corporations have estimated assets in excess of $35 billion. Review of proxy soliciting materials used by these corporations showed that in very few instances were stockholders furnished with information comparable to that required by the Commission's proxy rules and that in most annual meetings for the election of directors stockholders received only a formal notice of the meeting and form of proxy. Examination of the financial statements contained in the stockholders' reports received indicated that approximately 21 percent were deficient by Commission reporting standards. These findings were contained in a report made by the Commission to the Committee on Banking and Currency on May 17, 1956, which report was printed and made available to the public by the committee. In its report, and in hearings subsequently held by the full committee, the Commission endorsed the enactment of the financial reporting, proxy and insider-reporting provisions of the bill, but recommended deferral of any action on the application of section 16 (b) of the Act (providing for recovery of profits from short-swing trading by insiders) to these companies until a further study could be made.

The Commission considers legislation of the character embodied in S. 2054, as demonstrated by the data contained in our report, to be consistent with the standards expressed by the Congress in the Federal securities laws and to be vitally necessary for the protection of public investors in these large widely held corporations.

The committee did not take any final action on S. 2054. However, Senator Fulbright, chairman of the committee, requested the Commission to extend the study it had previously made so as to obtain information about the financial reporting and proxy practices of insurance companies, to provide a basis for further consideration by the committee in the 85th Congress. The Commission had not previously included insurance companies in its study for the reason that the bill as revised by the subcommittee on August 5, 1955, had contained an exemption for such companies. The Commission has initiated the requested study, and, since the end of the fiscal year, has

sent questionnaires to more than 530 insurance companies to obtain the data necessary for making an objective, factual appraisal of such practices of insurance companies.

Proposals To Amend the Exemption for Small Issues

On April 20, 1955, during the previous fiscal year, Representative John B. Bennett of Michigan had introduced a bill (H. R. 5701), to repeal section 3 (b) of the Securities Act of 1933. Section 3 (b) provides that the Securities and Exchange Commission may from time to time by its rules and regulations, and subject to such terms and conditions as may be prescribed, add to the classes of securities exempted in section 3 (a) of the Act (such as securities issued by the United States or other governmental organizations, commercial paper, building and loan association obligations, securities the issuance of which is subject to approval under the Interstate Commerce Act and certain other specifically exempted classes) any class of securities if the Commission finds that enforcement of the registration provisions of the Act with respect to such securities "is not necessary in the public interest and for the protection of investors by reason of the small amount involved or the limited character of the public offering," provided no issue shall be exempted the aggregate offering price of which exceeds $300,000.

Hearings were held on this subject by the Subcommittee on Commerce and Finance, at which the Commission testified, at various dates from July 20, 1955, through May 9, 1956, in Washington, D. C., New York City, Denver and Salt Lake City. The Commission supplied a substantial amount of supplemental information to the committee. The Commission opposed this bill repealing the exemption although these hearings developed a good deal of factual information about the abuses of the public in penny stocks with which the Commission has been attempting to deal by strengthening its filing requirements under the exemptive regulations and by stepping up its enforcement activities in its field offices. The Commission opposed the repeal of the exemption on the ground that it would adversely affect the raising of capital by legitimate small business enterprises.

On February 16, 1956, Representative Bennett introduced another bill (H. R. 9319) which would apply to persons associated with an offering under the exemptive regulations the same strict civil liabilities that pertain to persons associated with an offering under full registration, which are set forth in section 11 of the Act. The Commission likewise opposed this bill on the ground that it would in substance require the equivalent of full registration for small issues and that this would have the indirect effect of repealing the exemption. The Committee on Interstate and Foreign Commerce favorably reported this bill (H. R. Rept. 2513, 84th Cong., 2d sess. (1956)) and, although

it was passed over in the last days of the congressional session, it may be introduced in the 85th Congress (102 Cong. Rec., July 27, 1956, at 13820).

To meet what the Commission considered to be the objectives of this legislation without its drawbacks, Representative Arthur G. Klein of New York on May 17, 1956, introduced a bill (H. R. 11308), which the Securities and Exchange Commission supported. This bill would have enlarged the civil liabilities of persons actually responsible for misstatements or omissions of material facts, or for misrepresentation or fraud, in connection with exempt offerings, but it would not have made the civil liabilities applicable to all persons associated with an offering whether or not they had knowledge or were responsible for misstatements, omissions or misrepresentation or fraud. A minority of three members of the Committee on Interstate and Foreign Commerce of the House of Representatives voted for the Klein bill. The Commission is hopeful such legislation will again be considered by the Congress.

Activities Relating to Amendment of Public Utility Holding Company Act of 1935

Nuclear Reactor Legislation

Several legislative proposals relating to the Public Utility Holding Company Act of 1935 were introduced during the second session of the 84th Congress. Two of these were embodied in S. 2643 and its companion bill, H. R. 6294.[4] Section 4 of this bill would have amended the Public Utility Holding Company Act so as to exclude from the definition of "electric utility company" in section 2 (a) (3) a nuclear reactor company, even though the heat produced by the reactor is used for the generation of electricity. Section 5 of the bill would have amended section 2 (a) (7) of the Act so as to exclude from the definition of "holding company" a company whose subsidiary is a generating company which meets certain requirements including a requirement that all of its stock be owned by electric utility or holding companies which either directly or through operating subsidiaries purchase all of its output.

Section 5 was designed in the first instance to meet the desires of four electric utility companies which operate in the Pacific Northwest

[4] Several bills on this subject were introduced during the session S 2643, introduced on July 27, 1955, by Senator Potter for himself and Senator Pastore, was substantially identical to H R 6294, introduced on May 17, 1955, by Representative Dodd. Two more bills identical to S 2643 and H R. 6294 were H. R 7258, introduced on July 11, 1956, by Representative Ruth Thompson and H. R 7554 introduced on July 25, 1956, by Representative Hayworth. H. R. 9743 introduced on March 5, 1956, by Representative Cole, differed substantially from S 2643 in that it related the availability of an exemption to the type of license granted by the Atomic Energy Commission. We submitted written comments, dated June 1, 1956, on H. R. 9743 to the Joint Committee on Atomic Energy at its request. Our comments opposed the bill and attached as exhibits our written statements on S. 2643. We were not asked to testify. When the revised version of S. 2643, or "substitute bill," was approved by the Joint Committee, H. R. 9743 was revised to conform, and this was the bill, as revised, which was reported out to the House.

region and are the parents of Pacific Northwest Power Co., which in turn is seeking permission under the Federal Power Act to construct two hydroelectric projects on the Snake River, known as the "Pleasant Valley" and "Mountain Sheep" projects. An earlier version of this proposal had appeared in H. R. 9043, 83d Congress, but in that form had never reached the floor of the House. The sponsoring companies, the Montana Power Co., Pacific Power & Light Co., Portland General Electric Co., and the Washington Water Power Co., sought the amendment to enable them to construct these projects through a common subsidiary without themselves becoming holding companies required either to register or to qualify for an exemption from the Act.

In our written comments on the bill,[5] and in the testimony of the Chairman and the Director of the Division of Corporate Regulation before the special subcommittee which conducted hearings on the bill,[6] the Commission opposed the enactment of section 5. We took issue with the assertions that the Public Utility Holding Company Act retarded the development of worthy projects and that the Act was not intended to apply to such situations as Pacific Northwest Power Co. and its sponsors and did so only by an accident of definition. We asserted, rather, that Holding Company Act regulation had been wholesome and beneficial in its effects upon companies subject to it, and that the Pacific Northwest situation was clearly within the intent and purposes of the Act. We said, in part:

> Neither the purpose nor the effect of the Public Utility Holding Company Act of 1935 is the impeding of the development of low-cost electric energy in ample and growing supply to meet the needs of consumers. Rather, the act serves to channel such development so as to prevent concomitant evils and abuses which Congress found to exist in the organization, control, and financing of public-utility holding companies and their subsidiary companies. It is corrective but not punitive or merely repressive. Its standards are flexible, and it has been flexibly administered to permit and encourage healthy growth of the utility industry to serve our expanding economy. The Commission believes the act has had the desired result.[7]

Subsequently we submitted a written Supplementary Statement [8] and further testimony [9] in response to points raised and questions asked during the hearings. Our written material undertook to summarize the regulatory jurisdiction of the Commission by demonstrating that the Pacific Northwest Power Co. situation was within the purposes of the Act and that regulation by this Commission would not be merely repetitive of State regulation or that of some other Federal

[5] Hearings on S. 2643 before a Subcommittee of the Senate Committee on Interstate and Foreign Commerce, April 17, 1956, p 14.

[6] *Ibid.*, p. 12 *et seq.*

[7] Hearing on S. 2643 before a Subcommittee of the Senate Committee on Interstate and Foreign Commerce, April 17, 1956, p. 14.

[8] *Ibid.*, May 24, 1956, p. 376.

[9] *Ibid.*, May 24, 1956, p. 375 *et seq.*

agency. We also examined the sponsors' apparent standing as to qualifications for exemption under any of the subparagraphs of section 3 (a). Certain obvious difficulties appeared with regard to one or more of the sponsors because of foreign incorporation or combined electric and gas operation, although the latter would be more of a problem for a registered company than an obstacle to exemption.

As a principal illustration of an aspect of the Pacific Northwest Power situation upon which the Holding Company Act might come to bear, we analyzed the capital structures of the four sponsors and the adverse effect upon their debt-equity ratios which would result from their announced plans for financing the hydroelectric projects. This was followed by an exposition of the importance of capitalization ratios to sound financing and of the Commission's concern with these ratios.

On May 24, 1956, Senator Pastore, chairman of the Subcommittee of the Senate Committee on Interstate and Foreign Commerce conducting hearings on the bill, announced that he and Senator Potter had agreed to delete section 5 from their bill. This was done, and the amendment proposed in section 5 was not revived.

Whereas section 5 was proposed to meet the desires of the Pacific Northwest Power group, section 4 was designed to satisfy the sponsors of Power Reactor Development Co., sometimes referred to as the Detroit Edison Co. project. The section was substantially revised in the form of a "substitute bill," which was then reported out favorably by the subcommittee, referred by the full committee to the Joint Committee on Atomic Energy, and reported out favorably to both houses as part of a three-unit program to further the development of nuclear energy for peaceful purposes.

The first of these units was a revised version of the Gore bill, which would have directed the Atomic Energy Commission to construct power reactors on its own installations. The second would have provided for government insurance to private owners of licensed power reactors against public liability arising from a major catastrophe. The third unit was the revised section 4 of S. 2643. When the first unit failed to be adopted by the Congress, the other two units failed with it.[10]

The Commission's position toward section 4 of S. 2643 consisted of two elements. First, in commenting upon the proposed granting of an automatic and permanent exemption for nuclear reactor companies and their sponsors, the Commission took the position that the bill went further than any demonstrable need to accomplish the objective of nuclear power development. In our opinion, there was in fact no just need for exemption from the Act's provisions which could not be

[10] See Congressional Record, 84th Cong., 2d sess., July 24, 1956, pp. 12996-13039. The revised Gore bill was S. 4146 and H. R. 12061. The bill providing government insurance for private reactors was S. 3929

met by appropriate Commission action under the present Act. In our written comments we observed:

> No atomic power project has been impeded by the act as it is presently in effect. The only such project to date which has been submitted to the Commission for action has been granted the desired approvals and exemptions by reasonable application of the present statute and the established standards and policies thereunder.[11]

The reference was to *Yankee Atomic Electric Co.*[12] wherein we permitted, under the present statutory standards, joint participation by a large group of utility companies in atomic reactor development on a regional basis.

The Commission recognized, of course, that where a reactor project was sponsored in part by industrial companies and in part by utility companies remote geographically from the reactor site, the approach of *Yankee Atomic Electric Co.* would not be available. In such a situation the Commission believed that, although the substantive effect of exemption would be consistent with the principles of the Act, the exemption should be available only on Commission order, and it should be terminable upon expiration of the research and development phase of the project.

Secondly, the Commission called attention to two other important aspects of the proposed legislation. Since Power Reactor Development Co. is a nonprofit corporation whose approximately 25 sponsors hold 1 membership apiece, with 1 vote, instead of stock, no one company will have 10 percent or more of its voting securities, as required to qualify as a *prima facie* holding company under section 2 (a) (7) (A) of the Act. Accordingly, no member company can be a holding company with regard to Power Reactor unless the Commission first finds actual control or controlling influence after a formal proceeding with full opportunity for hearing and judicial review. It also appeared that the Commission could declare, by rule or order, that a company like Power Reactor is not an electric utility company, pursuant to the last sentence of section 2 (a) (3) of the Act. The Commission proceeded to draft such a rule and published it for public comment on June 15, 1956.[13] After studying the comments submitted and incorporating several of their suggestions in a revised version, the rule was adopted as an amendment to rule U–7 on July 13, 1956.[14]

Despite this demonstration of what could be achieved under the present Act in furthering the development of nuclear energy projects for peaceful purposes, the Detroit Edison group persisted in the view that its reactor project was feasible only if the sponsors had

[11] Hearings on S 2643 before a subcommittee of the Senate Committee on Interstate and Foreign Commerce, April 17, 1956, p 15.

[12] Holding Company Act Release No. 13048, November 25, 1955.

[13] Holding Company Act Release No. 13200.

[14] Holding Company Act Release No. 13221. For a description of amended rule U–7 see p. 165, *infra*.

an express exemption from the Act which was not based upon Commission action or discretion. The revised, or substitute, bill, however, as ultimately approved by the Senate Committee on Interstate and Foreign Commerce and the Joint Committee on Atomic Energy, did limit the exemption to a nonprofit corporation and provided for termination of the exemption upon a finding by the Atomic Energy Commission that the project was no longer primarily devoted to research and development.[15] Although the Commission still believes that such legislation is unnecessary, it did not object to its adoption in the revised form. As noted above, however, the proposed legislation failed.

In addition to testifying twice on this matter before Senator Pastore's subcommittee, and submitting three written statements, the Commission also appeared before the Subcommittee on Public Works of the House Committee on Appropriations, to explain its views on the proposed legislation. The Chairman, the General Counsel, and the Director of the Division of Corporate Regulation appeared on behalf of the Commission.

The Commission believes that its opposition to section 5 of S. 2643 in its original form was instrumental in dissuading the Congress from what would have been the first serious encroachment upon the principles and policies embodied in the Public Utility Holding Company Act.[16] We believe that these principles and policies, established by the Congress and administered by the Commission, have been of vital influence in the rehabilitation of the financial condition of large segments of the electric and gas utility industry, thus permitting them to obtain from the investing public the large amounts of new capital needed for their huge expansion programs. We believe that these principles and policies have been beneficial to investors, consumers and the public, and have also served to enhance the effectiveness of the state regulatory agencies. We believe the Congress should be slow to permit departure from these principles and policies and we are certain, so far as any privately sponsored nuclear reactor project that has as yet been brought to our attention, that they do not interfere with the development of nuclear energy for peaceful purposes. Rather, we believe that the Commission has made a significant contribution, consistent with the policies of the Congress expressed both in the Atomic Energy Acts and the Public Utility Holding Company Act, to the development of nuclear power for peaceful purposes in our *Yankee Atomic Electric Co.* decision and in our amendment to rule U–7.

[15] S. Rpt. 2529 to accompany S. 2643, and H Rpt. 2694 to accompany H. R. 9743.

[16] The Act has never been amended, although the enactment of H. R. 10624, discussed below, is in substance an amendment.

Exemption for General Public Utilities Corp.

H. R. 10624, introduced by Representative Arthur G. Klein, chairman of the Subcommittee on Commerce and Finance of the Committee on Interstate and Foreign Commerce of the House of Representatives provided that no law of the United States shall be held to require the General Public Utilities Corp., a holding company registered under the Public Utility Holding Company Act of 1935, to divest itself of any interest in the Manila Electric Co., a company engaged in the production and distribution of electricity in the Republic of the Philippines. The purpose of the bill was to exempt these companies from section 11 (b) (1) of the Holding Company Act, which requires that each public utility holding company system be geographically integrated. The Philippine Government had expressed apprehension that less favorable management might result from divestment of control of the Manila Electric Co. by the General Public Utilities Corp. and had expressed an interest in a tentative suggestion of GPU for the construction of a nuclear power generating plant in the Philippines by the American Company.

In its memorandum on the bill,[17] the Commission stated:

> The Commission opposes enactment of H. R. 10624 because it will permit General Public Utilities Corp. (GPU) to retain its Philippine subsidiaries in addition to its integrated domestic electric utility system. This would be inconsistent with the principles stated by the Congress in the Public Utility Holding Company Act of 1935 and the Commission has not been presented with any considerations which would justify departing from those principles in this particular situation. It is the Commission's opinion that the reasonable needs of all persons and interests concerned can be well served by divestment from GPU of its Philippine properties in an appropriate manner.

We summarized the history of GPU with respect to its Philippine subsidiaries. Our original order of divestment was entered against the bankruptcy trustees of GPU's predecessors, Associated Gas & Electric Corp. and Associated Gas & Electric Co., in 1942 as a result of the section 11 (b) (1) proceedings commenced the previous year.[18] Later, in 1945, the two Philippine subsidiaries were removed from the list of companies to be divested because of the extensive war damage to the physical properties and the urgent need for rehabilitation.[19] In 1951 the Commission reopened the proceedings and reinstated the divestment order.[20] Under the provisions of section 11 (e) of the Act, GPU was required to comply with the divestment order within 1 year from December 28, 1951, but it had not done so.

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[17] House Rpt 2477, to accompany H. R. 10624, dated June 26, 1956, p 6. See also S. Rpt 2787, to accompany H. R. 10624, dated July 25, 1956, submitted by the Senate Committee on Interstate and Foreign Commerce. S. 4048 was identical to H. R. 10624, and we filed a Memorandum on it dated July 9, 1956. S. 4048 was introduced on June 13, 1956, by Senator Smith of New Jersey

[18] *Denis J. Driscoll and Willard L. Thorp, etc.*, 11 S E. C. 1115, 11 S. E. C. 1123 (1942).

[19] *Denis J. Driscoll and Willard L. Thorp, etc.*, 18 S. E. C. 283 (1945).

[20] *General Public Utilities Corp.*, Holding Company Act release No. 10982 (Dec. 28, 1951).

Our memorandum also traced the legislative history and purpose of section 11 (b) (1) and its effect on foreign properties. We concluded that the Act embodied a deliberate policy against combining domestic and noncontiguous foreign utility properties in a single holding company system. This policy was based upon the disruptive effect that foreign properties have on the market performance of the system's publicly held securities and the diversionary effect upon management of having foreign as well as domestic commitments and responsibilities. We stated that GPU had financed the rehabilitation of the Philippine properties from retained earnings and borrowings in the Philippines and in recent years had been able to take up substantial profits. On the other hand, if GPU did advance its own funds to the Philippines it would to a degree be causing its domestic customers to help finance Philippine development. This appeared to demonstrate the wisdom of Congress in 1935 in prohibiting such combinations of properties.

In response to certain fears expressed by GPU's management, the Commission pointed out that the divestment could be accomplished by the creation of a new corporation to hold the stock of the Philippine subsidiaries and whose stock would be distributed to GPU's stockholders. This device would give GPU's stockholders the protection of domestic supervisory management, would do much to assure continued responsible management, and would provide an American entity for assistance in obtaining financial and technical assistance. The Commission acknowledged, however, that whatever significance this matter had for United States foreign relations was within the special competence of other Government departments and agencies. Nevertheless it believed that divestment could be achieved in a manner which would protect such interests.

The Department of State advised the subcommittee that in the opinion of the Philippine Government a new holding company similar to the one suggested by the Commission would not have sufficient credit or technical expertness, that GPU's background, experience, and knowledge of the Philippines might be lost, and that divestment might cause abandonment of GPU's tentative plans for a nuclear power project in the Philippines. The committee therefore concluded:

> While the Commission has suggested that these objectives which are without the competence of its jurisdiction, as well as the purposes of the Utility Act, might be met by the stock of Manila being transferred to a newly created American holding company, and the stock of that company in turn distributed to the stockholders of General Public Utilities, we do not find on the record that this will assure to the degree of satisfaction necessary, the attainment of the objectives of rendering the maximum financial and managerial assistance possible to this highly important utility in the Philippines, with which country we have been and are bound with such ties of friendship and amity and which appears to favor continued ownership of the Manila Electric Co. by the General Public Utilities Corp.

The committee is opposed to legislation which would amend the Public Utility Holding Company Act of 1935 and which would be construed as a precedent for opening up that act to exceptions in other situations. The committee believes that enactment of H. R. 10624 is desirable under the special circumstances which prevail in this particular situation and the committee, accordingly, recommends early action on this legislation.[21]

The Senate committee, while stating that it did not desire to create a precedent for legislation exempting particular holding companies from provisions of the Act, noted that GPU was now the only integrated domestic system with a separate foreign subsidiary, and concurred in the views of the House committee.[22] The bill became law on August 9, 1956.[23]

Other Legislative Proposals

A substantial amount of time of the Commission was also devoted to matters pertaining to legislative proposals referred to the Commission for comment and to congressional inquiries. During fiscal year 1956, 19 legislative proposals were analyzed and reports submitted on them to the appropriate congressional committees at their request, as compared with ten in the prior fiscal year. In addition, numerous congressional inquiries were received and answered relating to matters other than specific legislative proposals.

Congressional Hearings

Senate Special Subcommittee on Antitrust and Monopoly of the Committee on the Judiciary

In July and November, 1955, the Chairman and other members of the Commission and various members of the staff testified before the Special Subcommittee on Antitrust and Monopoly of the Senate Judiciary Committee concerning the Commission's actions under the Public Utility Holding Company Act of 1935 with respect to the Atomic Energy Commission's power contract with the Mississippi Valley Generating Co. (the "Dixon-Yates" contract).[24] In December of 1955 Ralph H. Demmler, former Chairman of the Commission, also testified before the special subcommittee. During the hearings the Commission also made fully available to the subcommittee all of the Commission's files requested by the subcommittee regarding this matter.[25]

The Commission had no concern with governmental policy decisions involved or the negotiation of this contract. Its sole statutory jurisdiction was under the Public Utility Holding Company Act to determine whether financings by the holding company systems involved con-

[21] H. Rpt. 2477, to accompany H. R. 10624, dated June 26, 1956, pp. 4–5.

[22] S. Rpt. 2787, to accompany H. R. 10724, dated July 25, 1956, p. 8.

[23] Private Law 893 (84th Cong., 2d sess.).

[24] For a discussion of the Commission's proceedings in this matter, see pt. VI, p. 138.

[25] See hearings before the Subcommittee on the Judiciary, U. S. Senate, 84th Cong., 1st sess., pursuant to S. Res. 61 on Power Policy, Dixon-Yates Contract, pt. 1, pp. 326–373, 377–431, 624–674. Pt. 2, pp. 732–771, 778–838, 1075–1097, 1260–1293.

formed to the standards set forth in the Act. In this connection, allegations were made that the Commission had prejudged this matter because prehearing conferences had been held with other interested governmental agencies and the companies which were parties to the contract. As was explained to the subcommittee these conferences were in accord with long-established and publicized procedures of the Commission [26] which have been recognized as a desirable part of the administrative process. Thus, in a motion filed during the Commission proceedings, counsel for the State of Tennessee, et al. stated:

> The parties making this motion in no way suggest that any impropriety would attach to such informal discussions on the part of the Securities and Exchange Commission and its staff, if such informal discussions have taken place. Indeed, the published procedures of the Securities and Exchange Commission expressly make provision for informal advice and assistance (17 C. F. R. §§ 202.1–202.3), and it is recognized that this is a desirable part of the administrative process. Moreover, in past decisions the Securities and Exchange Commission has referred with approval to the helpful practice of its staff in making itself available for informal conferences at the instance of interested persons. See *The United Corporation*, Holding Company Act Release No. 10614 (1951), pp. 54–55, and cases cited.

The Commission representatives also pointed out to the committee that similar conferences were had with the Atomic Energy Commission and others in 1952 in connection with the *Ohio Valley Electric Co.* proceeding, which raised questions under the Public Utility Holding Company Act similar to those involved in the *Mississippi Valley Generating Co.* case. Similar conferences were held in the *Electric Energy, Inc.* matter, which included similar questions.

The fact that prehearing conferences are held for the purpose of explaining standards which must be met under the Act in no way alters the fact that the Commission ultimately decides cases solely on the record developed in public hearings. This fact was made clear by the testimony of the Chairman of the Commission and staff members who appeared before the subcommittee and by contemporaneous memoranda submitted to the subcommittee covering the conferences involved. These memoranda stated that it was impossible to state what the Commission's position would be with respect to various questions involved until the Commission had acted after a hearing in its quasi-judicial capacity.

The subcommittee also questioned the Commission's sitting *en banc* in the equity financing proceedings. As the committee was informed, the Atomic Energy Commission's power contract with the *Mississippi Valley Generating Co.* contained a deadline date of February 15, 1955,

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[26] See 17 CFR 202 2-202.3. See also Report of the Attorney General's Committee on Administrative Procedure, 77th Cong , 1st sess., Doc. 10 (relating to procedure before the S. E. C.), pt. 13 (1941).

and failure of the Commission promptly to process the application under the Public Utility Holding Company Act might have deprived the parties of their rights to a timely legal determination under the statute. Accordingly, the decision to sit *en banc* was made in an effort to provide the parties with an expeditious statutory hearing.

The Commission from the very inception of its administration under the Public Utility Holding Company Act recognized the importance of speed in disposing of financing applications brought before it. As the Commission pointed out in July 1945 in its comments to the Congress on the then pending Administrative Procedure Act:

> It should be emphasized that time is frequently of the essence in dealing with the financial transactions which are subject to the licensing jurisdiction of the Commission under the Holding Company Act and, as pointed out in the appendix, it may not always be possible to distinguish or to separate licensing from non-licensing proceedings. * * * The need for speed in the typical cases under the Holding Company Act, such as security issues, acquisitions and sale of properties, declarations of dividends and the like is inherent in the nature of the transactions involved and the risk of changing conditions in the market. It is necessary to meet the needs of the parties before the Commission, not to satisfy any predilection of the Commission for hasty decision. In most of such cases delay would be equivalent to a denial of the agency clearance sought.

En banc hearings by the Commission also were specifically contemplated by the Congress. Both the Holding Company Act, section 19, and the Administrative Procedure Act, section 7 (a), make provision for full Commission hearings.[27]

The subcommittee also inquired into the reasons for the Commission's ordering a 3-day adjournment of the then pending *Mississippi Valley Generating Co.* debt financing proceedings. As made clear by the testimony of the Chairman (given on the basis of an opinion of the Attorney General as to the propriety of his testifying about the request of the Assistant to the President for the adjournment)[27a] in granting the temporary adjournment the Commission acted solely in an effort to provide the United States Government with a reasonable opportunity to consult with its counsel.

House Special Subcommittee on Government Information of the Committee on Government Operations

In September 1955 the Commission submitted to the Special Subcommittee on Government Information of the House Committee on Government Operations its detailed answers to a questionnaire relating to the availability of information in the Commission's files to the public, the press and the Congress. The Commission's response to the questionnaire, along with the responses of other agencies, was

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[27] For other cases in which the Commission recently has sat *en banc* see *Securities National Corporation*, Securities Exchange Act release No. 4866, May 29, 1933, and *Kaye, Real & Co.*, Securities Exchange Act release No. 5033, April 30, 1954.

[27a] Reprinted at pp. 378-379 of hearings before the Subcommittee on the Judiciary, U. S. Senate, 84th Cong., 1st Sess., pursuant to S. Res. 61 on Power Policy, Dixon-Yates Contract, Pt. 1.

published by this subcommittee on November 1, 1955. Thereafter, the Commission submitted supplemental material to the subcommittee from time to time, and the Chairman, other members of the Commission and staff members appeared and testified at its hearings on January 31, 1956. The Commission's general counsel also participated in a panel discussion held by the subcommittee in June 1956 on legal questions raised by the subcommittee in connection with the availability of such information.

The Commission advised the subcommittee that the statutes it administers are concerned largely with making information available to the public. The great bulk of the information on file with the Commission is public information. In addition, there is a limited amount of information which cannot be made generally available for the public. This includes information in the Commission's files which Congress specifically provided should be kept confidential where disclosures would be contrary to the public interest, as in the case of trade secrets and similar material.[28] The remaining nonpublic categories of information in the Commission's files consist primarily of two kinds: (1) the files of internal Commission documents and memoranda and correspondence, and (2) the Commission's investigation files developed as a result of information received by the Commission indicating violations of the statutes administered and enforced by the Commission. In the latter respect, the Commission's enforcement functions are the same as those performed by the other Federal law enforcement agencies in their respective fields, such as the Intelligence Unit of the Treasury Department and the Federal Bureau of Investigation of the Department of Justice, and the courts have equated the Commission's enforcement functions to those performed by a grand jury, which are not open to the public.

Even with respect to information which is not generally available to the public, the Commission carefully considers every request therefor and, to the extent compatible with the public interest and the performance of the highly important enforcement functions entrusted to the Commission, makes every effort to make available all the information that it possibly can. In those instances where full public disclosure would be inappropriate, the Commission nevertheless generally makes this information available to congressional committees to the fullest extent possible consistent with the statutory duties imposed upon it by the statutes it administers and appropriate safeguards by the Congressional Committees to assure against the harm to the public interest from general public release of such information. One of the basic purposes of the privacy of this data is to provide

[28] See, for example, schedule A, clause (30) of the Securities Act of 1933; sec. 24 (b) of the Securities Exchange Act of 1934, sec. 22 of the Public Utility Holding Company Act of 1935.

against exposure to the public of persons entirely innocent of wrongdoing.

All of the Commission's releases covering its decisions, rule making activities, and other matters are currently sent to the Senate Committee on Banking and Currency and the House Committee on Interstate and Foreign Commerce, the committees having jurisdiction with respect to the statutes administered by the Commission under the Legislative Reorganization Act of 1946. The Commission's published statistical reports on plant and equipment, savings, securities offerings, and working capital, together with related information are supplied to the Joint Committee on the Economic Report. The Quarterly Financial Report for Manufacturing Corporations, published jointly with the Federal Trade Commission, is supplied to the Joint Committee on Taxation. Much other information is supplied from time to time to Congressional Committees.

As the Commission advised the subcommittee, it attempts to cooperate in every way with the press and general public to make information conveniently available. The Commissioners and the Commission's Secretary, who serves also as public information officer, are available for discussion with the press in Washington, D. C., at all times. In addition to answering inquiries about all phases of the Commission's activities, the Commission's Secretary prepares daily, for the information of the press and the public, announcements of Commission action, a daily digest or summary of all important Commission decisions, orders, and regulations and of all financing proposals filed with the Commission; and his office prepares a "gist" of Commission decisions and orders (releases) which are distributed to its mailing lists. The members of the Commission and our regional administrators frequently hold conferences with the press in cities away from Washington in order to keep the public throughout the country advised of the Commission's activities. In all, hundreds of press contacts are had by Commission personnel in the course of a year and we consider this a vital part of our program of information and protection for the investing public.

The Chairman, the Director of the Division of Corporation Finance, the General Counsel and other members of the Commission and staff members also testified before the subcommittee with regard to questions which had been raised concerning the Commission's proxy rules and the assertion that the Commission's processing of proxy soliciting material in the form of speeches, press releases, newspaper advertisements, and radio and television scripts constituted an infringement upon the constitutional guarantees of freedom of speech and press. It was made clear to the subcommittee that the purpose of these rules is to make information available to security

holders in reliable form so that they may make an informed judgment in exercising their voting rights in corporate matters. The Commission also submitted to the committee various statements which it had received from the press endorsing the purpose and operation of proxy rules, including expressions of approval by responsible press representatives of the revision which provided that press releases, prepared radio and television broadcasts and speeches need not be filed with the Commission prior to their use, although they remain subject to the requirement that they must not be misleading.

The Commission pointed out that its proxy regulations were wholly in accord with its statutory powers and responsibilities and Congressional policy and that this position was fully sustained during the past year by the Court of Appeals for the Second Circuit in *S. E. C.* v. *May et al.*, 229 F. 2d 123 (1956). In this landmark case, the Court, in affirming the judgment of the District Court,[29] squarely rejected the contention that the proxy regulations were unconstitutional and also rejected the argument "that stockholder disputes should be viewed in the eyes of the law just as are political contests, with each side free to hurl charges with comparative unrestraint, the assumption being that the opposing side is then at liberty to refute and thus effectively deflate the 'campaign oratory' of its adversary." The Court stressed that this "was not the policy of Congress as enacted in the Securities Exchange Act * * * (and that) Congress has clearly entrusted to the Commission the duty of protecting the investing public against misleading statements made in the course of a struggle for corporate control." [30]

The subcommittee inquired into the Commission's handling of classified information and its use of the term "confidential" as a restriction on the disclosure of information. Executive Order 10501, issued Nov. 5, 1953, 3 CFR 115 (1953), withdrew the Commission's power to classify information and limited the use of the terms "confidential," "secret," and "top secret." On September 8, 1955, the Commission, pursuant to this Executive order, amended its rule 171 under the Securities Act of 1933, rule X–24B–2 under the Securities Exchange Act of 1934, and rule U–105 under the Public Utility Holding Company Act of 1935, to provide that confidential information should no longer be filed with it. It also amended various rules so that the term "confidential" would no longer be used, without qualification, as a designation of nondefense information.[31] The Commission has provided administratively for the use of the term "nonpublic," or other appropriate terms, on investigation and other files that are not

[29] *S. E. C.* v. *May et al.*, 134 F. Supp. 247 (S. D. N. Y. 1955).

[30] For a further discussion of the Commission's proxy rules, see pt. III, p. 33.

[31] Securities Act Release No. 3573.

available to the general public, but which nevertheless do not contain classified defense information.

Senate Subcommittee on Welfare and Pension Funds of the Committee on Labor and Public Welfare

On July 20, 1955, at the request of the Subcommittee on Welfare and Pension Funds of the Senate Committee on Labor and Public Welfare, Commissioner A. Jackson Goodwin, Jr., and members of the Staff appeared on behalf of the Commission before the subcommittee to testify in connection with the subcommittee's investigation of welfare and pension plans.[32]

The testimony given by the Commission member and staff covered the survey of pension plans then being made by the Commission, the registration experience which the Commission had with certain pension plans under the Securities Act of 1933, an explanation of the Commission's securities registration procedures, and a comparison between the operation of a pension fund and an investment company registered with the Commission under the Investment Company Act of 1940.

After this testimony was given, the Commission's survey of pension funds operated by companies registered with the Commission was completed.[33] The survey, which covered about 2,000 self-operated pension funds, was based upon questionnaires distributed to the companies involved. The subcommittee was particularly concerned with the extent to which self-operated funds were invested in the company's own stock.

It was pointed out to the subcommittee that the Commission has had registration experience over the past several years with some pension plans. These plans, which usually involve either a stock purchase plan or a stock option plan, are registered pursuant to the Securities Act of 1933.

The Subcommittee on Welfare and Pension Funds prepared and filed a final report to the Congress in which the subcommittee recommended the adoption of legislation to bring about the correction of abuses which it had uncovered among welfare and pension funds.[34] The subcommittee further recommended that the Securities and Exchange Commission be designated as the governmental agency to administer the proposed legislation.

The final report states, at page 75:

The Securities and Exchange Commission is the only Government agency with a long period of successful administration of disclosure statutes. It is an inde-

[32] Hearings before the Subcommittee on Welfare and Pension Funds of the Committee on Labor and Public Welfare, U. S. Senate, 84th Cong., 1st sess., pt. 3, pp. 940–951, inclusive.

[33] See Statistical Series Release No. 1335, October 12, 1955.

[34] Final Report of Senate Committee on Labor and Public Welfare submitted by its Subcommittee on Welfare and Pension Funds, 84th Cong., 2d sess., Report No. 1734.

pendent agency. Its existing tested administrative machinery is particularly adapted to the area of administration of disclosure, fact-finding, detecting frauds, and irregularities in complicated financial operations. It is a relatively small agency, but has a core of 500 or 600 trained analysts, lawyers, and investigators of long experience in complicated financial analysis and investigation. It has nine regional offices and several branch offices throughout the country.

It has some degree of familiarity with welfare and pension plans, as many companies must file these plans incident to registration statements and proxy contests. It has recently made a survey of financial holdings of pension trusts.

The agency has contributed over the past 20 years to raising accounting standards and practices and making registered accountants more responsible in the performance of audits. Its experience in this area would bear directly on any responsibilities charged to it under a disclosure statute.

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For the present the subcommittee is inclined to favor the Securities and Exchange Commission as the agency to administer such an act because of its past experience and its organizational setup.

Senator Paul Douglas, chairman of the subcommittee, introduced S. 3873 in the Senate on May 17, 1956. This bill, which is called the Welfare and Pension Plans Disclosure Act, provided for the Securities and Exchange Commission to administer the statute. The Congress adjourned without taking any action on this bill.

PART III

REVISIONS OF RULES AND FORMS

During 1956, as in the two preceding years, great effort was devoted to the Commission's program of revising its rules and forms to keep abreast of constantly changing techniques and conditions in the dynamic securities markets. This is part of an over all program of rule and form revisions undertaken by the Commission in 1953.[1] Now, for the first time, the Commission's promulgated changes in its Forms S–1, 10, 8–B, 8–C, and Regulation X–14, have coordinated and made uniform, so far as possible, the information required in the basic registration forms for new issues under the Securities Act and for issues to be listed and traded on national securities exchanges under the Exchange Act, and for proxy statements under the Exchange Act. The object of this program has been the simplification of forms to eliminate duplicate filings arising under different provisions of the Federal securities laws, and relieve persons subject to these laws of unnecessary burdens and costs without the sacrifice of any safeguards necessary for the protection of investors.

Soon after the conclusion of the fiscal year on June 30, 1956, the Commission has undertaken to bring up to date additional forms used for registration under the Securities Act of 1933. Such proposals include the revision of Form S–4 used by closed-end management investment companies;[2] Form S–3 used by certain exploratory mining companies and incorporation of Form S–11 therein which is also prescribed for mining companies in the development stage,[3] and Form S–6 used by unit investment trusts currently issuing securities including periodic payment plan certificates. The Commission also has adopted a summary prospectus rule which could be used by registrants using Forms S–1 and S–9.[4] Because of the legal and technical complexities of the subject matter, this program has engaged a large amount of the time of the commissioners and its senior professional staff. Many of these revisions are outlined below. Others, which are of primary interest to special groups, such as brokers and dealers and public utility holding companies, are described in the parts of this report dealing with the regulation of the activities of such persons and companies.

[1] 20th Annual Report, Securities and Exchange Commission, p. 9.
[2] Securities Act Release No. 3667, August 2, 1956.
[3] Securities Act Release No 3668, August 3, 1956.
[4] Securities Act Release No. 3722, November 23, 1956.

THE SMALL ISSUES EXEMPTION—NEW ISSUES OF $300,000 OR LESS

The special concern of the Securities and Exchange Commission with small business is in the area of public financing. Under the Securities Act any company which desires to raise capital by means of a public offering of its securities where the mails or instruments of interstate commerce are to be used must register the securities with the Securities and Exchange Commission unless a specific exemption from registration is available. Certain specific exemptions are provided by sections 3 (a) and 4 of the Act. In addition, section 3 (b) of the Act provides that the Commission may from time to time by its rules and regulations, and subject to such terms and conditions as may be prescribed, add to the classes of securities exempted in section 3 (a) of the Act (such as securities issued by the United States or other governmental organizations, commercial paper, building and loan association obligations, securities the issuance of which is subject to approval under the Interstate Commerce Act, and certain other specifically exempted classes), any class of securities if the Commission finds that enforcement of the registration provisions of the Act with respect to such securities "is not necessary in the public interest and for the protection of investors by reason of the small amount involved or the limited character of the public offering," provided no issue shall be exempted the aggregate offering price of which exceeds $300,000.

The most important regulation adopted by the Commission specifying the terms and conditions on which such exemption from registration would be available is called regulation A. On July 23, 1956, this exemptive regulation was substantially revised by the Commission to increase the legal protection it affords the investing public and make it clear and simple for companies to qualify under it.

The problem presented to the Commission in promulgating a workable regulation spelling out the terms and conditions upon which an exemption from registration is available for small issues of securities is twofold. First, it is important not to place such burdensome requirements upon small business as to discourage the raising of a limited amount of capital. On the other hand, the statute places the responsibility upon the Commission to protect the public from misrepresentation and fraud in the offer and sale of securities.

A number of changes effected by the revision are as follows.

1. The revised regulation as adopted on July 23, 1956, provides that Canadian issues, formerly exempted under a separate regulation, regulation D, are now treated the same as domestic issues insofar as the terms and conditions for the exemption are concerned, except that Canadian issues of companies without a net earnings record now have to be qualified for offering in the Canadian Province in which

the company has its principal place of business. This provision has the effect of consolidating the old regulation D with the new regulation A and adds to the public investors' protection by requiring the Canadian promotional issuer to meet the standards of the applicable Provincial securities laws.

2. The Commission is vitally concerned with the problems presented by promotional companies in offering securities to the public. It has found that certain underwriters and promoters appear to be the organizing force behind many new issuers and the new revision was designed to eliminate this condition. Previously, no exemption was available if any of the directors, officers, affiliates, predecessors, promoters, or principal underwriters of the issuer had been convicted within 5 years previously of a crime involving securities transactions or had been enjoined in connection with securities transactions. Under the revised regulation, the exemption is not available if any such conviction within the previous 10 years or injunction exists as to *any* underwriter of the issuer or any partner, director or officer of such underwriter. In addition, the exemption is not now available if the Commission, a national securities dealers association, or a national securities exchange has issued a disciplinary order against any underwriter of the issuer or any partner, director or officer of any such underwriter. Furthermore, no exemption is now available if any underwriter of the issuer, or any partner, officer or director of such underwriter was the underwriter of any other issue which is the subject of a pending suspension order proceeding or is the subject of an outstanding suspension order issued by the Commission within the past 5 years.

3. Another problem the present revision seeks to correct is the threat of the "bail-out" by the promoters and insiders of their securities holdings. Regulation A as revised now provides that offerings by companies newly organized and those without a net income for at least one of the last two fiscal years are subject to special requirements insofar as the exemption is concerned. Only the issuer itself in such a case may use the exemption, which means that an offering by a security holder of his own securities in such a company cannot be made under the regulation. An offering circular must be used by such a company even if the amount of the offering is less than $50,000, whereas other issuers need not use an offering circular for any offering below that amount. In computing the maximum amount of $300,000 under the exemption, such a company has to include all securities previously issued for assets or services and all securities issued or proposed to be issued to directors, officers, promoters, or underwriters unless such securities are effectively kept off the market, by escrow or otherwise, for 1 year after the commencement of the offering under the regulation.

4. The notification to be filed by an issuer on Form 1–A with the appropriate regional office of the Commission was revised to require certain additional information which will assist the Commission staff in its determination as to the availability of the exemption and in its review of the offering circular for the detection of false and misleading statements. In addition to the previously required filing of any underwriting contract and the consent of the underwriters to be named in the offering circular, there are now required to be filed as exhibits copies of the instrument describing the rights of holders of the securities being offered and consents by engineers, geologists, appraisers, accountants, and other experts to be named in the notification or offering circular where reference to them as experts or to their opinions is made.

5. The exemptive regulation includes a guide (schedule I of Form 1–A) to a company in the preparation of an offering circular, and limits the information required to be set forth in an offering circular to what may be called "bare bones" facts concerning the company and the securities to be offered. Thus the offering price per share to the public, underwriting commissions and proceeds to the company are to be set forth on the outside front cover page. A brief description is required of the proposed manner of distribution, whether by or through underwriters or otherwise. The purposes for which the proceeds will be used must be stated. The significant terms of the securities including dividend rights in the case of equity securities and interest rate in the case of debt securities are to be set forth. A brief description of the business or proposed business to be done and the names and addresses of directors and officers and any persons controlling the issuer must be given; so must the aggregate remuneration paid or to be paid to directors and officers as a group, annual remuneration of the three highest paid officers and the interest of all such persons in material transactions with the company. Options or warrants outstanding or proposed to be granted to purchase securities of the issuer must be revealed. Appropriate financial statements are called for but at the present time these statements need not be certified by independent public accountants. All of the information required in the notification and offering circular is readily available to the company desiring to use the regulation.

Rule 256 (e) further specifies that in no event shall an offering circular be used if it is false and misleading under the circumstances then existing.

Although most businesses will find it expedient to employ an attorney to prepare the filing, the instructions are sufficiently explicit that many small enterprises can prepare their own filing without the employment of counsel. These more complete instructions in large

measure set forth the administrative practice of the Commission in reviewing filings under the previous regulations.

6. Unless the offering terminates sooner, the offering circular now has to be revised every 9 months except that offering circulars for employee purchase plans must be revised every 12 months.

7. A report of sales on Form 2–A now must be made within 30 days after the end of each 6-month period following the date of the original offering circular until the offering has been terminated. Formerly, such report was due on a date computed with reference to the commencement of the offering which date was not known in advance to the Commission staff. Form 2–A has been revised to call for additional information which will assist the Commission staff in its enforcement of the regulation and supply information as to use of the proceeds for the public investor.

8. There was added as a ground for suspension of the exemption any failure by the issuer or any of its promoters, officers, directors or underwriters, to cooperate in any investigation by the Commission of an offering under the regulation.[5]

Proposed Further Amendment of Regulation

The Commission also announced its belief that further consideration should be given to revisions which would make the exemption available only to issuers and offerings meeting specified standards based either upon a record of net earnings on the part of the issuer or upon a limitation of the number of units of securities that might be issued pursuant to the exemption, as distinct from the aggregate offering price of the securities to be offered. The Commission's announcement discussed alternative bases and invited public comment thereupon.[6]

The Commission also has under consideration a proposed amendment to regulation A which would provide that the financial statements required to be contained in offering circulars be certified by independent public or certified public accountants and would also require that the certifying accountant consent to the use of his name on the certificate.[7]

Proposal to Exempt Option Stock Withdrawn

A proposal which the Commission had under consideration for sometime, which would have provided a conditional exemption from the registration provisions of the Securities Act of 1933 for the issuance of stock, not exceeding $300,000, pursuant to a restricted stock option plan, and a related amendment of Form 8–A, for registration of such securities on a national securities exchange under the Securities

[5] Securities Act Release No. 3663, July 23, 1956
[6] Securities Act Release No. 3664, July 23, 1956
[7] Securities Act Release No 3600, December 27, 1955.

Exchange Act of 1934, was withdrawn July 2, 1956. By reason of the Commission's general simplification of its forms and procedures for registration under the Securities Act and because class registration of securities on an exchange has been provided under the Exchange Act the need for adoption of the proposal in the public interest was removed.[8]

Form S–1.—As noted above, the Commission's program begun in 1953 directed to the simplification of forms and the elimination of duplication in filings has resulted in the revision of Form S–1. This form, the basic form generally used for compliance by commercial and industrial companies with the registration provisions of the Securities Act, was revised effective October 25, 1955, in order to conform its requirements to those of the Commission's proxy rules, and the registration and annual reporting forms for securities registered for trading on securities exchanges and to clarify the disclosure requirements in the light of the Commission's experience in reviewing registration statements and of the practice of registrants using the form. In conjunction with this revision of Form S–1, the Commission adopted revisions of Forms 10, 8–B and 8–C, rescinded Forms 12 and 12–A, and amended rule X–12B–2, all of which were concurrently promulgated resulting in conforming these filing processes, thus completing the Commission's objective under the proxy rules and registration statements and eliminating costly and time-consuming duplication in these areas. In the revised form, those items which experience demonstrated had not been fully understood by registrants are required to be stated more clearly and in more detail and the treatment of stock options was revised to obtain more complete information as to the aggregate amount of options outstanding. At the same time, an amendment was made to rule 405, which added the definition of the terms "associate" and "voting securities." Rule 424 (e) was also amended to provide for the filing of three copies of any prospectus used before the effective date and provision was made for additional copies of the registration statement to be filed to facilitate examination thereof by the Division of Corporation Finance.[9]

Forms 10, 8–B and 8–C.—The revision of Form S–1 was accompanied on October 25, 1955, for the reasons stated in the discussion thereof above, by corresponding revisions of Form 10, the principal form for the registration of securities on an exchange under the Securities Exchange Act; Form 8–B which is used for such registration by certain successor issuers; and Form 8–C for registration of securities on an additional exchange.[10]

[8] Securities Act Release No. 3655, July 2, 1956.
[9] Securities Act Release No. 3584, October 25, 1955.
[10] Securities Exchange Act Release No. 5243, October 25, 1955.

Forms 12 and 12–A; and Supplement S–T.—As a further part of the program of coordination and clarification of forms made effective October 25, 1955, Forms 12 and 12–A were rescinded and incorporated in revised Form 10.[11] Forms 12 and 12–A were available for issuers, subject to the annual reporting requirements of the Interstate Commerce Commission or Federal Communications Commission, which were registering or amending their registration for listing of securities on a national securities exchange.

At the same time, supplement S–T, which it had been necessary to file for the qualification of trust indentures under the Trust Indenture Act of 1939 in cases where the indenture securities were required to be registered under the Securities Act of 1933, was rescinded because the significant information called for by this supplement is now included elsewhere in the registration statement and otherwise made available to the Commission.[12]

REVISION OF PROXY RULES

Section 14 (a) of the Securities Exchange Act, generally speaking, makes it unlawful for any person to solicit by the use of the mails, the facilities of interstate commerce or of a national securities exchange or otherwise, a proxy, consent, or authorization in respect of securities listed on a national securities exchange in contravention of rules and regulations promulgated by the Commission for the protection of investors.

Pursuant to this authority, the Commission since 1938 has had in effect its regulation X–14, usually known as the "proxy rules." This regulation has been amended from time to time, as the Commission's experience has suggested the necessity to make the rules more consonant with changes and developments in corporation practices or for the protection of investors. The basic purpose of the regulation has been to protect investors by means of disclosures of material facts important to an analysis of matters presented to shareholders for their vote. The theory of the rules is that if all such facts are clearly presented to the investor or shareholder he will be capable of arriving at his own decisions.

In general structure, the rules require specific disclosures in respect of specific corporate matters, including the election of directors. The specified disclosures must be embodied in a "proxy statement" to be furnished to every security holder whose proxy is solicited. The cardinal requirement of the rules is that there be no misleading statements of facts nor any omission of material facts necessary to make the facts stated not misleading under the circumstances.

[11] Securities Exchange Act Release No. 5243, October 25, 1955.
[12] Securities Act Release No. 3584, October 25, 1955.

Compliance with the rules is enforced by requiring the proxy statement in preliminary form to be filed with the Commission and withheld from use for 10 days unless the Commission permits its prior issuance to the shareholders. Supplemental soliciting material is also required to be filed but may be used within two business days after the filing.

Recent History

Principally the revisions involve an expansion of the rules to deal more specifically with proxy contests for the election of directors of listed companies. Prior to the adoption of these revisions their general scope had been the subject of testimony by the Commission's representatives before the Senate Committee on Banking and Currency in connection with its study of the stock market [13] and before the subcommittee on securities which had been investigating proxy contests.[14] In addition, the proposed rules were submitted for comment to all interested persons and companies. As a result of the comments received, the proposals were again revised and finally adopted.

Subsequent to their adoption, the revised rules were reviewed by the subcommittee.[15] It is the Commission's opinion that the revised proxy rules as they now deal with proxy contests have worked well and that they have been of material benefit to investors by providing them with the material to make an intelligent analysis of the possible effects upon their investment of the purposes and motivations of the contending forces in a proxy contest.

During the last 3 fiscal years there has been a rising frequency in the number of proxy contests for control of listed companies. In part, these struggles derive from the increasing prosperity of the country and the rise of new financial personalities who wish to obtain control of listed companies. The source material upon which the issues created by the opposing forces is usually based is almost invariably derived from the disclosures, financial, statistical and otherwise, required by the reporting provisions of the Securities Exchange Act in respect of listed companies. These required reports permit the direct comparison of companies in like industries and comparisons of managerial abilities and results. Because of the fact that the issues are almost always derived from the reports filed with the Commission by listed companies, our staff is in a unique position quickly to appraise the accuracy and fairness of statistics and other financial comparisons which almost universally are one of the important aspects of the conduct of a proxy contest.

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[13] Hearings on S. 2054, 84th Cong , 1st. sess. (1956), 1283–1319 inc

[14] Hearings on S 879, 84th Cong., 1st. sess. (1955), 1507–1576 inc.

[15] Hearings on S. 879, 84th Cong., 1st. sess. (1956), 1669–1728.

Perhaps more importantly, the many proxy contests have caused a reexamination by the Commission of the efficacy of its rules in such contests and a reaffirmation by the Commission and by the courts of the necessity for Commission regulation of such contests to the extent provided by section 14 (a) of the Securities Exchange Act of 1934. Finally, during the course of the last 3 fiscal years the Commission has been faced with the problem of the extent to which its rule-making power granted to it by section 14 (a) may, in the case of proxy contests, be in conflict with the first amendment's guarantees of freedom of speech and of the press.

Use of Press, Television, and Radio

A distinguishing feature of the proxy contests of the last 3 fiscal years from those in the past has been the extensive use by the contending parties of all modern media of opinion formation and communication. Public relations experts are frequently retained to determine the general strategy of the campaigns. The appeal for the shareholder's votes has been increasingly made by means of radio, television, and the public press. The press release, the press conference, and speeches before shareholders themselves and before groups having important influence upon shareholders have been a normal part of the apparatus of the contests. Reprints of published material tending to favor one group or the other have also been utilized. Furthermore, the opposition groups in many cases have engaged in concealed financing devices in connection with the purchase of shares both by themselves and by others whose vote they seek. Specifically, such agreements include arrangements by the contestants to purchase shares of others after they have been voted, agreements to guarantee profits on the purchase of shares by those willing to vote for such group, agreements to protect against loss and other contractual arrangements for financing. Disclosure of these financing procedures is necessary to enable shareholders properly to appraise the motivations of the group which engages in them. Our new rules now require disclosure of these financing arrangements, if any exist.

The intensity with which recent proxy contests have been fought and the resort by the contestants to all possible media of communications have aroused a general public interest in such contests. As a result, the interest of the press in these contests has been intense, particularly because of the prominence of the companies control of which has been the subject of the disputes. The companies involved have included the Nation's largest woolen manufacturer, its second largest railroad, its second largest mail-order and merchandising system, several other important railroads and a number of companies of significance in their industries.

Legislative History

It is clear from the legislative history of section 14 (a) that the Congress intended the Commission to insure adequate disclosure to investors, not only in the case of the usual unilateral solicitations by management but also in the case of proxy contests. The legislative history of section 14 (a) indicates a specific concern by Congress with the possibility that opposition groups might unseat management by the use of unfair and misleading statements to procure shareholders' votes. The overriding purpose of both the Securities Act and the Securities Exchange Act is that our economy is best served only if shareholders have information which is adequate and accurate so that decisions may be intelligent. Clearly, the decisions made by shareholders in the area of the selection of management for their companies are as important to them and to the economy as the decisions they make in connection with the purchase and sale of the securities they hold. This view is not only sustained by the legislative history of section 14 (a); the Commission has been vigorously affirmed in its own judgment on this point by a recent decision of the United States Court of Appeals for the Second Circuit.[16]

Misrepresentations

Furthermore, there are important practical reasons why it is essential in the interest of stockholder protection that the Commission impose disclosure requirements to prevent misleading statements and to insure a truthful exposition of material facts. If the Commission's regulation is abandoned, experience teaches that misrepresentation of fact will be countered by further misrepresentation of fact and distortion by distortion, the ultimate effect of which may be to deceive and mislead the shareholder. a result completely antithetical to the basic purpose of the Securities Exchange Act.

Patterns of attempted misrepresentation occur and reoccur in proxy contests which focus upon the primary issue of the comparative managerial ability and integrity of the two groups. Arguments are made from complex financial statistics and other data, the analysis of which is not too familiar to most investors. Statistical comparisons are made purporting to show superiority or inferiority of management to other groups or other companies supposed to be engaged in the same general line of business. In short, statistics can be used to distort.

Illustrations of the type of misrepresentations which may prevail in the absence of Commission regulation can be derived from those attempted in recent proxy contests. In a recent campaign for the control of the board of directors of a railroad, the group opposing management sought to illustrate the existing management's lack of ability by means of an income account which included a sinking fund payment

[16] *S. E. C.* v. *May et al.*, 229 F. (2d) 123 (C. A. 2d 1956).

as a charge against income, an accounting procedure totally opposed to acceptable accounting practice. The result of this was to indicate a loss in railroad operations for 6 years when, in fact, if the income account was depicted in accordance with accepted accounting principles, losses occurred in only 2 of such years. The Commission objected to this improper presentation.

In another case, misleading comparisons were sought to be made by an opposing group in a contest for control of a railroad that the company's stock had sold in 1929 at $250 a share in contrast to its then market price of about $25 per share. This statement was coupled with the assertion that if the opposition group succeeded in its efforts the stock would go to $100 and pay an $8 dividend. In view of the pronounced changes that have occurred in our economy since 1929, particularly in the growth of strongly competitive forces in the transportation industry such as automobiles and trucks, plus the fact that the company had earned $8 a share only three times in its history, the Commission insisted upon the deletion from the solicitation material of these comparisons.

In addition to the use of distorting statistics, two other misleading devices have been attempted. These devices are totally at variance with the tradition of the common law, with its insistence over the centuries on a requirement of probative evidence subjected to intense and objective tests as to veracity and accuracy. One is that of imputing guilt by association—often the most remote type of association. The other, a corollary device, is the rhetorical question based on any assumption for which there is no foundation in fact laid. This is the "When did you stop beating your wife" question. This type of misrepresentation in proxy contests has been condemned by the courts in an action brought by the Commission as a violation of the Commission's rules forbidding misleading statements.[17]

For example, a magazine which had published articles favorable to the management was sought to be disparaged by the opposition group, not on the ground of any illegal or immoral act which the magazine had committed but on the ground that it employed a law firm one of the partners of which had been accused, although never convicted, of bribery of a Federal court. Similarly, an opposition group soliciting requests for authority to call a special meeting to elect directors was attacked because two of the stockholders signing the request who owned insignificant amounts of shares and who had no connection with the formation and activities of the opposition group, had been indicted for alleged tax violation. Similarly, a member of an opposition group has been attacked because he allegedly joined with certain other persons of whom the management was critical

[17] *S. E. C.* v. *May et al.*, 134 F. Supp. 247 (S. D. N. Y.), affirmed, 229 F. (2d) 123 (C. A. 2d 1956). This case is more fully discussed in the Annual Report under "Litigation," p. 122.

in contributing large sums to the political campaign of a candidate for a public office.

The Commission, in carrying out the standards established by the Congress against false and misleading statements in the use of proxy soliciting material under the Exchange Act, objected to such misrepresentations. As a result they were not made.

Finally, if the parties are left to themselves free of Commission regulation, their recourse to remedy misleading statements by their opponents will be to the courts. This is a more cumbersome, costly and dilatory procedure than the continuous administrative processing of soliciting material by the Commission and its staff, a procedure which tends to prevent, although it cannot guarantee, the presentation of misleading statements. This administrative procedure provides for the correction of misleading statements and omissions discovered to have been in subsequent material or by resolicitation. The staff's corrective suggestions are almost invariably followed by the parties with a minimum of disruption of the course of the campaign. The Commission believes that its administrative procedure for resolving these problems before corporate meetings are held is manifestly more in the interest of the stockholder and the public interest than the more cumbersome court proceedings.

Constitutionality of the Proxy Rules

Of greater concern to the Commission has been the charge that its regulation of proxy contests is violative of the constitutional guarantee of freedom of speech and of the press. This charge arises out of the fact that the rules, prior to the revision in January 1956, required submission of all proposed soliciting material to the Commission prior to its use in order to enable the Commission to determine whether the material complied with the disclosure and other requirements of the proxy rules. This problem, as has been indicated, has become increasingly important in recent proxy contests because of the use which has been made by contending parties of press releases, press conferences and paid advertisements.

In answer to this charge it must be emphasized that neither the Act nor the rules, in the Commission's opinion, confer upon it the power to restrain argument, debate, rhetoric or legitimate inference from undisputed facts. Nor do the proxy rules contain any such restraints. On the contrary, the courts have required the Commission to permit a substantial degree of "contentious advocacy" in areas where underlying facts are not clear or are subject to legitimate dispute and argumentation. The Commission does not take sides in proxy contests. It is not concerned with their outcome.

The Commission, however, is concerned that statements presented to stockholders be not misleading. Its rules specifically provide that

such facts as are asserted to exist by the contending parties must be accurate and that factual statements made do not omit other facts which are material to an intelligent determination of the meaning of the disclosed facts. In this limited area it is clear that the Commission's activities do not contravene the first amendment. The Supreme Court, in fact, in a recent case has clearly indicated that the first amendment places no inhibition on legislation, such as the Securities Exchange Act of 1934 (to which the Court specifically referred), designed to prevent fraud or deceptions of the public in connection with securities or otherwise.[18]

Moreover, in its revised rules the Commission has expressly provided that press releases, prepared radio and television broadcasts and speeches need not be filed with the Commission prior to their use, although they remain subject to the cardinal requirement of our rule that they must not be misleading. They must also be filed promptly with the Commission after their use. Such material, of course, may be submitted to the Commission prior to its use, if the contestant so desires. A practical reason for this change in our rules, in addition to the importance of safeguarding freedom of speech and freedom of the press, is that time limitations and pressures of a proxy contest frequently necessitate the use of these documents as quickly as possible. The Commission is gratified to report to the Congress on this aspect of the thrust of its rules that responsible elements of the press are now completely satisfied that our rules do not impinge upon the freedom of the press or freedom of speech, particularly in view of the fact that they impose no "prior restraints" on press releases, press conferences and radio and television broadcasts and speeches.[19]

Solicitation Prior to the Formal Proxy Statement

Under the prior rules no solicitation could be made prior to the actual dissemination to shareholders of the "proxy statement" required by the rules. However, experience in proxy contests has demonstrated that discussion over as long a period of time as possible is desirable and important from the point of view of the shareholders and their ultimate understanding of the issues involved in the contests. Therefore, in view of this obvious public interest, the Commission's new rules for the first time permit pre-proxy statement solicitation, but subject such solicitation to compliance with the rules, particularly

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[18] *Donaldson* v. *Read Magazine*, 333 U. S 178, 191 (1947).

[19] See letters of James Russell Wiggins, Chairman of the Freedom of Information Committee of the American Society of Newspaper Editors, dated December 19, 1955 and January 23, 1956, to the Chairman of the Commission, in which Mr. Wiggins said "We are glad to see that it provides that speeches, press releases, and scripts may, but need not, be filed with the Commission prior to the use or publication. The proposed rules in this form, we believe, will carry out the purposes you had in mind without skirting the First Amendment. * * * I was also interested in the United States Court of Appeals for the Second Circuit. That Congress intended to regulate these matters, I have never doubted. I am not quite as sure that the intention was carried out in a way that would not trespass upon the First Amendment by replacing [sic] a prior restraint upon utterance. The rules that you have adopted, it seems to me, wisely avoid this issue without interfering with any public interest " Submitted for the record of hearings before the Subcommittee on Information, Committee on Government Operations, May 29, 1956 See also editorial of Editor and Publisher, December 24, 1955. Ibid. Notwithstanding this, and apparently overlooking the decision of the Court of Appeals for the Second Circuit in *S E. C* v. *May et al.* (134 F. Supp. 247 (S D. N Y.), affirmed, 229 F. (2d) 123 (C. A. 2d 1956)), the Special Subcommittee on Government Information of the House Committee on Government Operations said in July, 1956 "There is strong doubt that the effort of the Securities and Exchange Commission to control the content of advertising in proxy contests would hold up in a court test under the first amendment. The legal authority for the SEC, or any other Government agency, to control or censor the reprint of articles that have previously been published and already are in the public domain is highly questionable" (Committee on Government Operations, Availability of Information From Federal Departments and Agencies, H. R. No. 2947, 84th Cong., 2d sess., 87-8 (1956)).

with a requirement that the interest and background of the participants must be disclosed in such solicitation material and that such material must not be misleading.

Disclosure of Identity of Participants

Another of the important purposes of the new rules is to bring all of the participants in a proxy contest out on the stage to be gazed upon by the shareholders; no participants may be left lurking in the wings. In a proxy contest, no solicitation of proxies by an opposition group may be commenced unless a statement concerning each participant in that solicitation is first filed with the Commission and each national securities exchange with which any security of the corporation is listed. This statement must set forth the detailed information required by a new schedule provided by the rule (schedule 14–B). If the solicitation is by management in opposition to another group or in anticipation of opposition by another group, the information required by the new schedule 14–B with respect to management participants must be filed promptly after the first solicitation. The term "participant" includes, in addition to the corporation and its directors and nominees for directors, all persons and groups primarily engaged in, financing and responsible for, the conduct of the proxy solicitation. Those taking the initiative in organizing a stockholders' committee or group or contributing more than $500, or lending money or furnishing credit for the purpose of financing or otherwise influencing the contest, are included in the definition of participant. These provisions should make available to the security holders information about the background and the financial and other interests not only of all persons who are nominees for election as directors, but also of all persons who may represent the real interest behind the formal nominees, and should reduce substantially the difficulty the Commission has had in the past with undisclosed principals, or "fronts."

Each participant is required to disclose, in the document filed in response to schedule 14–B, his occupational background and personal history, his criminal record, if any, the extent of his participation in other proxy contests involving any corporation, the amount of the corporation's securities he owns, the transactions in which the securities were acquired, the circumstances under which he became a participant in the solicitation, and any arrangement or understanding respecting future employment or other transactions with the corporation. A summary of this information concerning participants must be included in the respective "proxy statements" of the contesting groups.

In the past, participants in proxy contests have sometimes attempted to conceal their background, financial interests in the corporation and activities in the solicitation for proxies. This the courts have condemned as misleading under the Commission's previous rules.[20]

[20] *S. E. C.* v. *May*, 134 F. Supp. 247 (S. D. N. Y. 1955), affirmed, 229 F. (2d) 123 (C. A. 2d 1956).

Solicitation Methods and Costs

In contests for the election of directors, the proxy statement is also required to include a description of the methods of solicitation and the material features of solicitation contracts, the anticipated expense of solicitation, and whether reimbursement for soliciting expenses will be sought from the corporation. In the past expenditures made by the contending parties have been substantial, in some cases exceeding $1 million or more. It is imperative that stockholders be informed during the course of the campaign of the contemplated expenditures to be made to both sides, particularly where the management is using corporate funds on its behalf and it is the intention of the opposing group to reimburse itself out of the corporate treasury, if successful. Disclosure on these points is now compelled by the revised proxy rules.

Stock held in "Street Name"

Many of the more difficult problems in any proxy contest spring from the fact that a considerable portion of the corporation's outstanding shares are often held in street names and their ownership is constantly changing. Participants in a proxy contest no longer can rely on being able to communicate with the beneficial owners indirectly through solicitation of the stockholders of record. Therefore, the widespread use of paid advertisements, prepared press releases, press interviews, and radio and television broadcasts, has become common in attempting to reach security holders and to sway the opinion of the public and persons who may advise security holders with respect to giving, revoking or withholding proxies. Whether statements are written or oral, are prepared in advance or are spontaneous they nevertheless constitute part of a continuous plan to influence stockholders and are deemed subject to the Commission's standards of fair disclosure and, specifically, to the rule prohibiting false and misleading statements. This proposition is now clearly embodied in the new proxy rules.[21]

Filing of Soliciting Material

The new rules continue to require that all advertisements used as soliciting material in a proxy contest be filed with the Commission prior to publication. Reprints or republications of any previously published material used in soliciting proxies also must be filed prior to use, together with a statement identifying the author and any person quoted in the article and disclosing whether the consent of the author and of the publication to use the material has been obtained, and if any consideration has been, or will be, made for its republication.

The annual financial report of a corporation to its security holders is not usually considered to be proxy soliciting material and is not

[21] Rule X-14-A-9.

treated as a "filing" with the Commission. However, if any portion of the annual report discusses the solicitation of an opposition group, that portion is made subject to the proxy rules by the 1956 amendments and must be filed with the Commission prior to distribution.

Rule X–16B–3.—The exemption covers any acquisition of nontransferable options or of shares of stock, including stock, acquired pursuant to such options, by a director or officer of the issuer of such stock provided the stock or option was acquired pursuant to a bonus, profit-sharing, retirement, stock option, thrift, savings, or similar plan meeting all of certain conditions specified in the rule. These conditions provide, in general, that the plan must have been approved by a majority of the voting security holders of the issuer and limits the aggregate amount of funds or securities which may be allocated to the plan by a fixed amount, earnings formulas, dividends, compensation of the participants, percentages of outstanding securities, or similar factors.[22]

This rule was amended on May 21, 1956, to clarify its provisions in accordance with the considerable body of administrative interpretation which the Commission had built up over the years since the rule was adopted in 1935. Briefly stated, the rule provides under the Securities Exchange Act a complete exemption from section 16 (b) liability for profits derived from certain acquisitions of securities under incentive plans.

Form S–12.—This new registration form under the Securities Act of 1933, for American Depositary Receipts against outstanding foreign securities, was adopted effective November 17, 1955. Its purpose is to provide a simple procedure for such registration where there is no person who performs the acts and assumes the duties of depositor or manager. The form proposes that the prospectus information, which consists of only four items, might be embodied in the receipts. The form may be used, provided that the holder of the receipts may withdraw the deposited securities at any time, subject to temporary delays of a specified nature, the payment of fees, taxes and similar charges and to compliance with any laws or governmental regulations relating to the withdrawal of deposited securities and that the deposited securities, if sold in the United States or its territories, would not be subject to the registration provisions of the Securities Act of 1933.[23]

Since the early days of the Securities Act of 1933 the Commission has had before it the question whether the issuance by banks of American Depositary Receipts ("ADRs") for shares of foreign issuers are exempt from registration under the Act. In the case of ADRs which were outstanding at the time of the passage of the Act, the

[22] Securities Exchange Act Release No. 5312, May 21, 1956

[23] Securities Act Release No. 3593, November 17, 1955.

Commission took the position that they were exempt from registration by reason of section 3 (a) (1) of the Act. As to ADRs issued afterwards, the position was sometimes urged that an exemption was available under section 3 (a) (2) of the Act. This section exempts among other things securities issued by a national bank and securities issued by any banking institution organized under the laws of any State or Territory, the business of which is substantially confined to banking and is supervised by a banking commissioner or other similar official. Section 2 (4) of the Act defines an "issuer" with respect to a certificate of deposit to mean "the person or persons performing the acts and assuming the duties of depositor or manager pursuant to the provisions of the trust or other agreement or instrument under which such securities are issued." The question presented, therefore, was whether the bank performed the acts or assumed the duties of depositor or manager so as to be deemed an issuer within the above definition and, if the bank should be deemed to perform such functions, whether it would be entitled to the exemption provided by section 3 (a) (2).

After extended consultations with representatives of a number of banks, the Commission concluded that section 3 (a) (2) was intended to provide an exemption only for a bank's own securities. To permit a bank to claim this exemption for any trust or similar entity that it might devise would permit the creation of voting trusts, investment trusts and a variety of other securities for which the disclosure requirements of the Securities Act of 1933 could be avoided. Furthermore, the concept of supervision by banking officials included in section 3 (a) (2) did not appear to embrace the issuance of ADRs so as to afford purchasers the protection intended by that section.

Accordingly, the Commission, again in consultation with representatives of the banks concerned, evolved a form to be used for registration in such cases. The new form provides a simple procedure for registration. The prospectus which consists of only four items may be embodied in the depositary receipts themselves. The form may be used only where the holder of receipts may withdraw the deposited securities at any time, subject to temporary delays of a specified nature, the payment of fees, taxes, and similar charges and compliance with any laws or governmental regulations relating to the withdrawal of deposited securities. The form also applies only where the deposited securities, if sold in the United States or its Territories, would not be subject to the registration provisions of the Act.[24]

The form therefore provides for disclosure of facts not heretofore required by prior Commission interpretation. Such procedure pro-

[24] Securities Act Release No 3593, November 17, 1955.

vides greater investor protection in conformity with the standards of the Securities Act of 1933.

Rule 434.—This rule, made effective November 10, 1955, specifies the conditions under which a bulletin or card prepared by certain independent statistical services, primarily engaged in publishing statements and financial information for distribution to subscribers and summarizing information contained in a preliminary prospectus, might be deemed a summary prospectus meeting the requirements of section 10 of the Act prior to the effective date of the registration statement. This rule implements section 10 (b) of the Act under the amendment made in 1954 by Public Law 577, 83d Congress, which authorizes the Commission to adopt rules and regulations deemed necessary or appropriate in the public interest or for the protection of investors to permit the use of a summary prospectus which omits in part or summarizes information in the preliminary prospectus filed as part of the registration statement.[25]

Bulletins and cards of the type covered by this rule have been published since the early days of the Securities Act. Prior to the 1934 amendments to the Act the use of such materials was deemed to be permissible as a means of disseminating information contained in the registration statement. Of course, such bulletins and cards could not be used in the actual offering or sale of securities since they did not meet the prospectus requirements of the Act.

Rules 171, 485, 486, X–6, and U–105.—These rules govern applications for confidential treatment of certain information filed with the Commission which would otherwise be disclosed to the public. Rule 486 was repealed and the others were amended in minor respects to be consistent with Executive Order 10501, 18 F. R. 7049, which withdrew from the Commission any power to classify information in the interests of national defense, and to minimize any confusion between the word "confidential" as used in national defense classifications and elsewhere.[26]

The revision of rule 485 was made in compliance with the authority granted to the Commission pursuant to section 19 (a) of the Securities Act of 1933. Rule 485 provides that "confidential treatment" of material contracts or parts thereof be permitted where disclosure of the facts contained therein are not "necessary for the protection of investors" and disclosure of which would impair the value of the contract. The Commission in promulgating the rule, as amended, has considered the basic statutory mandate of Congress and the rule merely permits a registrant to request nondisclosure of matters such as trade secrets, patents, designs, and so forth.[27]

[25] Securities Act Release No. 3592, November 10, 1955.
[26] Securities Act Release No. 3573, September 8, 1955.
[27] See page 212 for discussion as to non-disclosure of certain information.

Rule 434A.—This rule was adopted on November 23, 1956, pursuant to section 10 (b) of the Act, as amended in 1954, which authorizes the Commission to adopt rules and regulations permitting the use in making offers of securities of a prospectus which omits in part or summarizes information required to be set forth in the most recent prospectus required to be used in connection with the sale of securities. Under the rule the use of summary prospectus is limited to issuers whose securities are registered on Forms S–1 or S–9 and which are required to file reports with the Commission under section 13 or 15 (d) of the Securities Exchange Act of 1934. The new rule provides that summary prospectuses will contain substantially the same information as previously specified for newspaper prospectuses relating to securities registered on such forms. Such summary prospectus may be published in a newspaper or other periodical or be printed in a form suitable for distribution by hand, through the mails or otherwise.[28]

Forms 4, U–17–2, and N–30F–2.—These forms are used by directors, officers, and principal stockholders for the monthly report of their security transactions, and holdings pursuant to the Securities Exchange Act of 1934, the Public Utility Holding Company Act of 1935, and the Investment Company Act of 1940. In recent years there has been a marked increase in the amount of shares sold to insiders under restricted stock options and similar arrangements. Accordingly, any analysis of insider transactions as reported to the Commission is impeded if the source of acquisitions through the exercise of options is not indicated. Similar problems arise where the transactions are not otherwise effected upon the open market. The amendments to Form 4 (and related forms) provide for identification of purchases made through the exercise of options and private transactions.[29]

OTHER REVISIONS UNDER CONSIDERATION

The Commission devoted much study during 1956 to other important changes in its rules, regulations, and forms. Definitive action in regard to these matters is, in general, awaiting receipt and evaluation of comments from the public and, in some instances, the holding of a public hearing. The principal proposals are as follows:

(1) A Proposed Revision of Rule 133

This rule as currently in effect defines the terms "sale," "offer," "offer to sell," and "offer for sale" so as to make the registration and prospectus requirements of the Act inapplicable to certain corporate

[28] Securities Act Release No. 3722 (November 26, 1956).
[29] Securities Exchange Act Release No. 5410 (November 29, 1956).

mergers, consolidations, reclassifications of securities and acquisitions of assets of another person, in conformity with the statutory provisions of the state of incorporation or the organic instruments. For many years the Commission has taken the position that such transactions did not involve the offering or sale of securities, and hence registration of the new securities resulting from such transactions was not required under the Act. With the passage of time, this interpretation commonly referred to as the "no sale" theory has been administratively narrowed by the Commission. Moreover, the Commission does not extend the theory to the other statutes which the Commission administers. As a result of the "no sale" theory, a large number of transactions have been effected without registration in situations where security holders have, in effect, been traded out of their holdings into new securities of an entirely different company or business without the legal protection afforded by the registration provisions of the Act and often without proper information as to the nature of the enterprise into which they were going. Also the rule has facilitated distributions of securities to the public for cash without compliance with the registration requirements of the Act. The Commission felt that this situation was of sufficient gravity to warrant a thoroughgoing reexamination of the "no sale" theory.

(2) Certain Alternative Proposals for Limiting the Availability of the Exemption from Registration Provided by Regulation A

This proposal arose out of the Commission's concern with the problems presented by promotional companies in offering securities to the public. One of the proposals is to restrict the use of regulation A to companies which have had at least 1 year's record of net earnings within any 5 preceding fiscal years. Another alternative proposal would restrict the number of units of securities that could be issued under the regulation. The suggested maximum number of shares of stock is 100,000, which would, of course, eliminate the issuance and sale of so-called "penny stocks" under this regulation and the number of units of debt securities that could be offered to be 3,000 which would require the price to be $100 per unit if the full $300,000 under the exemption is to be raised.

(3) Proposed Note To Rule 460 Which Would Specify Certain of the More Common Situations Where It Is the Policy of the Commission To Deny Acceleration of the Effective Date of a Registration Statement Under the Standards of Section 8 (a) of the Act

Section 8 (a) of the Act provides that the effective date of a registration statement will be the 20th day after filing (or after the filing of an amendment) or such earlier date as the Commission may determine, having due regard to the adequacy of the information respecting the issuer theretofore available to the public, to the facility

with which the nature of the securities to be registered, their relationship to the capital structure of the issuer and the rights of holders can be understood, and to the public interest and the protection of investors. In passing upon requests for acceleration of the effective date the Commission acts on a case-by-case basis after consideration of all pertinent factors. However, certain of the principal areas in which the Commission has refused acceleration have formed a pattern and the decisions in these areas are reflected in the proposed note.

The proposed note would represent a major step in rounding out the program of publishing the Commission's major administrative policies as a part of the general rules and regulations under the Act and would facilitate administration of the long-standing policy of the Commission to cooperate with registrants in order that the effectiveness of registration statements filed under the Act may be expedited as much as possible consistent with the public interest and the protection of investors.

(4) Revisions of Forms S–2 and S–3

Forms S–2 is prescribed for commercial and industrial companies in the promotional or development stage. Form S–3 is a similar form for mining companies in the exploratory or development stage. It is proposed to merge another form, Form S–11, into the revised Form S–3. The purpose of these revisions is to bring the forms up to date in the light of the Commission's experience and current administrative practice.

(5) A Revision of Form S–4 Which Is Used for the Registration of Securities of "Closed-End" Management Investment Companies

The registration statement of this form consists largely of information and documents previously furnished in connection with the company's registration under the Investment Company Act of 1940. The principal purpose of the proposed revision of Form S–4 is to bring its requirements into line with those of certain amended forms under the Investment Company Act.

(6) Proposed Amendments to the Commission's Statement of Policy Relating to Investment Company Sales Literature

The statement of policy was adopted in 1950 and was amended in January 1955. It is designed to serve as a guide in the preparation of investment company sales literature so as to avoid violation of the anti-fraud provisions of section 17 of the Securities Act of 1933. The Commission's observation of the operation of the Statement of Policy, as amended in 1955, has aroused concern as to the propriety of certain types of presentation of information in tabular or chart form. The

purpose of the proposed amendments is primarily to establish clear standards for the fair and accurate presentation of statistical and financial data concerning investment company operations in sales literature and prospectuses. As a part of this program, the Commission is also considering proposed revisions of its forms N–8B–2 under the Investment Company Act and S–6 under the Securities Act. These forms are used by unit investment trusts and companies issuing periodic payment plan certificates.

PART IV

ADMINISTRATION OF THE SECURITIES ACT OF 1933

The Securities Act of 1933 is designed to provide disclosure to investors of material facts concerning securities publicly offered for sale by use of the mails or instrumentalities of interstate commerce, and to prevent misrepresentation, deceit or other fraudulent practices in the sale of securities. Disclosure is obtained by requiring the issuer of such securities to file with the Commission a registration statement, and related prospectus, containing significant information about the issuer and the offering. The registration statement must become "effective" before the securities may be sold to the public. These documents are available for public inspection as soon as they are filed. In addition the prospectus must be furnished to the purchaser at or before the sale or delivery of the security. The registrant and the underwriter are responsible for the contents of the registration statement. The Commission has no authority to control the nature or quality of a security to be offered for public sale or to approve or disapprove its merits or the terms of its distribution.

DESCRIPTION OF THE REGISTRATION PROCESS

Registration Statement and Prospectus

Registration of any security proposed to be publicly offered may be secured by filing with the Commission a registration statement on the applicable form containing prescribed disclosures. Congress provided that a registration statement must contain the information and be accompanied by the documents specified in Schedule A of the Act, when relating to a security issued, generally speaking, by a corporation or other private issuer, or those specified in Schedule B, when relating to a security issued by a foreign government. Both schedules specify in considerable detail the disclosures which Congress considered an investor should have available in order to make an informed decision whether to buy the security. In addition, Congress added flexibility to the administration of the statute by empowering the Commission to classify issues and issuers, to prescribe appropriate forms, and to increase or in certain instances vary or diminish the particular items of information required to be disclosed in the registration statement as the Commission deems appropriate in the public interest or for the protection of investors. Similar legislative treatment applies to prospectuses, with respect to which additional power was granted the Commission by the 1954 amendments adopted by the 83d Congress.

In general the registration statement of an issuer other than a foreign government must describe such matters as the names of persons who participate in the direction, management, or control of the issuer's

business; their security holdings and remuneration and options or bonus and profit-sharing privileges allotted to them; the character and size of the business enterprise; its capital structure and past history and earnings; its financial statements, certified by independent accountants; underwriters' commissions; payments to promoters made within two years or intended to be made; acquisitions of property not in the ordinary course of business, and the interest of directors, officers and principal stockholders therein; pending or threatened legal proceedings; and the purpose to which the proceeds of the offering are to be applied. The prospectus constitutes a part of the registration statement and presents in summary the more important of the required disclosures.

Examination Procedure

The Commission is responsible for preventing the sale of securities to the public on the basis of statements which contain inaccurate or incomplete information. The staff of the Division of Corporation Finance examines each registration statement for compliance with the standards of disclosure and usually notifies the registrant by an informal letter of comment of any material respects in which the statement on its face apparently fails to conform to these requirements. The registrant is thus afforded an opportunity to file an amendment before the statement becomes effective. In addition, the Commission has power, after notice and opportunity for hearing, to issue an order suspending the effectiveness of a registration statement. Information about the increased use of this stop-order power during 1956 in 8 new cases as compared with 3 in 1955 appears below under "Stop-Order Proceedings."

Time Required to Complete Registration

Because prompt examination of a registration statement is important to industry, the Commission completes its analysis in the shortest possible time. Congress provided for 20 days in the ordinary case between the filing date of a registration statement or of an amendment thereto and the time it may become effective. This waiting period is designed to provide investors with an opportunity to become familiar with the proposed offering. Information disclosed in the registration statement is disseminated during the waiting period by means of the preliminary form of prospectus. The Commission is empowered to accelerate the effective date so as to shorten the 20-day waiting period where the facts justify such action. In exercising this power, the Commission is required by statute to take into account the adequacy of the information respecting the issuer theretofore available to the public, to the facility with which the nature of the securities to be registered, their relationship to the capital structure of the issuer and the rights of holders thereof can be understood, and to the public interest and the protection of investors.

The median time which elapsed between the date of filing and the effective date with respect to 715 [1] registration statements that became effective during the 1956 fiscal year was 23 days, 1 day more than the corresponding figure in the preceding year. Despite this average increase of a day, in no case, involving any major financing absent some serious disclosure problem, did the Commission fail to meet the date requested by the issuer for effectiveness or cause delay of financing plans. This time was divided among the three principal stages of the registration process approximately as follows: (*a*) from date of filing registration statement to date of letter of comment, 13 days; (*b*) from date of letter of comment to date of filing first material amendment, 6 days; and (*c*) from date of filing first amendment to date of filing final amendment and effective date of registration, 4 days. All these days are calendar days, including Saturdays, Sundays, and holidays. In 1956, to meet the financing requirements of industry, in cases where the public interest was adequately protected, the Commission granted effectiveness in less than 20 days for 174 [2] registration statements.

It is not the function of the staff of the Commission to prepare or rewrite registration statements. The members of the staff are ready to assist registrants when it appears that a bona fide effort has been made to prepare a registration statement meeting the standards of the Act and are as helpful as possible in suggesting whatever may be needed by way of additional information if the registration statement, as filed, is not entirely complete. But the Commission's policy, in the public interest and for the protection of investors, is immediately to commence stop-order proceedings in those cases in which the issuer and underwriter refuse to comply with, or ignore, the disclosure standards of the law or where the registration statement appears on its face to be false and misleading. As pointed out under the heading "Stop-order Proceedings," the Commission instituted eight such stop-order proceedings during the 1956 fiscal year, and two were pending at the beginning of the year. In addition, it has several investigations under way with respect to a number of other registration statements.

There are several policies regarding acceleration which have been developed in the last year. These pertain to the Commission's unwillingness to grant acceleration where during the prefiling or post-

[1] Not included in this elapsed time study were 73 registration statements for American Depositary Receipts on Form S–12 and 127 effective registrations of investment company securities pursuant to post-effective amendments permitted under the Securities Act of 1933 by sec 24 (e) of the Investment Company Act of 1940, as amended. The median number of calendar days of total elapsed time in registration for the 73 registration statements on Form S–12 was 4; and for the 127 posteffective amendments of investment companies it was 18.

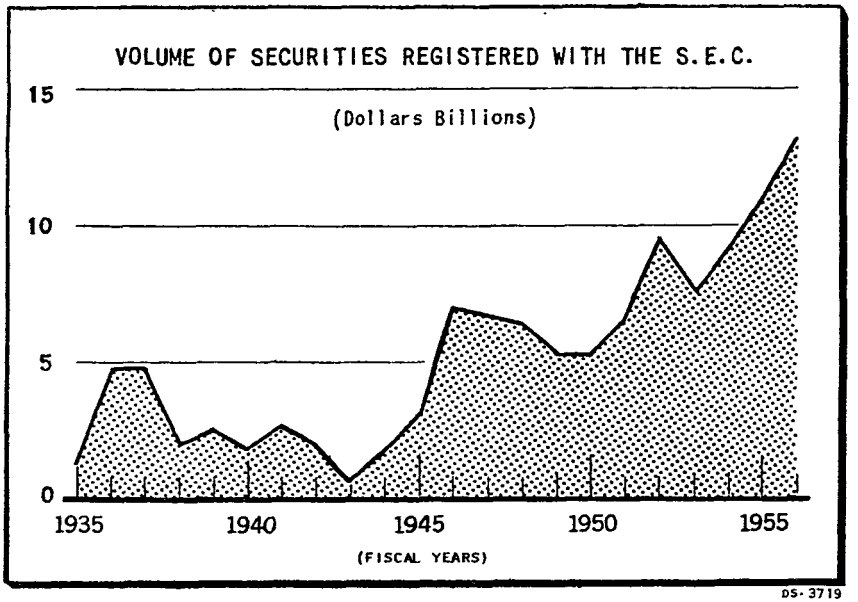
[2] This figure of 174 excludes 51 registration statements for American Deposit Receipts and 68 for additional amounts of securities of investment companies which also became effective in less that 20 days after the date of original filing. Therefore, a grand total of 293 statements became effective in less than such 20 days, constituting 32 percent of the 915 statements that became effective in the 1956 fiscal year.

filing but preeffective period there is evidence of "gun jumping," that is, preeffective sales which are illegal. Also, the Commission has been withholding acceleration where one or more of the underwriters does not meet the test of financial responsibility required under the Securities Exchange Act of 1934, and, most important, it has been withholding acceleration where, apart from the processing of the registration statement itself, it has been making an investigation of the issuer or the underwriter for illegal or fraudulent activities.

Attention should also be called to the fact that of the 67 registration statements withdrawn during the 1956 fiscal year for a variety of reasons, as tabulated under "Number and Disposition of Registration Statements Filed," 34, or 50 percent, were withdrawn because the registration statement was materially misleading and would otherwise have become subject to stop-order proceedings.

VOLUME OF SECURITIES REGISTERED

Securities effectively registered under the Securities Act during 1956 totaled $13.1 billion, the highest volume for any fiscal year in the 22-year history of the Commission. For each of the past 3 years the dollar amount of effective registrations has increased 19 percent or more over the amount effective in the previous year. From the $7.5 billion for 1953 the amounts have increased to $9.2 billion for 1954 to $11 billion for 1955 and to $13.1 billion for 1956. The chart below shows graphically the dollar amounts of effective registrations from 1935 to 1956.



These figures cover all securities including new issues sold for cash by the issuer, secondary distributions, and securities registered for other than cash sale, such as exchange transactions and issues reserved for conversion of other securities.

Of the dollar amount of securities registered in 1956, 70.3 percent was for account of issuers for cash sale, 21.5 percent for account of issuers for other than cash sale and 8.2 percent was for account of others, as shown below. Most of the registrations involving issues not to be sold for cash cover securities offered in exchange for other securities and securities reserved for conversion of other registered securities.

Account for which securities were registered under the Securities Act of 1933 during the fiscal year 1956 compared with the fiscal years 1955 and 1954

	1956 in millions	% of total	1955 in millions	% of total	1954 in millions	% of total
Registered for account of issuers for cash sale	$9,206	70 3	$8,277	75.5	$7,381	80.5
Registered for account of issuers for other than cash sale	2,819	21.5	2,312	21.1	1,638	17.9
Registered for account of others than the issuers	1,071	8.2	372	3 4	154	1.6
Total	13,096	100.0	10,961	100 0	9,173	100.0

The most important category of registrations, new issues to be sold for cash for account of the issuer, amounted to $9.2 billion in 1956 as compared with $8.3 billion in 1955. For 1956, 45 percent of the total volume was made up of debt securities, 49 percent common stock and 6 percent preferred stock. Approximately 60 percent of the volume of common stock represented securities of investment companies.

Figures showing the number of statements, total amounts registered, and a classification by type of security for new issues to be sold for cash sale for account of the issuing company for 1935 to 1956 appear in appendix table 1. More detailed information for 1956 is given in appendix table 2.

The classification by industries of securities registered for cash sale for account of issuers in each of the last 3 fiscal years is as follows:

Classification by industries of securities registered for cash sale for account of issuers during the fiscal year 1956 compared with the fiscal years 1955 and 1954

	1956 in millions	% of total	1955 in millions	% of total	1954 in millions	% of total
Manufacturing	$1,788	19.4	$1,779	21.5	$958	13.0
Mining	148	1.6	106	1.3	89	1.2
Electric, gas, and water	1,802	19 6	2,127	25.7	2,722	36.9
Transportation, other than railroad	118	1.3	12	.1	4	0
Communication	1,294	14.1	837	10.1	932	12.6
Investment companies	2,890	31.4	2,236	27.0	1,557	21.1
Other financial and real estate	852	9.2	789	9.5	512	6 9
Trade	73	.8	27	.3	52	.7
Service	41	.4	100	1.2	13	.2
Construction			160	1.9	8	.1
Total corporate	9,006	97.8	8,173	98 7	6,844	92 7
Foreign governments	200	2.2	104	1.3	537	7.3
Total	9,206	100.0	8,277	100.0	7,381	100.0

The classification of issues of investment companies according to type of organi ation for the last 3 fiscal years is as follows:

The classification of registered issues of investment companies according to type of organization during the 1956 fiscal year compared with the fiscal years 1955 and 1954

	1956 in millions	1955 in millions	1954 in millions
Management open-end companies	$2,267	$1,853	$1,106
Management closed-end companies	42	28	5
Unit and face amount certificate companies	582	355	446
Total	2,890	2,236	1,557

Of the net proceeds of the corporate securities registered for cash sale for account of issuers in 1956, 62 percent was designated for new money purposes, including plant, equipment and working capital, 2 percent for retirement of securities, and 36 percent for other purposes, principally the purchase of securities by investment companies and employee participation plans.

Activity and prices in the securities markets have reached highs unprecedented in the Commission's experience. Furthermore, this upsurge has taken place in a relatively short period of time. For example, the dollar amount of securities effectively registered under the Securities Act of 1933 increased by 75 percent from $7.5 billion in fiscal 1953 to $13.1 billion in fiscal 1956. This figure had never exceeded $5 billion during the period 1935 to 1945. The aggregate market value of all stock on all stock exchanges increased from $135.4 billion at the end of calendar 1953 to $238.8 billion at the end of calendar 1955 and had never exceeded $100 billion between 1933 to 1945. The Dow Jones Industrial average of stock prices on the New York Stock Exchange reached an all-time high of 521.05 on April 6, 1956. During the years 1933 to 1949 it never exceeded 220. The value of the gross national product broke through the $400 billion figure in 1956 as compared with $340 billion in 1952.

REGISTRATION STATEMENTS FILED

During 1956, 981 registration statements were filed for offerings aggregating $13,097,787,682, compared with 849 statements covering offerings of $11,009,757,143 in 1955.

Of the 981 statements in 1956, 415, or 42 percent, were filed by companies that had not previously registered any securities under the Securities Act of 1933 compared with 297, or 35 percent of the corresponding total during the previous fiscal year.

The growth in volume of proposed financing under the registration provisions of the Securities Act of 1933 is shown by the following tabulation which reflects a 3-year increase of nearly 77 percent in 1956 compared with 1953 in the aggregate dollar amount proposed to be offered as filed.

Fiscal year	Number of statements filed	Aggregate amount	Fiscal year	Number of statements filed	Aggregate amount
1953	621	$7,399,059,928	1955	849	$11,009,757,143
1954	649	8,983,572,628	1956	981	13,097,787,628

A cumulative total of 12,848 registration statements have been filed under the Act by 6,364 different companies covering proposed offerings of securities aggregating over $119 billion during the 23 years from the date of its enactment in 1933 to June 30, 1956.

Particulars regarding the disposition of all registration statements filed under the Act to June 30, 1956, and the aggregate dollar amounts of securities proposed to be offered which are reflected in the statements both as filed and as effective, are summarized in the following table.

Number and disposition of registration statements filed

	Prior to July 1, 1955	July 1, 1955, to June 30, 1956	Total as of June 30, 1956
Registration statements			
Filed	11,867	[1] 981	12,848
Effective—net	10,248	[2] 906	[3] 11,147
Under stop or refusal order—net	184	3	187
Withdrawn	1,332	67	1,399
Pending at June 30, 1955	103		
Pending at June 30, 1956			115
Total	11,867		12,848
Aggregate dollar amount.			
As filed	$105,992,577,337	$13,097,787,628	$119,090,464,965
As effective	$103,040,287,182	$13,095,508,180	$116,135,795,262

[1] Includes 133 registration statements covering proposed offerings totaling $2,601,776,879 which were filed by investment companies under sec 24 (e) of the Investment Company Act of 1940 which, since the amendment effective Oct. 10, 1954, has permitted registration of additional amounts of investment company securities by posteffective amendments to previously effective registration statements.

[2] Excludes 9 additional statements which were withdrawn after they became effective; these 9 are counted in the 67 statements withdrawn during the 1956 fiscal year.

[3] Excludes 7 registration statements which became effective prior to July 1, 1955, and were withdrawn, these 7 are also included in the 67 statements withdrawn during the 1956 fiscal year

Reasons given for requesting withdrawal of the 67 registration statements withdrawn under the Securities Act of 1933 during the 1956 fiscal year

Nature of reason given	Number of statements withdrawn	Percent of total withdrawn	Percent cumulative
Registration statement was materially deficient and registrant requested withdrawal after receipt of staff's letter of comment	23	34	
Registration statement was materially deficient and registrant was advised that statement should be withdrawn or stop order proceedings would be necessary	11	16	50
Registrant requested withdrawal because financing plans as set forth in the registration statement had been changed	18	27	77
Registrant requested withdrawal because of market conditions having changed	4	6	83
Registrant requested withdrawal because financing had been obtained without the necessity for registration	3	4	87
Registrant requested withdrawal because proposed underwriters were not registered in United States	2	3	90
Registrant requested withdrawal because requirements of Investment Company Act of 1940 could not be met	2	3	93
Withdrawal was requested because registrant had gone into bankruptcy	2	3	96
Registrant requested withdrawal because no need to register (closed voting trust agreement)	1	2	98
Registrant requested withdrawal because not sufficient money was raised under an escrow agreement	1	2	100
Total	67		

EXEMPTION FROM REGISTRATION FOR SMALL ISSUES—$300,000 OR LESS

Under section 3 (b) of the Securities Act the Commission is empowered from time to time by its rules and regulations, and subject to such terms and conditions as it may prescribe therein, to add any class of securities to the securities specifically exempted by section 3 (a) of the Act, if it finds that the enforcement of the registration provisions of the Act with respect to such additional securities is not necessary in the public interest and for the protection of investors by reason of the small amount involved or the limited character of the public offering. The statute, as amended in 1945,[3] imposes a maximum limitation of $300,000 upon any exemption provided by the Commission in the exercise of this power.

Acting under this authority the Commission has adopted the types of exemption identified below:

Regulation A:
General exemption for small United States and Canadian issues up to $300,000.

Regulation A–M:
Special exemption for assessable shares of stock of mining companies up to $100,000.

Regulation A–R:
Special exemption for notes and bonds secured by first liens on family dwellings up to $25,000.

Regulation B:
Exemption for fractional undivided interests in oil or gas rights up to $100,000.

Regulation B–T:
Exemption for interests in oil royalty trusts or similar types of trusts or unincorporated associations up to $100,000.

The revision and consolidation of regulations A for United States issuers and D for Canadian issuers into a new regulation A, just after the close of the 1956 fiscal year, is discussed under "Revisions of Rules and Forms" above.

Exemption from registration under section 3 (b) of the Act does not carry exemption from the civil liabilities for material misstatements or omissions imposed upon any person by section 12 (2) or from the criminal liabilities for fraud imposed upon any person by section 17.

The Commission's regulation A implements section 3 (b) of the Securities Act of 1933 and permits a company to obtain not exceeding $300,000 (less underwriting commissions) of needed capital in any one year from a public offering of its securities if the company complies with the regulation. Upon complying with the regulation a company is exempt from the registration provisions of the Act. A regulation A filing consists of a notification supplying basic information about the

[3] As ori ginally written and until the 1945 amendment the limitation was $100,000.

company, certain exhibits and an offering circular which is required to be used in offering the securities except in the case of a company with an earnings history and the offering is not in excess of $50,000 in securities.

As a convenience to the public, the processing of such filings has been decentralized to the Commission's nine regional offices. Ten business days must elapse between the filing with the regional office and the commencement of the offering unless the Commission authorizes a shortening of this period. During this period the staff of the regional office reviews the filing to determine whether the conditions to the use of the exemption have been met and whether any deficiencies exist which should be corrected before the offering commences.

One objective of the Commission's newly established Branch of Small Issues within the Division of Corporation Finance in Washington is to develop uniform procedures to be followed by the regional offices in their processing of regulation A filings and to coordinate the enforcement activities of the field offices in the administration of the exemption. Companies of the same type and offering the same type of securities should, to the extent possible, be treated uniformly regardless of the local office in which they file. By assigning to the Branch of Small Issues the duty to supervise the administrative procedures used by the regional offices the Commission is providing a valuable safeguard for small business as well as the interest of investors.

A second broad objective to be accomplished by the Branch of Small Issues is to assist the Commission in its determined effort to protect the public against fraud in the sale of small issues without unduly burdening small business. Regulation A is designed to assist legitimate small business and new ventures in bringing to market a small issue of securities. Regulation A was not designed as a shield for the perpetration of fraud on the investing public. One problem in this area is to detect as quickly as possible those filings which are schemes to obtain so-called "front money" to line the pockets of the promoters rather than to obtain funds for the conduct of bona fide business. Another problem is to detect those offerings under the regulation which are sold without use of the required offering circular, but rather are sold by false and misleading sales talk by high pressure salesmen often operating out of "boiler-rooms."

Regulation A itself disqualifies an issuer from offering securities under the exemptive regulation if the issuer or any person connected with the proposed offering (including any promoter, officer, director, major stockholder, or underwriter) has previously run afoul of any State or Federal securities law (through criminal conviction, injunction, or certain enumerated administrative proceedings). The Branch of Small Issues examines the Commission's comprehensive records of securities violations for each filing as it is made, to determine promptly

if any ground for disqualification from the exemption exists. If so, the Commission by order suspends the exemption for that issuer.

This procedure effectively prevents persons who have been guilty of fraudulent practices in the past from using the regulation A exemption. However, this reaches only a relatively few cases and the major problem remains of developing a follow-up program to detect fraud in regulation A filings by persons with no past history of securities violations. Toward this end the Branch of Small Issues will determine, in consultation with regional offices, those filings which on their face are open invitations to fraud, either because the properties of the company do not appear valuable; because the background and experience of the promoters appear dubious in light of the business proposed to be done; or because the venture is rank speculation. Such filings will be investigated under the direction of the Branch of Small Issues to determine the selling practices actually used. Furthermore, it is hoped that a program of "spot-checking" of filings can be inaugurated in each regional office under the supervision of the Branch which would involve inspecting the books and records of a selected number of issuers and their underwriters and interrogating, on a sampling basis, the purchasers of such securities as to representations made to them in connection with their purchases.

If the "boiler-room" stock salesman and the "front money" racketeer are promptly dealt with and denied use of the regulation A exemption, we will do much to build public confidence in the bona fides of issues made under the regulation which will redound to the benefit of legitimate small business seeking capital from the public for business growth. It is the Commission's expectation that the new Branch of Small Issues will make a significant contribution toward the attainment of this goal. Not only will the Branch maintain close liaison with our field offices but the Branch together with other Commission staff members will maintain liaison with the staff of the Small Business Administration on matters of common concern.

Exempt Offerings Under Regulations A and D

During the 1956 fiscal year 1,463 notifications were filed under regulation A, covering proposed offerings of $273,471,548, compared with 1,628 notifications covering proposed offerings of $296,267,000 in the 1955 fiscal year. Included in the 1956 total were 75 notifications covering stock offerings of $14,420,545 with respect to companies engaged in the exploratory oil and gas business, and 349 filings covering offerings of $72,303,567 by mining companies. These 349 filings by mining companies included 275 by uranium companies with proposed offerings aggregating $58,211,812 and 74 offerings by other mining companies aggregating $14,091,755. In addition, there

were 44 filings by companies exploring for both uranium and oil and gas with stock offerings aggregating $10,866,382. Thus there was a total of 319 filings by companies who proposed to use all or a part of the proceeds for exploration and development of uranium properties. Three hundred and two of these companies were less than 2 years old at the date of filing. There was a total of 119 filings by companies which proposed to use all or a part of the proceeds for exploration and development of oil and gas properties.

It is significant that most use of this exemption was made by newly organized enterprises. During 1956, approximately two-thirds of the filings and the offerings thereunder were made by companies less than 2 years old. Such new companies filed 843 of the year's notifications for aggregate offerings of $167,485,970, representing approximately 58 percent of all companies filing notifications under regulation A and approximately 61 percent of the total amount of proposed offerings thereunder. A breakdown of these filings made by new companies shows that uranium ventures accounted for 302 filings covering proposed offerings of $67,602,676, and new companies in all other lines accounted for 541 filings covering proposed offerings of $100,483,294.

Certain facts regarding these offerings are set forth in the following table.

Offerings made under Regulation A

Description	Number		
Fiscal year	1956	1955	1954
Size:			
$100,000 or less	481	541	503
Over $100,000 but not over $200,000	246	312	213
Over $200,000 but not over $300,000	736	772	459
	1,463	1,628	1,175
Underwriting:			
Employed	630	785	501
Not used	833	843	674
	1,463	1,628	1,175
Offerors:			
Issuing companies	1,389	1,517	1,079
Stockholders	62	109	92
Issuers and stockholders jointly	12	2	4
	1,463	1,628	1,175

Most of the underwritings were undertaken by commercial underwriters who participated in 528 offerings in 1956, 671 in 1955 and 419 offerings in 1954. Officers, directors, or other persons not regularly engaged in the securities business, who received remuneration or commissions therefor, handled the remaining cases, where commissions were paid.

Number of notifications filed under Regulation A by years for the 10 fiscal years ended June 30, 1947 through 1956, and the dollar amount proposed to be offered

Fiscal year ended June 30	Number of notifications filed	Amount of proposed offerings	Fiscal year ended June 30	Number of notifications filed	Amount of proposed offerings
1947	1,513	$210,791,000	1952	1,494	$210,673,000
1948	1,610	209,485,000	1953	1 528	223,350,000
1949	1,392	186,783,000	1954	1,175	187,153,000
1950	1,357	171,743,000	1955	1,628	296,267,000
1951	1,358	174,278,000	1956	1,463	273,472,000

Number of notifications filed under Regulation A by months during the 1954, 1955, and 1956 fiscal years and the dollar amount of proposed offerings

1954 Fiscal Year	Number of filings	Dollar amount of proposed offerings
1953:		
July	97	$13,555,599
August	83	13,518,087
September	92	13,672,362
October	76	11,237,170
November	112	18,129,552
December	95	14,063,477
Total for 6 months	555	84,176,247
1954:		
January	74	11,291,429
February	72	12,149,741
March	122	19,427,322
April	104	17,180,010
May	105	18,571,860
June	143	24,356,617
Total for 6 months	620	102,976,979
Total for fiscal year	1,175	187,153,226

1955 Fiscal Year	Number of filings	Dollar amount of proposed offerings
1954:		
July	118	$19,119,327
August	132	26,110,339
September	118	20,235,586
October	139	25,279 742
November	128	22,189,700
December	119	21,521,917
Total for 6 months	754	134,456,611
1955:		
January	130	22,512,941
February	126	21,134,808
March	171	32,404,406
April	130	25,773,601
May	162	29,905,432
June	155	30,080,234
Total for 6 months	874	161,811,422
Total for fiscal year	1,628	296,268,033

Number of notifications filed under Regulation A by months during the 1954, 1955, and 1956 fiscal years and the dollar amount of proposed offerings—Continued

1956 Fiscal Year	Number of filings	Dollar amount of proposed offerings
1955:		
July	138	$26, 393, 096
August	169	35, 218, 967
September	131	27, 435, 423
October	123	22, 319, 465
November	97	16, 181, 484
December	129	24, 191, 389
Total for 6 months	787	151, 739, 824
1956:		
January	96	17, 693, 674
February	115	18, 750, 526
March	136	25, 247, 493
April	104	18, 030, 298
May	120	22, 904, 041
June	105	19, 105, 692
Total for 6 months	676	121, 731, 724
Total for fiscal year	1, 463	273, 471, 548

During 1956, 15 notifications were also filed under regulation D for Canadian issuers, covering proposed offerings of $3,367,735, compared with 37 notifications covering proposed offerings of $10,004,176 in the 1955 fiscal year.

Denial or Suspension of Exemption

Both Regulation A and Regulation D provide for the denial or suspension of the exemption in appropriate cases. During 1956 denial or suspension orders were issued in 100 cases, compared with 18 cases in 1955.

Denial orders—

Regulation A:

Allied Industrial Development Corp., Houston; Securities Act Release No. 3588 (November 1, 1955).

Blue Chip Uranium Corp., Denver; Securities Act Release No. 3572 (September 1, 1955).

Calumet Hills Mining Co , Birmingham, Ala.; Securities Act Release No. 3646 (June 13, 1956).

Grand Canyon Uranium Co., Salt Lake City; Securities Act Release No. 3651 (June 25, 1956).

Lista, Inc., Reno, Nev.; Securities Act Release No. 3651 (June 25, 1956).

Navajo Uranium & Thorium Corp., Las Vegas; Securities Act Release No. 3631 (April 13, 1956).

Pittman Drilling & Oil Co., Independence, Kans.; Securities Act Release No. 3595 (November 30, 1955).

San Juan Uranium Corp., Oklahoma City; Securities Act Release No. 3564 (August 12, 1955).

Searchlight Uranium Corp., Searchlight, Nev.; Securities Act Release No. 3563 (August 4, 1955).

Denial orders—Continued

Regulation A—Continued

Speculators Diversified, Inc., Las Vegas; Securities Act Release No. 3585 (October 27, 1955).

The Uranium and Oil Development Project, Inc., Phoenix; Securities Act Release No. 3580 (October 5, 1955).

Uranium-Petroleum Co. for Hunter Securities Corp., Salt Lake City; Securities Act Release No. 3609 (January 26, 1956).

Regulation D:

Key Oil & Gas (1955), Ltd. (N. P. L.), Vancouver; Securities Act Release No. 3652 (June 29, 1956).

McKenzie Northern Mines, Ltd., Montreal, Securities Act Release No. 3610 (February 3, 1956)

Nicholson Creek Mining Corp., Seattle; Securities Act Release No. 3623 (March 13, 1956).

Suspension orders—

Regulation A:

ABS Trash Co., Inc., Washington; Securities Act Release No. 3649 (June 20, 1956).

Acryvin Corp. of America, Inc., Brooklyn; Securities Act Release No. 3654 (June 28, 1956).

Air Research & Exploration, Inc., Brooklyn; Securities Act Release No. 3654 (June 28, 1956).

Allied Finance Corp , Silver Spring, Md.; Securities Act Release No. 3644 (June 8, 1956). Vacated August 29, 1956.

Alpha Instrument Co., Inc., Washington; Securities Act Release No. 3642 (June 6, 1956).

Amarilla Uranium, Inc., Las Vegas; Securities Act Release No. 3651 (June 25, 1956).

A. M Electronics, Inc., Washington; Securities Act Release No. 3642 (June 6, 1956).

American Mining & Smelting, Inc., Spearfish, S. Dak.; Securities Act Releases No. 3559 and 3622 (July 9, 1955; vacated March 12, 1956).

Badger Uranium Corp , Las Vegas; Securities Act Release No. 3651 (June 25, 1956).

Bellevue Mining & Concentrating Co., Hailey, Idaho; Securities Act Release No. 3559 (July 29, 1955).

Big Indian Uranium Corp., Provo, Utah; Securities Act Release No. 3643 (June 6, 1956).

Blaze-Master, Inc., Auburn, N. Y.; Securities Act Release No. 3579 (October 5, 1955).

Bridgehaven, Inc., Brooklyn; Securities Act Release No. 3633 (April 24, 1956).

Budget Funding Corp., Jamaica, N. Y.; Securities Act Release No. 3627 (April 4, 1956).

Butte Highlands Mining Co., Spokane; Securities Act Release No. 3559 (July 29, 1955).

Cal-Mex Oil Corp., Taft, Calif.; Securities Act Release No. 3649 (June 20, 1956).

Carolina Mines, Inc., King Mountain, N C.; Securities Act Release No. 3608 (January 25, 1956).

Cherokee Uranium Mining Corp., Denver; Securities Act Release No. 3640 (May 31, 1956).

Suspension orders—Continued
Regulation A—Continued
Sterling Industries, Inc., Newark, N. J.; Securities Act Release No. 3611 (February 7, 1956).
Trans-Continental Uranium Corp., Salt Lake City; Securities Act Release No. 3597 (December 12, 1955).
Triangle Uranium Corp., Las Vegas; Securities Act Release No. 3649 (June 20, 1956).
U-H Uranium Corp., Moah, Utah; Securities Act Release No. 3602 (December 16, 1955).
Uranium Petroleum Co., Salt Lake City; Securities Act Release No. 3609 (January 26, 1956).
Uravan Uranium & Oil, Inc., Denver; Securities Act Release No 3620 (March 7, 1956).
United States Gold Corp., Spokane; Securities Act Release No. 3559 (July 29, 1955).
Vactron Corp., Fort Worth; Securities Act Release No. 3581 (October 5, 1955).
Vada Uranium Corp., Ely, Nev.; Securities Act Release No. 3598 (December 16, 1955).
Verschoor & Davis, Inc., New York; Securities Act Release No. 3654 (June 28, 1956).
Washington Institute for Experimental Medicine, Inc., Herndon, Va.; Securities Act Release No. 3642 (June 6, 1956).
World Uranium Mining Corp., Salt Lake City; Securities Act Release No. 3559 (July 29, 1955).
York Oil & Uranium Co., New Castle, Wyo.; Securities Act Release No. 3637 (May 23, 1956).
Zenith Uranium & Mining Corp., Boston; Securities Act Release No. 3597 (December 12, 1955).
Regulation D:
Bowsinque Mines, Ltd., Ontario; Securities Act Release No. 3607 (January 24, 1956).
Ladoric Mines, Ltd., New York; Securities Act Release No. 3615 (February 17, 1956).
Vigorelli of Canada, Ltd., Montreal; Securities Act Release No. 3597 (December 13, 1955).

In general, the reasons for the issuance of these orders included failure to comply with certain conditions of the exemption (such as failure to file reports of sales and use of proceeds) or, in certain cases, the perpetration of outright fraud and deceit (involving misstatements of material facts either in the offering circular or in oral communication). A few actual cases are summarized below to illustrate specific charges of misrepresentations occurring in suspension proceedings brought by the Commission.

Coastal Finance Corp.—This small loan company filed a regulation A notification with the Commission on July 31, 1955, for the purpose of obtaining an exemption from registration with respect to a proposed public offering of 5,669 shares of class A common stock ($10 par) at $28.50 per share. According to the offering circular, the offering was to be made to holders of outstanding class A shares at

the rate of 1 additional share for each 6 shares held of record on August 5, 1955. Unsubscribed shares were to be offered for public sale on a best efforts basis by an underwriter. Although not required to do so by regulation A, the financial statements included in the offering circular were certified by independent public accountants. All of these securities were sold.

After being advised by the certifying accountants, who discovered falsified accounts shortly after the offering and immediately reported it to the Commission, the Commission issued an order temporarily suspending the regulation A exemption and, alleged that there was reason to believe that the offering circular was misleading, and directed that a public hearing be held to determine whether the suspension order should be vacated or made permanent. In its order, the Commission asserted that it had reasonable cause to believe that the terms and conditions of regulation A were not complied with by Coastal, in that the notification and offering circular were false and misleading because, among other things, the offering circular represented that Coastal had purchased the assets of another finance company after its management had made an appraisal, whereas no appraisal was made by the Coastal management in accordance with the normal and customary techniques followed in the loan industry; the company did not write off all past due loans known to be uncollectible and the charges against current income as a provision for bad debts, and the reserves provided therefor, were inadequate; and the summary of earnings contained in the offering circular represented income figures greater than those actually realized. This case was awaiting decision by the Commission on the evidentiary record at the close of 1956.

Prior to the hearing Coastal filed a petition for reorganization under chapter X of the Bankruptcy Act in the United States District Court at Baltimore, Md. This case was also pending, with the Commission participating as a party to assist the court as provided in chapter X, at the close of the year.

Cherokee Uranium Mining Corp.—Two offerings of this issuer were temporarily suspended. The orders charged on the basis of information supplied by the staff that false and incomplete statements were made concerning the sale of unregistered securities of the issuer and affiliates within the previous year. It was also asserted that the offering would operate as a device, scheme and artifice to defraud because the issuer was insolvent, and that there was a failure to disclose in connection with a debenture offering that there might not be sufficient funds available for a profitable business operation and the issuer might not be in a position to satisfy the interest requirements on the debentures.

Insured Savings Life Insurance Co.—The issuer restricted the offering to purchasers of insurance policies of an affiliated insurance

company. The Commission temporarily suspended the offering asserting that a fraud or deceit would be involved in the offering in that false and misleading statements were being made concerning the amount and source of earnings and dividends of both companies, an anticipated increase in value of the securities, and the safety of the investment. It was also alleged that the required offering circular was not given to purchasers. The issuer consented to the entry of a permanent suspension order.

San Juan Uranium Corp.—In its order suspending the exemption, the Commission asserted that the offering operated as a fraud or deceit upon the purchasers in that the proceeds were not used for the purposes set forth in the offering circular but instead were used to make advances to, and to defray personal expenses of, a promoter and to finance the promotion of another of his corporations. It was also asserted that the offering circular contained material misstatements and omissions concerning affiliations and identity of promoters, and their receipt of consideration for properties; and that misleading sales literature was used concerning equipment acquired and the progress made on the properties.

Exempt Offerings Under Regulation B

During 1956, the Commission received 114 offering sheets filed under regulation B, compared with 71 in 1955. These filings, relating to exempt offerings of oil and gas rights, were examined by the Oil and Gas Unit of the Division of Corporation Finance which assists the Commission on technical and complex problems peculiar to oil and gas securities.

Number of offering sheets filed under Regulation B during the 1956 fiscal year compared with the 1955 and 1954 fiscal years

Fiscal year:	*Number of offering sheets filed*
1956	114
1955	71
1954	156

Action taken on offering sheets filed under Regulation B during the 1956 fiscal year compared with the 1955 and 1954 fiscal years

	Fiscal years		
Temporary suspension orders:	*1956*	*1955*	*1954*
Rule 340 (a)	5	6	9
Rule 340 (b)	1	----	----
Orders terminating proceedings after amendment	*5*	*3*	*3*
Orders accepting amendment of offering sheet (no proceedings pending)	60	21	72
Orders consenting to withdrawal of offering sheet (no proceedings pending)	4	1	2
Orders consenting to withdrawal of offering sheet and terminating proceedings	----	----	3
Order terminating effectiveness of offering sheet	1	----	1
Total number of orders	76	31	90

Report of sales under Regulation B during the 1956 fiscal year compared with the 1955 and 1954 fiscal years

	Fiscal years		
	1956	1955	1954
Number of sales reports filed	1,419	1,076	1,699
Aggregate dollar amount of sales	$1,234,541	$549,951	$770,042

Report of sales.—As an aid in determining whether violations of law have occurred in the marketing of securities exempt under regulation B, the Commission obtains reports of actual sales made pursuant to rules 320 (e) and 322 (c) and (d) of that regulation. In this connection it may be recalled that while this exemption is limited to a maximum offering of $100,000, the offering sheet does not disclose the actual amount of offering proposed.

RESULTS OBTAINED BY THE REGISTRATION PROCESS

Results secured by the staff's examination of registration statements during 1956 are illustrated by the following examples of corrections made by registrants as a result of comments to registrants by the staff of the Division of Corporation Finance.

Revision of representations as to profit potentialities of uranium investment.—A uranium mining venture filed a registration statement covering $900,000 8 percent convertible subordinated debentures due May 1, 1976, to be offered initially to stockholders. Unsubscribed debentures were to be offered to the general public through an underwriter who had agreed to act on a best efforts basis. Proceeds were to be used to complete acquisition of mining claims and a producing uranium mine. As a result of the staff's review the prospectus was revised to show that the properties being acquired for $1,000,000 in cash and stock from the company's president and his associates were acquired by them at no cost other than nominal expenses involved in locating the claims; that in connection with a table setting forth total receipts of $358,289 from sales of ore from the mine, net receipts for registrant's account after direct mining costs and excluding depreciation were $8,462; and that proven and probable ore reserves totaled 7,154 tons rather than 76,335 tons as originally claimed.

Withdrawal of registration statement failing to justify claimed sulphur reserves and to show stock dilution.—A sulphur mining company filed a registration statement for the purpose of registering 600,000 shares 6 percent convertible noncumulative preferred stock, par value $2. Such shares were to be offered through an underwriter to the general public at $2 per share. Part of the shares (25,000) were to be underwritten on a firm basis and the balance on a best efforts basis. The preferred stock was convertible into common stock, par value 1 cent, initially share-for-share and subsequently at ratios of two-thirds and one-half share common respectively, for one share

pre[illegible]d. Directors, officers, and promoters had acquired from the company 300,000 shares (48 percent) of the outstanding common at 1 cent per share.

The proceeds were to be used to construct a sulphur extraction plant on land held by the company under leases. As a result of the staff's review, it appeared that a person preparing the geological report with respect to the company's properties was not competent to act in the sulphur mining field; the claimed sulphur reserves were substantially overstated; there was a serious question as to whether the project was economically feasible, as claimed, in view of the limited extent of the sulphur reserves; and there was a failure to disclose that purchasers of the preferred stock were given no protection against dilution of their equity through issuance of common stock at less than the purchase price of the preferred.

When the above matters were called to the company's attention it determined to withdraw the registration statement.

Disclosure of unprofitability of life insurance venture.—A company engaged in the business of life, accident and health insurance filed a registration statement covering 48,108 shares of capital stock to be offered to its stockholders. The offer was not underwritten. Proceeds were to be used to purchase life insurance in force and assets from other life insurance companies and, to the extent not so used, to invest in assets which would constitute a part of its reserves for life insurance policies.

As a result of the staff's analysis and comments, the company revised its prospectus to disclose prominently therein that the company expected to operate at a loss during 1956 and the next 4 years and was unable to predict when its operations would result in a net profit; the losses from operations from 1952 through 1955 resulted in part from lapses of insurance in force at a rate substantially higher than is considered normal for the industry; no dividends had been paid and no earned surplus was available for payment of dividends, there being an earned deficit of $797,178; and total contributions of stockholders to unassigned surplus amounted to $2,162,953, whereas the unassigned surplus was $755,864.

Revision of accounting for property acquired from promoters in exchange for stock.—Accounting for property received from promoters in exchange for shares of stock has been a problem recurring since the early days of the Commission. It has been the subject of Commission opinions and special accounting treatment has been prescribed in the Commission's forms and accounting regulations. These forms and regulations apply to the promotional period of the company and prescribe that when shares are issued for property no dollar values may be extended in the statement of assets and capital shares. Problems develop, however, when these companies reach an

operating status and balance sheets and operating statements must be prepared.

A representative situation may be cited from the past year. In the initial offering of shares the financial statements included a statement of assets and capitalized expenses which disclosed that the consideration for certain properties turned over to the registrant by the promoters was 52,000 shares of the company's common stock of $10 par value per share. Approximately 1 year after the offering was made a posteffective amendment was filed. At this time the company was in operation and consequently the financial statements furnished included balance sheets and statements of earnings.

With respect to the balance sheets the staff questioned the propriety of including in the value of land an amount of $415,000, being the excess of the par value of 52,000 shares ($520,000) issued to the promoters over the cash cost, $105,000, to them for options and contracts for the purchase of property to be acquired by the registrant. The prospectus disclosed that the determination of the amount of the interests of the various promoters and the amount of stock to be issued in exchange therefor was made by the promoters themselves, and that this determination was essentially arbitrary in character.

It was further disclosed that the shares were held in escrow and while so held could not be sold, transferred or encumbered without the express approval of a state corporation commission. The escrow agreement provided that the stock did not entitle the owners to participate in any distribution of assets until after the owners of all other securities are paid in full. Under the circumstances, the balance sheet was amended to reduce the item of land, leasehold and improvements by $415,000 and to show this amount as a deduction from the stated value of the capital stock with the explanatory caption "Excess of par value of capital stock issued to promoters over cost of acquired land."

Adjustment of income statement to reflect impact of differences between depreciation for income tax and accounting purposes.— Differences between income tax and book provisions for depreciation may, because of special circumstances in a company's operations, have a marked effect upon currently reported earnings. An instance arose in the case of a rapidly expanding trucking and truck leasing company.

The financial statements of a company as initially filed for the 11 months ended November 30, 1955, showed a net income approximating $958,000, or $2.56 per share on the shares outstanding on November 30, 1955. Notes to the financial statements and the summary of earnings, taken together, indicated that Federal income taxes for the 11 months had been reduced by approximately $185,000 as a result of the deduction of approximately $356,000 more depreciation for income tax purposes than was deducted for book or accounting

purposes. The explanation lies in the fact that for accounting purposes depreciation on trucking units was computed on a straightline basis over the estimated useful lives of the assets, whereas for income tax purposes the "sum of the years-digits" method had been used for 1954 and 1955 property additions as provided by the Internal Revenue Code. It so happened that the 1955 acquisitions of trucks had been very large in relation to those on hand at the beginning of 1955. The staff took the position that under such circumstances a fair statement of net income would require that provision be made for the deferred taxes which would otherwise be chargeable against income in future years. After discussion with the staff of various phases of the deferred tax effect, the registrant adjusted its income statement by a provision for deferred taxes approximating $185,000, thereby reducing reported net income to approximately $773,000, or $2.07 per share.

STOP-ORDER PROCEEDINGS

Section 8 (d) provides that if it appears to the Commission at any time that a registration statement contains an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading, the Commission may institute proceedings looking to the issuance of a stop order suspending the effectiveness of the registration statement. Where such an order is issued, the offering cannot lawfully be made, or continued if it has already begun, until the registration statement has been amended to cure the deficiencies and the Commission has lifted the stop order. During 1956 8 new proceedings were authorized by the Commission under section 8 (d) of the Act and 2 such proceedings were continued from the preceding year. In connection with these 10 proceedings, 3 stop orders were issued during the year and the 7 remaining cases were pending as of June 30, 1956.

The Commission is also authorized by section 8 (e) of the Act to make an examination in order to determine whether a stop order should be entered under section 8 (d). For this purpose the Commission is empowered to subpena witnesses and require the production of pertinent documents. During 1956 the Commission authorized 4 private examinations pursuant to this section of the Act. As of June 30, 1956, 1 of the examinations was still pending, 2 had resulted in the withdrawal of the statements by the registrants, and 1 had been disposed of insofar as section 8 (e) is concerned by action of the Commission in ordering that the case proceed to a public hearing under section 8 (d).

(Page 73 follows.)

International Spa, Inc.

Proceedings against registration statement filed by this company, described in the 21st Annual Report at pages 16–17, were terminated during the 1956 fiscal year by issuance of a stop order.[4]

International Spa proposed to construct and operate a luxury hotel together with a shopping center, theater, swimming pool, and other facilities near Las Vegas, Nev., emphasizing the interracial aspects of its proposed development. It proposed not only to offer publicly 12,000 common shares at $500 per share, but to issue an equal number to the promoters "in payment for services rendered and to be rendered during the sale and distribution of the registrant's stock." After holding hearings the Commission issued a stop order. The Commission found that the registration statement was grossly inaccurate and misleading. The description of registrant's proposed business was materially deficient in failing to reveal that registrant had no information about possible patronage for its project, and failed to disclose the facts regarding potential competition with its project even though three other hotels which intended to operate on an interracial basis were being constructed or planned at sites closer to the business area of Las Vegas than registrant's site. The registration statement also contained untrue statements and omitted to state material facts regarding registrant's interest in the tract of land upon which it proposed to construct its development. While the registration statement said that registrant was not acquiring such tract of land from any person having a material relationship with it, and that no commissions were being paid, the Commission found such statements were untrue, and that the seller of the property originally acquired it on instructions from the principal promoters of registrant; that the seller would receive, in addition to his acquisition cost, $48,000 in cash and 870 shares of registrant's stock; and that the trust deed for the bulk of the original purchase price paid by the sellers was in default. The Commission also found that statements in the registration statement that registrant had issued no securities or options to purchase securities were untrue, in that registrant was under an obligation to issue stock to certain persons and that such persons had options to acquire stock.

Horton Aircraft Corp.

Proceedings under section 8 (d) with respect to the registration statement filed by this company, described in the 21st Annual Report at pages 15–16, were still pending at the close of the 1956 fiscal year.

[4] Securities Act Release No. 3603 (January 18, 1956).

The Sans Souci Hotel, Inc.

This registrant was organized in Nevada in 1954 for the purposes of acquiring property and operating and constructing additional facilities for the Sans Souci Hotel located near Las Vegas, Nev. It proposed an offering of 1,428,000 shares of its common stock at $1 per share. Of the total offering 300,000 shares were to be for the account of George E. Mitzel, president of registrant, and 30,471 shares were to be offered to creditors in payment of certain outstanding obligations. The balance of the offering was to be made to shareholders on a preemptive basis and any unsubscribed shares were to be offered to the general public.

Included among the allegations made with respect to the hearings brought under section 8 (d) were questions as to the adequacy and accuracy of disclosures with respect to the use of proceeds to be derived from the public sale of stock in the event less than all of the registered shares were sold; the description of the business proposed to be conducted by the registrant, in particular the cost of the additions to the hotel to be constructed, the contemplated negotiations of a lease covering the operation of the gambling casino, the regulations of the State of Nevada governing the granting of a gambling license and the effect thereof on the business intended to be done, and the competitive conditions in the area and the effect thereof upon its business; the option to purchase certain real estate, the price to be paid therefor, the nature of the title thereto, the defects and liens thereon, and the terms and conditions of the option; the identity of all affiliates of registrant and persons with whom its officers and directors have a material relationship, transactions with such persons; and the financial statements, including writeups resulting from appraisals, failure to amortize certain expenses and provide depreciation, incorrect statement of net profits, omission of notes and schedules applicable to financial statements as required by applicable Commission rules.

After the hearing was commenced and testimony was taken, registrant submitted a written stipulation and consent to the entry of an order by the Commission pursuant to section 8 (d) suspending the effectiveness of its registrant statement, and such order was duly entered.[5]

The Sun Hotel, Inc.

The Commission instituted proceedings under section 8 (d) with respect to the registration statement filed by the Sun Hotel, Inc., Las Vegas, Nev., which proposed the public offering of 3,750,000 shares of its common stock at $2.50 per share, aggregating $9,375,000,

[5] Securities Act Release No. 3636 (May 2, 1956).

through Golden-Dersch & Co., Inc.,[6] of New York, and Coombs & Company of Las Vegas.[7] Proceeds from the sale of the company's stock were to be used to acquire title to certain property and to construct a luxury hotel estimated to cost $7,000,000. Robert Brooks of Los Angeles was listed as president and one of the principal promoters.

In its order and notice of proceedings, the Commission raised questions as to the adequacy and accuracy of disclosures with respect to the description of the business intended to be carried on by Sun Hotel, in particular the size of the hotel to be constructed, the sites on which it would be constructed, the contemplated negotiation of a lease covering a gambling casino, and competitive conditions and the effect thereof upon the company's business; the lease for and the options to purchase certain real estate, the price to be paid therefor, the nature of the title thereto, the defects and liens thereon, and the terms and conditions of the lease and options; the use of the proceeds to be derived from the public sale of the stock; statements as to the identity of persons who had given options on real estate to the company and the transactions between such persons and the company; and the statement regarding the business experience of the officers, particularly with respect to any business owned or operated by Robert Brooks and any convictions or other litigation that had arisen with respect thereto.

Prior to the holding of the public hearing in this matter, the registrant consented to the issuance of a stop order suspending effectiveness of the registration statement, and such order was issued.[8]

American Republic Investors, Inc.

This proceeding concerned a registration statement filed by American Republic Investors, Inc., of Dallas, which proposed the public offering of 800,000 shares of $1 par common stock at $10 per share with a $2 per share maximum underwriting commission.

According to the registration statement and prospectus, the company was organized under Maryland law on March 28, 1955, for the purpose of offering its stockholders an opportunity to become charter members of a new legal reserve stock life insurance company, American Old Line Life Insurance Co. (organized under Texas law) and to seek capital gains and dividends through long-term appreciation in common stocks of old line legal reserve life insurance companies. Of

[6] On September 18, 1956, Golden-Dersch & Co., Inc., was permanently enjoined by the United States District Court for the Southern District of New York from further violations of the Commission's net capital rule. On September 27, 1956, a receiver of the assets of the defendant was appointed.

[7] On August 27, 1956, Coombs & Co. of Washington, D. C., was permanently enjoined by the United States District Court for the District of Columbia, from further violations of the Commission's net capital rule and the court ordered the appointment of a receiver of the assets of the defendant.

[8] Securities Act Release No. 3578 (October 3, 1955).

the proceeds of the stock sale, 60 percent was to be used to organize, own, and operate the Life Insurance Co. and the balance was to be invested in a fund for the acquisition of other insurance company stocks.

After the holding of hearings the Commission, shortly after the close of the fiscal year, issued its findings and opinion and a stop order.[9] The Commission found that the registration statement covered a proposed offering of stock in an enterprise that was so potentially hazardous for public investors that only the most scrupulously fair and complete disclosure could have afforded them adequate protection; that the registration statement contained numerous false statements and omitted information of the most important and significant nature. The Commission found that the promoters, officers, and directors had no substantial experience in operating a business similar to that proposed by registrant. Notwithstanding this fact and without adequate disclosure thereof registrant proposed to offer 800,000 shares of stock to the public at $10 a share, a total of $8,000,000. In contrast, registrant issued 222,815 shares to friends and close business associates at a stated value of $1 per share and optioned 377,185 shares to the 3 directors and officers at $1 per share, a total of 600,000 shares. Of the stock issued to friends and associates it was found that only 71,850 shares were sold for cash, the remainder having been issued for portfolio securities, some of which had been illegally issued and none of which had any market value, and that the securities received in exchange were arbitrarily priced by the directors of registrant.

Uranium Properties, Ltd.

This registrant was a joint venture which proposed the public offering of $600,000 of "Grubstake loans" by the joint venture in minimum amounts or multiples of $25.

Registrant was created by Hubert W. Sharpe and Reyburn F. Crocker for the purpose of exploration for, acquisition of, and development of mineral deposits, in particular uranium and other rare and valuable minerals and metals. The exploration for uranium was to be conducted by means of aircraft equipped with electronic and radiation detecting devices. The securities to be offered were in the form of agreements providing that with 75 percent of the principal sum delivered by investors the joint venture would purchase for, and in the name of, the investor a United States savings bond, series E, of a face value equal, at maturity to the principal sum advanced, and the balance of the funds would be used for the exploration and other purposes of the joint venture. The agreements further provided that the joint venturers would hold in trust for the benefit of investors

[9] Securities Act Release No. 3679 (August 21, 1956).

one forty-eighth thousandth (1/48,000th), for each $25 advanced, of all such uranium or other mineral deposits and a like proportion of the rents, issues and profits thereof, and would convey to the investors such fractional interest or pay such rents, issues or profits to investors upon demand.

After the holding of hearings the Commission, shortly after the close of the fiscal year, issued its findings and opinion and a stop order.[10] The Commission found that the attempted tie-in between the sales of the extremely speculative interests in an exploration project with sales of United States savings bonds was seriously misleading, that there was no relationship whatever between the two investments and that the attempt to tie them together was purely a sales device giving rise to a false implication that the investor could not lose the part of his investment relating to the exploration adventure. The Commission also found that registrant failed to disclose that it had only the most rudimentary plans for engaging in business, that the joint venturers had no experience in exploring for minerals and did not propose to employ geologists or other trained personnel, that registrant had selected no area for explorations, and that it had no plans for developing or otherwise realizing upon any mineral prospects it might locate.

Wyoming-Gulf Sulphur Corp.

The Commission instituted proceedings under section 8 (d) with respect to the registration statement filed by Wyoming-Gulf Sulphur Corp. of Jersey City, N. J., which related to a proposed public offering by the corporation of 700,000 shares for its own account, and 226,000 shares for the account of two stockholders. The offering was to be made at prices prevailing in the over-the-counter market but in no event at less than $2 per share. Proceeds of the sale of the company stock were to be used to furnish auxiliary equipment at its Cody, Wyo., plant, to acquire an additional site near Thermopolis, Wyo., and erect a plant thereon, to explore, develop and merchandise agricultural products, and to make additional acquisitions.

The Commission announced that consideration would be given at the hearing to questions about the adequacy and accuracy of statements concerning the history and development of the company's business, in particular the omission of information concerning its property in Cody, Wyo., information concerning the purchase of property in Thermopolis, the terms of such acquisition, the relationship of the parties to the purchase agreement, and the material mining facts concerning such properties; the cost of processing and of marketing the product of the issuer, the marketability thereof, competitive factors, and related facts; the proposed plan of distribution of company

[10] Securities Act Release No 3678 (August 20, 1956)

stock; and the company's financial statements, including the fact that the accounting firm which prepared the financial statements was not in fact independent because of its ownership of stock of Wyoming-Gulf Sulphur.

The matter had not been determined at the close of the 1956 fiscal year.[11]

Columbia General Investment Corp.

Another case brought during, and pending at the close of, the 1956 fiscal year, related to the registration statement filed March 29, 1956, by Columbia General Investment Corp., of Houston, Tex., which proposed the public offering of 100,000 shares of its common stock to stockholders at $4.50 per share.

According to the prospectus, proceeds of the proposed stock offering were to be used for the purpose of making investments similar to those which Columbia General had in mortgage loans, real estate, stocks, bonds and other securities, including the common stock of Columbia General Life Insurance Co. The prospectus further listed Thomas E. Hand, Jr., and J. Ed Eisemann, III, both of Houston, as board chairman and president, respectively, and principal stockholders of the company.

The Commission also ordered a public investigation into past sales of Investment Corp. and the Insurance Co. stock, by the two companies and by Columbia Securities Co., Hand and Eisemann, to determine whether provisions of the Securities Act of 1933, the Securities Exchange Act of 1934, and the Investment Company Act of 1940 had been violated. The Commission was advised by the staff that stock of the two companies had been offered and sold by means of false and misleading representations with respect to the general history and development of the companies and the valuation of their assets; practices followed in connection with the offer and sale of their shares; and activities, transactions and interests of Hand and Eisemann in the formation of the companies and the sale and distribution of their securities. Also involved in the proceedings was an effort to determine whether Investment Corp. held itself out as being engaged primarily, or proposed to engage primarily, in the business of investing and reinvesting in securities and, therefore, was required to register under the Investment Company Act.

With respect to the Investment Corp. registration statement and prospectus, involved in the proceedings was an effort to determine, among other things, the adequacy or accuracy of information concern-

[11] The Commission issued a stop order on September 18, 1956, finding that the registration statement contained materially misleading statements and omissions with respect to, among other things, the potential market for registrant's products, the extent of mineral reserves, and the terms of the offering and plan of distribution of securities. Securities Act Release No 3690 (September 18, 1956).

ing the plan for distributing the Investment Corp. stock; the use of the proceeds thereof; the description of the company's business; the history of the company's organization and the interests of management and others in certain transactions; the capital stock being registered; and the financial statements.[12] The matter had not been determined at the close of the fiscal year.

Ultrasonic Corp.

As a result of an investigation of the Ultrasonic Corp., a stop order proceeding was instituted by order of the Commission on November 4, 1955, against a registration statement filed by Ultrasonic Corp. This registration statement became effective on July 22, 1954, and an amendment was filed which became effective August 25, 1954. The filing covered a public offering of 200,000 shares of common stock priced at $12.75, with net proceeds to the company of approximately $2,300,000.

The staff of the Commission alleged that the registration statement was false and misleading because, among other things, the statement of income for the 6 months ended March 31, 1954, reported a small income instead of a substantial loss amounting to approximately $900,000 for that period, which amount should have been added to the deficit reported in the balance sheet as at March 31, 1954. Similarly, it was alleged that the assets set forth in this balance sheet were overstated and that liabilities stated therein were understated by an equivalent amount of approximately $900,000.

The Commission's staff based these allegations on the grounds that net income for the 6 months ended March 31, 1954, had been overstated in the registration statement because cost of goods sold had been determined improperly; because losses on government contracts and price redetermination thereunder had not been sufficiently provided for; and also because certain expenses were deferred improperly as assets. As a consequence, inventories, plant account and deferred assets had been overstated and liabilities and reserve for losses and price redetermination had been understated in the balance sheet as of March 31, 1954.

It was also alleged by the staff that substantial additional operating losses subsequent to March 31, 1954, amounting to approximately $486,000 to June 30, 1954, were not disclosed in the registration statement as it became effective, and approximately $800,000 to July 31, 1954, were not disclosed in the posteffective amendment.

The item in the registration statement relating to "Use of Proceeds," which indicated that the proceeds were required for the company's

[12] Securities Act Release No. 3653 (July 2, 1956).

increased working capital requirements, was charged to be false and misleading in the light of the undisclosed operating losses.

The Commission had this matter under advisement at the close of the fiscal year.

Universal Service Corporation, Inc.

On July 8, 1955, this company filed a registration statement covering a proposed public offering of 500,000 shares of its common stock, $0.002 par value, at $2.50 per share, or a total of $1,250,000. The company had been organized in September 1954 for the purpose of financing the exploration and, if warranted, the mining of uranium, quicksilver and other minerals as well as gas and oil. In October of 1954, a subsidiary, Universal Service Mining Corp., was organized for the purpose of exploring potential mining properties. This latter corporation eventually acquired acreage located in Brewster and Presidio Counties in the State of Texas from promoters of the enterprise and it was for the exploration and development of this property, among other things, that the proceeds from the proposed sale of the 500,000 shares of common stock were to be used.

In a radio broadcast on February 13, 1955, a commentator stated that Universal Service Corp. had discovered uranium ore in the Big Bend area of Texas, and that the stock of the company was being sold to the public in large quantities. Since registration of the securities of the company had not been effected under the Securities Act of 1933, the Commission, on February 21, 1955, directed its Fort Worth office to conduct an investigation to determine whether unregistered securities were being offered interstate in violation of section 5 of the Act.

In connection with the registration statement the Commission issued an order for a hearing pursuant to section 8 (d) of the Securities Act to determine whether the company's registration statement complied with the disclosure provisions of the Act. The Division of Corporation Finance charged, among other things, that the registration statement was deficient in that it failed to disclose the identities of the real promoters of the company, together with the interests these persons had retained in the property, and the amount of stock they had acquired and resold. It was further contended that the geological reports and other information given in the registration statement concerning the property raised serious questions as to the accuracy and completeness of data given concerning the geology, the assays reported, and the outcome of the work done, and that the claim in the prospectus to excellent possibilities for finding oil in the company's properties appeared highly questionable. It was also alleged that the registration statement failed to point out that the price of the stock had been arbitrarily established from time to time by the

company's board of directors, that sales had been made at prices ranging from 40 cents to $10 per share, and that the proposed offering price of $2.50, after a 5 for 1 stock split, was equivalent to $12.50 per share before the split.

The hearings were concluded on October 14, 1955, and the report of the hearing examiner was filed on July 27, 1956. Subsequently, counsel have filed briefs and oral argument has been heard by the Commission pending its determination of whether a stop order should issue.

LITIGATION UNDER THE SECURITIES ACT OF 1933

Injunctive Actions

In order to protect the public from the damage which might result from threatened violations of the Securities Act, the Commission is authorized to apply to the courts for injunctions to restrain conduct in violation of the Act. As in former years, the Commission again found it necessary in the fiscal year to invoke such sanctions as a result of investigations.

Illegal oil and gas promotions again claimed the Commission's attention and required the institution of injunctive action. The complaint filed in *S. E. C.* v. *Eldon L. Jewett & Perr Oil Co.*[13] charged that in the sale of fractional undivided interests in oil leases, the defendants falsely represented that the defendant Jewett was a substantial investor in these securities and that he was realizing an annual income of $60,000 to $84,000. The Commission also alleged that the defendants' representations that no person purchasing these oil interests had ever lost money and that the money received from investors would be used for the purpose of drilling and completing oil wells were false. The defendant Jewett filed an answer to the Commission's complaint in this action and the defendant corporation consented to the preliminary injunction against further violations of the registration and antifraud provisions of the Securities Act of 1933.

Fraudulent uranium promotions also required attention in the Commission's enforcement efforts. In *S. E. C.* v. *Colotex Uranium & Oil, Inc., W. H. Keasler, J. Wesley Puller and J. C. Paul,*[14] the Commission charged that the defendants not only violated the registration provisions in offering and selling temporary receipts representing a right to obtain shares of the common stock of the defendant corporation, but also that the defendants falsely stated that the defendant corporation was the owner of mineral interests or properties in Wyoming and that the proceeds from the sale of these securities would be transferred to the defendant corporation and used for expenses. By consent of the defendants the court issued a preliminary

[13] W. D. Wash. No. 1989 (February 16, 1956).
[14] D. Colo. No. 5371 (May 16, 1956).

injunction enjoining them from further violations of the registration and antifraud provisions of the Securities Act of 1933.

Fraudulent promotions were not limited to oil and mining ventures. In *S. E. C.* v. *Central Finance Service, Inc., Council Mayo Forsyth, Roy W. Adams and J. L. Hathcoat* [15] the Commission had occasion to ask the court to enjoin those defendants from further violations of the registration and antifraud provisions of the Securities Act of 1933 in connection with the offering and sale of the defendant corporation's common stock. The complaint alleged, among other things, that the defendants employed a scheme and device to defraud, and falsely represented that the stock of the defendant corporation held by stockholders of that company before September 15, 1955, would increase or had increased in value more than five times as a result of the corporation's action in issuing a 10 percent stock dividend and splitting its stock 5 for 1. Other fraudulent representations which were charged included references by the defendants to the fact that the corporation would return to the stockholders all of the money invested in its stock if such return were desired and that the company was planning to pay a 20 percent cash dividend and split its stock 10 for 1 in 1956, with the result that $1,000 invested in 1955 would be worth $10,000 in less than a year. The complaint further charged the defendants with omitting to tell purchasers that the stock being sold was that owned by the defendant Forsyth and that he was using the purchasers' money for his own benefit. Other allegations in the complaint were to the effect that the defendant corporation had operated at a loss throughout its entire existence and that the stock which was being acquired by the public at the price of $10 and $20 per share had been purchased by the defendant Forysth at 16 cents and 81 cents per share. A final judgment by consent was obtained against the defendants in this action.

In *S. E. C.* v. *Bertil T. Renhard* [16] the Commission's complaint alleged that the defendant had been offering and selling stock of a certain company through use of misleading statements and omissions relating, among other things, to the solvency and precarious financial condition of the company, the company's inability to pay its rent, and the market price and ownership of the shares being sold by the defendant. By consent of the defendant a decree of permanent injunction was issued enjoining him from further violations of the antifraud provisions of the Securities Act of 1933.

Another case involving fraudulent representations was that of *S. E. C.* v. *John Robert Fish & Fish Carburetor Corp.*[17] There the Commission charged that the defendants made untrue statements of

[15] E. D. Texas No. 566 (March 27, 1956).
[16] W. D. Wash. No 4075 (January 24, 1956).
[17] S. D. Fla. No. 3400-J (April 2, 1956).

material facts and omitted to state other material facts relating to the value of the defendant corporation's assets, the future value of the company's stock, the profits investors could expect from investments in the defendant corporation's securities, and the stage of development, marketability and performance of the carburetors to be produced by the defendants. A preliminary injunction by consent was entered against the defendants to enjoin further violations of the registration and antifraud provisions of the Securities Act of 1933.

The Commission also filed a complaint against *Mitchell Securities, Inc., and C. Benjamin Mitchell and Russell P. Dotterer*,[18] officers and controlling persons of the corporation a registered broker-dealer, to enjoin them from further violations of the antifraud provisions of the Securities Act. The complaint charged that the defendants had been selling debt securities of the defendant corporation by use of untrue statements and omissions concerning, among other things, the financial results of the operations of the defendant corporation and its inability to make payments of interest on the debt securities being sold. The defendants consented to the entry of a final judgment, and the permanent injunction which had been sought by the Commission was entered by the court.

In the first action of such nature brought by the Commission in the Territory of Alaska, the Commission filed a complaint in the United States District Court for the Territory of Alaska against the *Alaska Chrome Corp. and Corneil A. Sherman*,[19] for an injunction against further violations of the registration provisions of the Securities Act. A permanent injunction was issued by the court after the defendants consented to the entry of a final judgment against them.

In *S. E. C.* v. *Thomas L. North, doing business as North's Newsletter*,[20] the complaint charged that the defendant, an investment adviser, in advance of distribution to clients of reports, solicited, received, and accepted compensation from issuers of and dealers in particular securities to disseminate and distribute copies of the reports to several mailing lists maintained by him in order to attract and spread interest in the securities so described among brokers and dealers, securities traders and among persons with the specific objective of attracting and stimulating trading in such securities, without disclosing the receipt and amount of such compensation. Upon the defendant's consent to the entry of judgment the court issued a decree of permanent injunction against further violations of section 17 (b) of the Securities Act by the defendant.

In addition, injunctions against further violations of the registration provisions of the Securities Act were obtained in many other cases.

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[18] D. Md. No. 8860 (May 8, 1956).
[19] T. Alaska No. A-11,509 (October 14, 1955).
[20] N. D. Calif. No. 35,250 (February 10, 1956).

One of these involved the sale of stock in the United States of *Camoose Mines Limited,* a corporation, organized under the laws of the Province of Ontario, Dominion of Canada. The Commission in its complaint charged the company and certain individuals with violations of the registration provisions of the Securities Act in selling in the United States securities which were not registered as required. The corporation and Philip M. King, Sr., consented to the entry of a permanent injunction.[21] The action was dismissed as to two other individual defendants.

Other actions based upon violations of the registration requirements of the Securities Act included the following:

S. E. C. v. *Pandora Metals, Inc., and Elwood T. Blakesley;*[22] *S. E. C.* v. *Tri-State Metals, Inc., Great Western Metals Corp., William Westra and H. O. Hart;*[23] *S. E. C.* v. *Americol Petroleum, Inc., M. G. M. Petroleum, Inc., Modco, Inc., Monte G. Mason and C. D. Moslander, Jr.;*[24] *S. E. C.* v. *Nev-Tah Oil & Mining Co., Arthur L. Damon, C. M. Dollarhide and Oscar Zapf;*[25] *and S. E. C.* v. *Wyco Development Corp., Daniel J. Leary, Arthur A. Sullivan, and Frank R. Campbell.*[26]

Further proceedings were also had in the case of *S. E. C.* v. *Jess Hickey Oil Corp., Jess Hickey and Loui M. White,*[27] which was referred to in the 21st Annual Report.[28] The individual defendants consented to the entry of a permanent injunction restraining them from further violations of the antifraud and registration provisions of the Act, and the Commission dismissed its complaint against the defendant corporation.

Participation as Amicus Curiae

The Commission participated as *amicus curiae* in *Whittaker* v. *Wall,*[29] a private action under section 12 (l) of the Securities Act of 1933 to recover the consideration paid for securities sold in violation of the registration requirements of that Act. Defendants denied that, under section 22 (a) of the Act, venue properly lay in the district in which the action was brought because no "sale," in the sense of a consummated transaction, had taken place there. Agreeing with the view of the Commission, the Court of Appeals held *inter alia* that the broad definition of "sale" in section 2 (3) of the Act, which included solicitations of an offer to buy such as had taken place in the district in question, applied notwithstanding the fact that plaintiff sought

[21] S. D. N. Y. No. 108-270 (April 17, 1956).
[22] D. Colo. No. 5111 (August 18, 1955).
[23] D. Nev. No. 132 (September 6, 1955).
[24] S. D. Calif. No. 18965 BH (November 4, 1955).
[25] D. Nev. No. 1239 (November 17, 1955).
[26] D. Conn. No. 6122 (April 26, 1956).
[27] N. D. Tex. No. 3058 (May 30, 1955).
[28] Page 20 (July 22, 1955).
[29] 226 F. 2d 868 (C. A. 8, 1955).

recovery of money for a completed transaction. The transaction had taken place before the 1954 amendments to the Act which substituted the phrase "offers or sells" in place of the word "sells" in section 12, and the phrase "offer or sale" in place of the word "sale" in section 22 (a). The court referred to the legislative committee reports cited by the Commission which made it clear that these changes were intended to preserve existing law.

LITIGATION CONCERNING DISCLOSURE OF COMMISSION'S CONFIDENTIAL FILES

During the fiscal year the Court of Appeals for the Sixth Circuit handed down a landmark decision upholding the confidential nature of the Commission's investigation files and internal staff and Commission deliberations, and sustaining the validity of the Commission's rules which prohibit Commission employees from divulging such information without specific Commission authorization. Sustained also was the position of the Commission that its employees who decline to divulge information of this character in obedience to these rules cannot be properly held in contempt of court. *In re Appeals of S. E. C. and William H. Timbers*, its general counsel.[30]

These questions arose in a private lawsuit in a Federal district court in Detroit to which the Commission was at no time a party.[31] Plaintiffs' allegations of corporate mismanagement included, *inter alia*, a charge that the defendant management had violated the Securities Act in failing to register an issue of voting trust certificates designed to prevent the plaintiffs from obtaining control of the company. Early in the litigation consummation of the voting trust was barred by stipulation of the parties and by injunctive orders.

After the institution of the lawsuit, the Commission commenced its own private investigation of the alleged violation. During the trial the plaintiffs' attorney, at the suggestion of the district judge, served a subpena upon the attorney in charge of the Commission's Detroit branch office calling for the production of the Commission's investigation file and for testimony on matters covered by the investigation. In an effort to cooperate and on the representation of plaintiffs' counsel that this would fully satisfy his needs, the Commission released its correspondence with the parties to the litigation and authorized the subpenaed Commission employee to testify on interviews and conversations which he may have had with the parties or their representatives. Thereafter, upon the further request of plaintiffs' counsel, the Commission voluntarily sent to Detroit two staff officials

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[30] 226 F. 2d 501.

[31] *Kinsey* v. *Knapp*, E. D. Mich., Civil Action No. 13,179

from its Washington office for the limited purpose of testifying on other conferences held in Washington with defendants' attorneys. The questioning of Commission employees in Detroit, however, went far beyond these conferences. Information was sought on intra-agency communications, reports, recommendations and internal administrative determinations with respect to the investigation and the action to be taken as a result thereof. Also sought were the identities of, and information obtained from, confidential informants other than the parties to the litigation. The staff witnesses, obeying the Commission's rules and specific Commission instructions, declined to divulge the information. The district judge having indicated that he might hold the staff witnesses in contempt, the Commission's General Counsel, William H. Timbers, went to Detroit to represent them. After several days of examination of Commission employees, the district judge summarily ordered Timbers himself, over his protest, to take the witness stand. When Timbers refused to produce unconditionally a preliminary report of investigation in the Commission's file, he was summarily held in contempt, committed to the custody of the United States Marshal, and sentenced to 60 days' imprisonment unless he sooner purged himself of the alleged contempt. An appeal was filed immediately and a stay of execution obtained from the Court of Appeals.

In reversing and setting aside the contempt order and in directing that Timbers be "completely absolved" from any "alleged contempt," the Court of Appeals also held that the district judge had "overstepped appropriate judicial bounds" in seeking to conduct "a searching inquisition" into the way in which the Commission was carrying out its statutory responsibilities in the particular matter. The appellate court also ruled that the district judge had abused "all justifiable discretion" in his conduct of the case and in his treatment of the Commission's general counsel.

The Department of Justice supported the position of the Commission and presented the matter to the appellate court.[32]

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[32] It is of interest to note that in an appeal by the defendant in the private lawsuit, the Court of Appeals for the Sixth Circuit (232 F. 2d 458 (1956)) referred to the facts in the *Timbers* case as "an important background to the question now presented." The court agreed with appellant that the district judge "figuratively speaking, stepped down from the bench to assume the role of advocate for the plaintiff." The judgment was reversed and the case remanded for retrial before another judge.

PART V

ADMINISTRATION OF THE SECURITIES EXCHANGE ACT OF 1934

The Securities Exchange Act of 1934 provides for the registration and regulation of securities exchanges, for the registration of securities listed on such exchanges and establishes, for issuers of securities so registered, financial and other reporting requirements, regulation of proxy solicitations, and requirements with respect to trading by officers, directors and principal security holders. The Exchange Act also provides for the registration and regulation of brokers and dealers doing business in the over-the-counter market in interstate commerce, contains provisions designed to prevent acts and practices deemed to be fraudulent, deceptive or manipulative either on the exchanges or in the over-the-counter market, authorizes the Federal Reserve Board to regulate the use of credit in securities transactions, and contains other related provisions. A stated purpose of these statutory requirements is to insure the maintenance of fair and honest markets in securities transactions.

Regulation under the Exchange Act reflects the distinction between the exchange market and the over-the-counter market. In the exchange market, the exchange itself, which is the focal point of the market, is required to register, and, in order to do so, must demonstrate that it is able to comply with the statute and the rules and regulations thereunder and that its rules are just and adequate to insure fair dealing and to protect investors. Registered exchanges must provide for the discipline of any member for conduct inconsistent with just and equitable principles of trade and for willful violations of the statute and the rules and regulations. Issuers of securities listed on exchanges become subject to provisions of the statute and the rules requiring the filing of reports, including annual financial reports certified by independent certified public accountants, and semiannual reports of sales and earnings, which need not be certified; the requirement that proxies be solicited in accordance with the proxy rules, including the furnishing to stockholders from whom proxies are solicited of information necessary to the intelligent exercise of their voting rights, and the requirement that officers, directors, and 10-percent stockholders report currently changes in their holdings and account to the issuer for profits from short swing trading in their companies' stock.

In the over-the-counter market there is no such organized center of trading as the exchange upon which regulatory activities may focus and, under present law,[1] the issuers of securities traded in that market do not thereby become subject to the regulatory provisions of the statute, except for those subjected to financial reporting requirements pursuant to section 15 (d) of the Exchange Act, by reason of their registration under the Securities Act of securities of a class the aggregate value of which amounts to $2,000,000 or more.

In the over-the-counter market, brokers and dealers using the facilities of interstate commerce or the mails are generally required to register with the Commission and are subject to many statutory provisions and Commission rules designed to prevent fraudulent, deceptive or manipulative practices and to protect their customers. Any person may register as a broker or dealer unless subject to disqualifications specified in section 15 (b) of the Exchange Act. These disqualifications are all based on specified types of prior misconduct on the part of the applicant such as convictions or injunctions involving securities transactions or willful violation of the Federal securities laws.

REGULATION OF EXCHANGES AND EXCHANGE TRADING

Registration and Exemption of Exchanges

At the close of 1956, 15 stock exchanges were registered under the Exchange Act as national securities exchanges:

American Stock Exchange.
Boston Stock Exchange.
Chicago Board of Trade.
Cincinnati Stock Exchange.
Detroit Stock Exchange.
Los Angeles Stock Exchange.
Midwest Stock Exchange.
New Orleans Stock Exchange.
New York Stock Exchange.
Philadelphia-Baltimore Stock Exchange.
Pittsburgh Stock Exchange.
Salt Lake City Stock Exchange.
San Francisco Stock Exchange.
San Francisco Mining Exchange.
Spokane Stock Exchange.

The following four exchanges have been exempted from registration by the Commission pursuant to section 5 of the Exchange Act upon the ground that registration was impracticable and not necessary or appropriate by reason of the limited volume of transactions effected on such exchanges:

Colorado Springs Stock Exchange.
Honolulu Stock Exchange.
Richmond Stock Exchange.
Wheeling Stock Exchange.

These exemptions are, however, subject to conditions which subject such exchanges, their members and the issuers of securities listed thereon to most of the requirements which would be applicable if

[1] S-2054, 84th Cong., 1st sess., and predecessor bills would make certain larger issuers in the over-the-counter market subject to substantially the same requirements as issuers of listed securities. For further discussion of this Bill, see the chapter on Legislative Activities in this report.

they were registered, except for the proxy requirements of section 14 and the provisions of section 16 regarding transactions by officers, directors, and principal stockholders. Since 1935, companies listing additional classes of securities on exempted exchanges must comply with the reporting provisions of sections 12 and 13 of the Exchange Act.

Exchange Rules and Disciplinary Actions

Under section 19 (b) of the Exchange Act the Commission, after appropriate notice and hearing, may impose changes in exchange rules dealing with 12 enumerated topics ranging from the listing or delisting of securities to the hours of trading. The Commission has rarely found it necessary to exercise this power, the only instance to date having occurred in 1940. All exchanges are required to file copies of their rules and amendments thereto with the Commission and any significant changes are in practice discussed with and considered by the staff of the Commission prior to their formal adoption and the Commission may be consulted with respect thereto. Consideration of any problems which may arise from such proposals at this stage has largely obviated, up to now, the necessity for formal proceedings under section 19 (b).

Each national securities exchange reports to the Commission disciplinary action taken against members for violations of the Securities Exchange Act or exchange rules. During the year 6 exchanges reported 37 cases of such disciplinary action. The actions taken included fines in 18 cases, expulsion of 1 individual from exchange membership, suspension of 6 individuals, and censure of individuals and firms.

REGISTRATION OF SECURITIES ON EXCHANGES

It is unlawful for a member of a national securities exchange or a broker or dealer to effect any transaction in a security on such exchange unless the security is registered on that exchange under the Securities Exchange Act or is exempt from such registration. In general the Act exempts from registration obligations issued or guaranteed by a State or the Federal Government or by certain subdivisions or agencies thereof and authorizes the Commission to adopt rules and regulations exempting such other securities as the Commission may find it necessary or appropriate in the public interest or for the protection of investors to exempt. Under this authority the Commission has exempted securities of certain banks, certain securities secured by property or leasehold interests, certain securities of issuers in bankruptcy, receivership or reorganization, certain warrants, and, on a temporary basis, certain securities issued in substitution for or in addition to listed securities.

Section 12 of the Exchange Act provides that an issuer may register a class of securities on an exchange by filing with the Commission and the exchange an application which discloses pertinent information concerning the issuer and its affairs. An application requires the furnishing of information in regard to the issuer's business, capital structure, the terms of its securities, the persons who manage or control its affairs, the remuneration paid to its officers and directors, the allotment of options, bonuses and profit sharing plans, and financial statements certified by independent accountants.

Form 10 is the form used for registration by most commercial and industrial companies. There are specialized forms for certain types of securities such as voting trust certificates, certificates of deposit, securities of foreign governments, etc.

Section 13 requires issuers having securities registered on an exchange to file periodic reports keeping current the information furnished in the application for registration. These periodic reports include annual reports, semiannual reports, and current (monthly) reports. The principal annual report form is Form 10–K which is designed to keep up to date the information furnished on Form 10. Semiannual reports required to be furnished on Form 9–K are devoted chiefly to furnishing mid-year financial data. Current reports on Form 8–K are required to be filed for each month in which any of certain specified events have occurred. A report on this form deals with matters such as changes in control or the registrant, important acquisitions or dispositions of assets, the institution or termination of important legal proceedings, and important changes in the issuer's capital securities or in the amount thereof outstanding.

As of June 30, 1956, a total of 2,253 issuers had 3,686 securities issues listed and registered on national securities exchanges of which 2,659 were stocks and 1,027 were bonds. Of the 2, 253 issuers, 1,275 had 1,513 stocks and 985 bonds listed and registered on the New York Stock Exchange. On a percentage basis, the New York Stock Exchange had 57 percent of both issuers and stocks and 96 percent of the bonds.

During the fiscal year, 109 issuers listed and registered securities for the first time on a national securities exchange and the listing and registration of all securities of 75 issuers was terminated during the year. Of the 109, the securities of 18 were listed and registered on the New York Stock Exchange and of the 75 whose listing and registration was terminated, 30 had had securities listed and registered on the New York Stock Exchange during the year.

The number of applications filed for registration of classes of securities on national securities exchanges during the fiscal year was 232. The following table shows the number of annual, semiannual, and current reports filed by issuers having securities listed and registered

on exchanges. The table also shows the number of annual, semiannual and current reports filed under section 15 (d) of the Securities Exchange Act of 1934 by issuers obligated to file such reports by reason of their undertaking contained in one or more registration statements effective under the Securities Act of 1933. As of the close of the fiscal year there were 1,167 such issuers.

Number of annual and other periodic reports filed by issuers under the Securities Exchange Act of 1934 during the fiscal year ended June 30, 1956

Type of report	Number of reports filed by—		Total reports filed
	Listed issuers filing reports under sec. 13	Over-the-counter issuers filing reports under sec 15 (d)	
Annual reports on Form 10-K, etc.	2,154	1,025	3,179
Semiannual reports on Form 9-K	1,554	512	2,066
Current reports on Form 8-K	3,367	1,066	4,433

MARKET VALUE OF SECURITIES TRADED ON EXCHANGES

The unduplicated total market value on December 31, 1955, of all stocks and bonds admitted to trading on one or more of the 19 stock exchanges in the United States was $344,504,530,000.

Stocks:	*Number of issues*	*Market value Dec. 31, 1955*
New York Stock Exchange	1,508	$207,699,177,000
American Stock Exchange	832	27,146,161,000
All other exchanges exclusively	667	3,986,665,000
Total stocks	3,007	238,832,003,000

Bonds:	*Number of issues*	*Market value Dec. 31, 1955*
New York Stock Exchange	1,024	$104,749,886,000
American Stock Exchange	72	809,360,000
All other exchanges exclusively	26	113,281,000
Total bonds	1,122	105,672,527,000
Total stocks and bonds	4,129	344,504,530,000

The New York Stock Exchange and American Stock Exchange figures are as reported by those exchanges. There is no duplication of issues between them. The figures for all other exchanges are for the net number of issues appearing only on such exchanges, excluding the many issues on them which are also traded on one or the other New York exchange. The number of issues as shown includes a few which are not quoted by reason of suspension or because no transactions have occurred.

The bonds on the New York Stock Exchange include United States Government and New York State and City issues with an aggregate market value of $80,633,100,000.

The stocks quoted may be divided into categories as follows, with market value as of December 31, 1955, in millions of dollars:

	Preferred stock		Common stock	
	Issues	Values	Issues	Values
Listed on registered exchanges	595	$9,351.3	2,024	$209,149.4
Unlisted on all exchanges	52	599 4	234	19,314.5
Listed on exempted exchanges [a]	12	16.2	59	401.3
Total stocks	658	9,966.8	2,317	228,865.2

[a] Excluding issues also traded on registered exchanges.

The market value of all stocks on the New York Stock Exchange on June 30, 1956, was $218,579,190,000. It is estimated that, as of such date, the market value of all stocks on all exchanges was about $250 billion.

Market values of all stocks admitted to trading on the stock exchanges in billions of dollars at the close of each calendar year since 1948 have been computed as follows:

Dec. 31	New York Stock Exchange	American Stock Exchange	All other exchanges	Total value
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

New York Stock Exchange reported a previous high market value of $89.7 billion in September 1929 and a low of $15.6 billion in July 1932.

The number of shares of stock admitted to trading on the exchanges was approximately 5,476,000,000 as of December 31, 1955, including 152,300,000 preferred and 5,323,700,000 common. Of the total, approximately 5,000,000,000 shares were listed on registered exchanges, including 142,600,000 preferred and 4,866,000,000 common shares.

Comparative Over-the-Counter Statistics

There are no overall statistics with respect to over-the-counter securities comparable to those available from the exchanges. Certain data can be derived from registrations and other filings with the Commission under the Acts which it administers. For example, 357 issuers with about $13 billion assets registered under the Investment Company Act of 1940 have exclusively over-the-counter mar-

kets for their securities. 971 additional issuers reporting pursuant to section 15 (d) of the Securities Exchange Act of 1934 had stocks exclusively in over-the-counter markets with an aggregate value of over $17 billion as of December 31, 1955.

Recent studies have furnished increasing evidence as to the relative size of the over-the-counter market. With respect to bonds, the over-the-counter market is undoubtedly larger than the exchange market, since the principal market for bonds of the United States Government, States and municipalities and for high-grade corporate bonds is over the counter. With regard to stocks, there are many thousands which are quoted over the counter. The smaller issues among these, however, shade rapidly into substantially or completely privately owned issues with respect to which public bids and offers are rarely available. The studies conducted by the Wharton School of the University of Pennsylvania [2] indicate that during the period covered only 3.2 percent of the aggregate value of transactions over the counter in outstanding common stock was in issues with a market value of less than $1,000,000 and that only 5.1 percent of such value was in issues with 500 or less stockholders.[3] A study by the New York Stock Exchange [4] included stocks owned by at least 300 stockholders and finds 3,723 issues with 2,540,000,000 shares over the counter compared with 2,956 issues with 5,372,000,000 shares on exchanges. It also states that the number of holders of record of these over-the-counter stocks is 8,671,000 against 22,567,000 for the stocks on the exchanges. These figures as to holders of record are duplicated, each holder of record being counted once for each issue he owns. The number of domestic individual holders of 6,679 stocks covered by the study after elimination of duplication is stated to be about 8,630,000. The New York Stock Exchange study in addition concludes that 8 of 10 shareholders own stock listed on that Exchange.

The Wharton School study indicates that the dollar volume of transactions in outstanding stocks over the counter is only a moderate fraction of the total volume of transactions, including those on stock exchanges.[5] One of the larger investment firms, which has well over 100 offices scattered throughout the country, has for years constantly reported that less than one-quarter of its income from the securities business is derived from unlisted securities, retail sales, and underwriting.[6] The report of the Commission with respect to S.2054, referred to under "Legislative Matters" in this Annual

[2] Studies on the Over-the-Counter Market conducted by the Securities Research Unit of the Wharton School, University of Pennsylvania.

[3] Characteristics of Transactions on Over-the-Counter Markets, University of Pennsylvania Press, 1953, tables 3 and 4.

[4] Who Owns American Business? 1956 Census of Shareowners, New York Stock Exchange, 1956.

[5] Activity on Over-the-Counter Markets, University of Pennsylvania Press, 1951. Character and Extent of Over-the Counter Markets, University of Pennsylvania Press 1952.

[6] Merrill Lynch, Pierce, Fenner & Beane, Annual Reports 1944 et seq.

Report, indicates that there were about 1,200 domestic corporations (excluding insurance companies, investment companies, and banks) which appeared to have $2 million or more of assets and 750 or more stockholders and whose securities were traded in the over-the-counter market or admitted to unlisted and unregistered trading on exchanges. About 500 corporations would be added to this group if the test as to the number of stockholders was reduced to 300.

It thus appears from these studies that the exchange market for stocks is larger in terms of the number of shareholders and volume of trading and that, although there are many more stock issues in the over-the-counter market, the bulk of activity and of public stockholder interest is concentrated in larger issues, the number of which probably does not exceed the number of issues on exchanges.

The National Quotation Bureau reports about 20,000 stocks carrying over-the-counter quotations in its October 1956 Summary, which is a cumulative record extending over a period of years. This Bureau's daily quotation sheets carry about 6,000 stocks. About 10 percent of the stocks shown are listed on domestic or Canadian stock exchanges. The Commission estimates that there are about 3,500 domestic issuers with 300 or more stockholders each, whose stocks are traded only over the counter and which had an aggregate market value of around $45 billion on December 31, 1955, these figures being exclusive of issuers registered under the Investment Company Act of 1940.

DELISTING OF SECURITIES FROM EXCHANGES

During the fiscal year ending June 30, 1956, the Commission granted 12 applications filed by exchanges or issuers to remove securities from exchange listing and registration pursuant to section 12 (d) of the Exchange Act. The applications included 6 by exchanges covering 8 stocks and 6 by issuers covering 6 stocks. The applications by exchanges were with respect to 2 stocks where shares and holders were stated to be insufficient for further exchange trading, 5 where a merger, sale of assets or liquidation was involved and 1 where the listing and registration was transferred to another exchange. The applications by issuers were with respect to 4 stocks which remained listed and registered on other exchanges and 2 which were stated to have insufficient shares and holders for further exchange trading. At the close of the fiscal year, 5 applications were pending, of which 3 were made pursuant to a policy adopted by the New York Stock Exchange that it will consider delisting a common stock where the size of a company has been reduced to below $2,000,000 in net tangible assets or aggregate market value of the common stock and the average net earnings after taxes for the last three years is below $200,000.

This policy of the New York Stock Exchange reflects an attempt to make more congruent the standards for original listings and the standards for continuance and maintenance of listing.

Under section 12 (d) of the Exchange Act if the Commission finds that an exchange seeking to remove a security from listing and registration has complied with its own rules the Commission may not deny such an application but is limited to imposing such terms as it may find necessary for the protection of investors. In two recent delisting cases filed by the New York Stock Exchange, Atlas Tack Corp. and Exchange Buffet Corp.,[7] hearings were held to determine whether exchange rules had been complied with and whether any terms should be imposed for the protection of investors. The Commission found that there had been compliance with exchange rules and that the delisting applications should be granted without the imposition of any terms or conditions.

UNLISTED TRADING PRIVILEGES ON EXCHANGES

Volume of Unlisted Trading in Stocks on Exchanges

Under the provisions of section 12 (f) of the Act, the Commission may approve an application by a national securities exchange to admit a security to unlisted trading privileges even though the issuer has not agreed to list the security on the particular exchange. Section 12 (f) provides for three categories of unlisted trading privileges. Clause (1) securities are the residue of those admitted to unlisted trading privileges prior to March 1, 1934. Clause (2) securities are those admitted to unlisted trading privileges following their full listing and registration on another national securities exchange. Clause (3) securities are those admitted to unlisted trading privileges conditioned upon the availability of information substantially equivalent to that filed in the case of listed issues. Securities admitted to unlisted trading privileges consist primarily of issues listed on other exchanges and the residue of issues which were already admitted to unlisted trading privileges when the statute was enacted.

The reported volume of shares traded on an unlisted basis on the stock exchanges during the calendar year 1955 included approximately 37.9 million shares in stocks admitted to unlisted trading only and 33.9 million shares in stocks listed and registered on exchanges other than those where the unlisted trading occurred. These amounts were respectively about 3.1 and 2.8 percent of the total share volume reported on all exchanges. Appendix table 8 shows the distribution of share volumes among the various categories of unlisted trading privileges on exchanges.

[7] Securities Exchange Act Release No. 5359. (September 4, 1956.)

Applications for Unlisted Trading Privileges

Pursuant to applications filed by the exchanges with respect to stocks listed on other exchanges, unlisted trading privileges were extended during the year to June 30, 1956, as follows:

Stock exchange:	*Number of stocks*
Boston	16
Cincinnati	1
Los Angeles	33
Midwest	12
Philadelphia-Baltimore	12
San Francisco	46
Total	120

The Commission's rule X–12F–2 provides that when a security admitted to unlisted trading privileges is changed in certain minor respects it shall be deemed to be the security previously admitted to unlisted trading privileges, and if it is changed in other respects the exchange may file an application requesting the Commission to determine that notwithstanding such change the security is substantially equivalent to the security theretofore admitted to unlisted trading privileges. During the year to June 30, 1956, the Commission granted 2 applications by the American Stock Exchange and 1 by the New Orleans Stock Exchange for a determination that changed securities were the substantial equivalent of the securities previously admitted to unlisted trading privileges. Two bond issues and two stock issues were involved.

BLOCK DISTRIBUTIONS REPORTED BY EXCHANGES

Rule X–10B–2, in substance, prohibits any person participating or interested in the distribution of a security from paying any other person for soliciting or inducing a third person to buy the security on a national securities exchange. This rule is an antimanipulative rule adopted under section 10 (b) of the Act which makes it unlawful for any person to use any manipulative or deceptive device or contrivance in contravention of Commission rules prescribed in the public interest or for the protection of investors. Paragraph (*d*) of the rule provides an exemption from its prohibitions where compensation is paid pursuant to the terms of a plan, filed by a national securities exchange and declared effective by the Commission, authorizing the payment of such compensation in connection with the distribution.

At the present time two types of plans are in effect to permit a block of securities to be distributed through the facilities of a national securities exchange when it has been determined that the regular market on the floor of the exchange cannot absorb the particular block within a reasonable time and at a reasonable price or prices.

These plans have been designated the "Special Offering Plan," essentially a fixed price offering based on the market price, and the "Exchange Distribution Plan," which is a distribution "at the market." Both plans contemplate that orders will be solicited off the floor but executed on the floor. Each of such plans contains certain anti-manipulative controls and requires specified disclosures concerning the distribution to be made to prospective purchasers.

In addition to these two methods of distributing large blocks of securities on national securities exchanges, a third method is commonly employed whereby blocks of listed securities may be distributed to the public over the counter. This method is commonly referred to as a "Secondary Distribution" and such a distribution usually takes place after the close of exchange trading. It is generally the practice of exchanges to require members to obtain the approval of the exchange before participating in such secondary distributions.

More complete details concerning these three types of plans are contained in previous annual reports of this Commission (see e. g., pp. 29–30 of the 20th Annual Report). The following table shows the number and dollar volume of special offerings and exchange distributions reported by the exchanges having such plans in effect, as well as similar figures for secondary distributions which exchanges have approved for member participation and reported to the Commission.

Total sales—12 months ended Dec. 31, 1955 [a]

	Number made	Shares in original offer	Shares sold	Value (thousands of dollars)
Special offerings	9	182,215	161,850	7,223
Exchange distributions	19	306,235	258,348	10,211
Secondary distributions	116	6,698,783	6,756,767	344,871
	6 Months Ended June 30, 1956 [a]			
Special offerings	5	113,980	102,503	2,625
Exchange distributions	10	106,701	93,831	2,161
Secondary distributions	61	5,468,266	5,475,587	293,835

[a] Details of these distributions appear in the Commission's monthly Statistical Bulletin.

MANIPULATION AND STABILIZATION

Manipulation

The Exchange Act describes and prohibits certain forms of manipulative activity in securities registered on a national securities exchange. The prohibited activities include wash sales and matched orders, if effected for the purpose of creating a false or misleading appearance of trading activity or with respect to the market for any such security; a series of transactions in which the price of such security is raised or depressed, or in which the appearance of active trading is created,

for the purpose of inducing purchases or sales by others; circulation by a broker, dealer, seller, or buyer, or by a person who receives consideration from a broker, dealer, seller, or buyer, of information concerning market operations conducted for a rise or a decline; and the making of material false and misleading statements by brokers, dealers, sellers, or buyers, or the omission of material information regarding securities for the purpose of inducing purchases or sales. The Act also empowers the Commission to adopt rules and regulations to define and prohibit the use of these and other forms of manipulative activity in securities whether or not such securities are registered on an exchange or traded over the counter.

The Commission's market surveillance staff in our Division of Trading and Exchanges in Washington and in our New York Regional Office and other field offices observes the ticker-tape quotations of the New York Stock Exchange and the American Stock Exchange securities, the sales and quotation sheets of the various regional exchanges, and the bid and asked prices published by the National Daily Quotation Service for about 6,000 unlisted securities to see if there are any unusual or unexplained price variations or market activity. The financial newsticker, leading newspapers, and various financial publications and statistical services are also closely followed.

When unusual or unexplained market activity in a security is observed, all known information regarding the security is evaluated and a decision made as to the necessity for an investigation. Most investigations are not made public so that no unfair reflection will be cast on any persons or securities and the trading markets will not be upset. These investigations, which are conducted by the Commission's regional offices, take two forms. A preliminary investigation or "quiz" is designed rapidly to discover evidence of unlawful activity. If no violations are found, the preliminary investigation is closed. If it appears that more intensive investigation is necessary, a formal order of investigation, which carries with it the right to issue subpenas and to take testimony under oath, is issued by the Commission. If violations are discovered, the Commission may suspend or revoke the registration of a broker-dealer or it may expel him from the National Association of Securities Dealers. Similarly, a member of a national securities exchange may be suspended or expelled from the exchange. The Commission may also seek an injunction against any person violating the Act and it may recommend to the Department of Justice that any person violating the Act be criminally prosecuted. In some cases, where State action seems likely to bring quick results in preventing fraud or where Federal jurisdiction may be doubtful, the information obtained may be referred to State agencies for State injunction or criminal prosecution.

The following table shows the number of quizzes and formal investigations initiated in 1956, the number closed or completed during the same period, and the number pending at the ending of the fiscal year:

Trading investigations

	Quizzes	Formal investigations
Pending June 30, 1955	107	9
Initiated during fiscal year	69	1
Total	176	10
Closed or completed during fiscal year	74	3
Changed to formal during fiscal year	1	
Adjustment [a]	1	
Total	76	3
Pending at end of fiscal year	100	7

[a] Two quizzes were combined as 1 case during year.

When securities are to be offered to the public their markets are watched very closely to make sure that the price is not artificially raised prior to or during the distribution. Eight hundred and thirty-three registered offerings having a dollar value of $13,095,000,000 and 1,478 offerings exempt under section 3 (b) of the Securities Act, having a value of about $277,000,000 were so observed during the fiscal year. About 300 other small offerings, such as secondary distributions and distributions of securities under special plans filed by the exchanges, were also checked and many were kept under special observation for considerable lengths of time.

Stabilization involves open-market purchases of securities to prevent or retard a decline in the market price in order to facilitate a distribution. It is permitted by the Exchange Act subject to the restrictions provided by the Commission's rules. These rules are designed to confine stabilizing activity to that necessary for purposes of the distribution, to require proper disclosure and to prevent unlawful manipulation.

During 1956 stabilizing was effected in connection with stock offerings aggregating 32,174,925 shares having an aggregate public offering price of $1,124,596,781. Bond issues having a total offering price of $208,222,619 were also stabilized. To accomplish this, 678,122 shares of stock were purchased in stabilizing transactions at a cost of $18,488,813 and bonds costing $4,881,171 were also bought. In connection with these stabilizing transactions more than 8,900 stabilizing reports which show purchases and sales of securities effected by persons conducting the distribution were received and examined during the fiscal year.

In order more closely to police stabilizing activities, the Commission revised the rule requiring the filing of stabilizing reports effective

July 1, 1956.[1] Hitherto such reports were required only when registered offerings were stabilized. The present rule requires reports not only on registered offerings, but also offerings exempt from registration under section 3 (b) of the Securities Act and any other offering having a value of at least $300,000. While these revisions were being made, the stabilizing report form was simplified, also effective July 1, 1956.[2] Hereafter only the managing underwriter must file daily reports. Other members of the syndicate may file a summary report after stabilizing is discontinued. In addition, many transactions at the same price level may be "bunched" and only certain key transactions need be timed. The changes will continue to give the investor adequate protection, but they will greatly relieve the reporting burden on the securities industry. It is felt that in spite of the greater area to be covered, the number of reports necessary to be filed with the Commission will be reduced by about a half.

INSIDERS' SECURITY TRANSACTIONS AND HOLDINGS

Every person who owns more than 10 percent of any class of equity security which is listed on a national securities exchange, or who is an officer or director of the issuer of any such security, is required by section 16 (a) of the Securities Exchange Act of 1934 to file with the Commission and the exchange a report disclosing his ownership of each class of the issuer's equity securities and an additional report for each month in which any subsequent change in his ownership occurs, setting forth information as to the transactions involved. Officers and directors of registered public utility holding companies and officers, directors and 10 percent stockholders of registered closed-end investment companies are subject to similar requirements under section 17 (a) of the Public Utility Holding Company Act and section 30 (f) of the Investment Company Act.

These reports are available for public inspection at the Commission's office and at the exchanges. In order to make the information contained therein more readily available to interested persons throughout the country it is summarized and published in the Commission's monthly "Official Summary of Security Transactions and Holdings," which is distributed on a subscription basis by the Government Printing Office. The widespread public interest in transactions reported by insiders is evidenced by the fact that the circulation of this publication exceeds 4,000 copies a month.

The number of reports filed continues an upward trend, 32,001 during the 1956 fiscal year, as compared with 28,975 during the 1955 fiscal year, 23,199 during the 1954 fiscal year, and 22,333 during the 1953 fiscal year. The following tabulation shows details concerning the reports filed during the 1956 fiscal year.

[1] Securities Exchange Act release No. 5300.
[2] *Supra.*

Number of ownership reports of officers, directors, principal security holders, and certain other affiliated persons filed during the fiscal year ended June 30, 1956

Description of report	Original reports	Amended reports	Total
Securities Exchange Act of 1934. [1]			
Form 4	25,460	1,667	27,127
Form 5	945	2	947
Form 6	2,960	9	2,929
Total	29,325	1,678	31,003
Public Utility Holding Company Act of 1935 [2]			
Form U-17-1	27		27
Form U-17-2	292	3	295
Total	319	3	322
Investment Company Act of 1940. [3]			
Form N-30F-1	260		260
Form N-30F-2	414	2	416
Total	674	2	676
Grand total	30,318	1,683	32,001

[1] Form 4 is used to report changes in ownership; Form 5 to report ownership at the time an equity security of an issuer is first listed and registered on a national securities exchange; and Form 6 to report ownership of persons who subsequently become officers, directors or principal stockholders of the issuer.
[2] Form U-17-1 is used for initial reports and Form U-17-2 for reports of changes of ownership.
[3] Form N-30F-1 is used for initial reports and Form N-30F-2 for reports of changes of ownership.

Recovery of Short Swing Trading Profits by or on Behalf of Issuer

For the purpose of preventing the unfair use of information which may have been obtained by an officer, director or 10-percent stockholder by reason of his relationship to his company, sections 16 (b) of the Securities Exchange Act, 17 (b) of the Public Utility Holding Company Act, and 30 (f) of the Investment Company Act provide for the recovery by or on behalf of the issuer of any profit realized by the officer, director or 10-percent stockholders from certain purchases and sales, or sales and purchases, of securities of the company within any period of less than 6 months. The Commission is not charged with the enforcement of the civil remedies created by these provisions, which are matters for determination by the courts in actions brought by the proper parties.

REGULATION OF PROXIES

Scope of Proxy Regulation

The scope and character of the Commission's regulation of the solicitation of proxies—written authority from a shareholder to another to act in the shareholder's place—is more fully described in this report under "Revision of Forms, Rules, and Regulations" at page 33.

Under sections 14 (a) of the Securities Exchange Act, 12 (e) of the Public Utility Holding Company Act of 1935, and 20 (a) of the Investment Company Act of 1940 the Commission has adopted Regulation X–14 requiring the disclosure of pertinent information in connection with the solicitation of proxies, consents and authorizations in respect of securities of companies subject to those statutes. The

regulation also provides means whereby any security holders so desiring may communicate with other security holders when management is soliciting proxies, either by arranging for the independent distribution of their own proxy statements or by including their proposals in the proxy statements sent out by management.

Copies of proposed proxy material must be filed with the Commission in preliminary form prior to the date of the proposed solicitation. Where preliminary material fails to meet the prescribed disclosure standards, the management or other group responsible for its preparation is notified informally and given an opportunity to avoid such defects in the preparation of the proxy material in the definitive form in which it may be furnished to stockholders.

Statistics Relating to Proxy Statements

During the 1956 fiscal year 2,016 solicitations were made pursuant to regulation X–14, of which 1,995 were conducted by management and 21 by nonmanagement groups. The 1,995 solicitations by management related to 1,711 companies, more than one solicitation having been made with respect to some of the companies.

The purpose for which proxies are most often sought is the voting for nominees for directors. In fiscal 1956 this was an item of business in 1,705 stockholders' meetings, while at 288 meetings the election of directors was not involved. The remaining 23 solicitations, which did not involve any meeting of stockholders, sought consents or authorizations from stockholders with respect to certain proposals other than the election of directors.

In addition to the election of directors, stockholders' decisions were sought in the 1956 fiscal year with respect to the following types of matters:

Nature of business other than election of directors	*Number of proxy statements*
Mergers, consolidations, acquisition of businesses, purchases and sales of property, and dissolution of companies	147
Issuance of new securities, modifications of existing securities, and recapitalization plans other than mergers and consolidations	459
Employee pension and retirement plans	98
Stock option plans (including amendments to existing plans)	246
Bonus and profit-sharing plans	45
Approval of selection by management of independent auditors	496
Amendments to charters and bylaws and other miscellaneous matters	361

Stockholders' Proposals

One of the most important provisions of the proxy rules is the principle adopted by the Commission as early as 1939 and codified in the rules in 1942 (now rule X–14A–8) by which a qualified security holder may require the management of a company to include in the management's proxy soliciting material a proposal which he desires

to submit to a vote of his fellow security holders. As revised over the years, the rule provides that, if the management opposes the proposal, it must, at the request of the security holder, include in the proxy statement the name and address of the security holder and a statement of the security holder in not more than 100 words in support of the proposal. The rule also requires that the proposal be submitted to the management a reasonable time before the solicitation is made and that it be a proper subject for action by the security holders under the law of the State where the company is incorporated. It cannot be submitted primarily for the purpose of enforcing a personal claim or redressing a personal grievance against the company or its management or for the purpose of promoting general economic, political, racial, religious, social, or similar causes. In conformance with State laws, the proposal may not be a recommendation or request that management act with respect to a matter relating to the conduct of the ordinary business operations of the company. The rule also contains provisions to limit the introduction year after year of proposals which receive little or no support from other security holders by providing that certain percentages of the vote must be obtained to require the management to include the proposal again in its proxy material within certain periods of time.

During the 1956 fiscal year, 19 stockholders of 65 companies submitted a total of 102 proposals to a vote of security holders in the management's proxy soliciting material under rule X–14A–8.

Typical of matters thus submitted to a vote of all security holders on the initiative of individual stockholders were such proposals as the following: to restrict the sale of stock to employees; to require participants in employee stock purchase plans to hold their stock for three years; to provide for cumulative voting in the election of directors; to require the election of all directors; to require the election of all directors annually; to place a ceiling of $25,000 on pensions to employees; to require ownership of a certain number of shares of a company as a qualification for a director; to increase the number of members on the board of directors of a company; to require that auditors be elected by the stockholders and be present at the following annual meeting of the company for questioning by shareholders; to furnish all stockholders with a postmeeting report; to resubmit incentive compensation plans to stockholders' approval every 5 years and to make no payment under the plans in any year that common dividends are passed; and to terminate a company's stock option plan.

The management of 20 companies omitted from their proxy statements, under the conditions specified in rule X–14A–8, a total of 41 additional stockholder proposals tendered by 26 individual stockholders. The reasons why these 41 stockholder proposals were omitted

from management's proxy statements are enumerated below with a parenthetical indication of the number of times each reason was operative; the proposal was withdrawn by the stockholder concerned (6); did not involve a proper subject matter for shareholders' action under State law (16); was not submitted to the management within the time prescribed by the proxy rules (6); proposal gained insufficient votes at previous meeting (2); involved the conduct of the ordinary business operations of the company (6); involved a personal grievance (4); and did not really constitute a proposal within the meaning of the rule (1).

Ratio of Soliciting to Nonsoliciting Companies

Generally speaking, section 14 (a) and the Commission's proxy rules are operative only if a solicitation is in fact made. The statute and the rules do not in terms compel corporations to solicit proxies if they do not wish to do so. During the last fiscal year the Commission was requested by a subcommittee of the Senate Banking and Currency Committee to make a report as to whether or not solicitations of proxies in respect of the election of directors of corporations should be made mandatory by statute. The Commission has not formulated its views for presentation to the Congress. It expects, however, to do so before the next session of the Congress. To aid it in making its report the Commission, among other things, has conducted a special study to ascertain the proportion of listed companies which solicit proxies from their security holders. Out of 2,253 companies with securities listed and registered on a national securities exchange as of June 30, 1956, 120 were foreign issuers exempt from regulation X-14 under rule X-3A12-3; and 128 were domestic issuers (including for classification purposes Canadian, Cuban, and Philippine issuers) whose listed securities were nonvoting. Of the remainder, 519 domestic companies did not solicit proxies for the election of directors during the 1956 fiscal year, but these included 42 companies which initially registered voting securities after their 1956 annual meetings had been held, thus, 477 companies that did not solicit proxies for the election of directors although such companies had voting securities listed and registered at the time of the annual meeting. The remaining 1,486 (76 percent) domestic companies did solicit proxies for the election of directors.

Proxy Contests

As more fully described under the heading "Revision of Forms, Rules and Regulations" in this report at page 33, the Commission has been concerned in recent years with the efficiency of its proxy rules as applied to proxy contests—struggles between management and opposition groups for control of a company by means of obtaining sufficient proxies from shareholders to elect at least a majority of the

directors. As indicated in the discussion at page 33 of this report, during the last fiscal year the Commission extensively revised its proxy rules in order to obtain important detailed disclosures for shareholders in connection with such contests. A feature of the revised rules is a requirement that each participant in the proxy contest, existing directors as well as the nominees for directors and the promoters of opposition groups, must file with the Commission a detailed statement (schedule B of the revised proxy rules) covering his background, business experience, criminal record, if any, participation in other proxy contests of any corporation, share ownership, and the sources of funds used to purchase such shares. In addition his proposed position with the company and any other transactions he contemplated in which the company or its subsidiaries will be involved must be described. All of this information must be made available to shareholders in the course of the contest.

In 1956 there were 17 companies involved in proxy contests, of which 8 were for control and 9 were for representation on the board of directors. In these contests 218 individual participants filed the detailed statements required by schedule 14B. Of the 8 contests for control, 5 were won by management, 2 were won by the opposition, and 1 was pending in the courts; while of the 9 proxy contests in which opposition groups were seeking representation on the board, 3 were won by management, 4 were won by the opposition, and 2 were settled through negotiation whereby opposition was given a place on management's slate and no opposition solicitation was made.

REGULATION OF BROKER-DEALERS AND OVER-THE-COUNTER MARKETS

Registration

Section 15 (a) of the Securities Exchange Act of 1934 requires registration of brokers and dealers using the mails or instrumentalities of interstate commerce to effect transactions in securities on the over-the-counter market, except those brokers and dealers whose business is exclusively intrastate or exclusively in exempt securities. The tabulations below reflect certain statistical data with respect to registration of brokers and dealers and applications for such registration during the fiscal year 1956.

Effective registrations at close of preceding fiscal year	4,334
Applications pending at close of preceding fiscal year	49
Applications filed during fiscal year	764
Total	5,147

Applications denied	4
Applications withdrawn	16
Applications cancelled	0
Registrations withdrawn	428
Registrations cancelled	40
Registrations revoked	15
Registrations effective at end of year	4,591
Applications pending at end of year	53
Total	5,147

Administrative Proceedings

Under section 15 (b) of the Exchange Act the Commission may deny registration to a broker-dealer or revoke such registration only if it finds such action to be in the public interest and that the applicant or broker-dealer or any partner, officer, director, or other person directly or indirectly controlling or controlled by such broker-dealer, has been guilty of one or more of 4 specified types of misconduct. In general, such types of misconduct comprise the willful making of false or misleading statements in the application and related proceedings, conviction within 10 years of a crime involving the purchase or sale of securities or the conduct of the business of a broker-dealer, injunction by a court from engaging in any practice in connection with the purchase or sale of securities, or willful violation of the Federal securities laws or the Commission's regulations thereunder. The Commission may not deny to any person the right to register and engage in business as a broker-dealer in interstate commerce, absent misconduct of the specified types enumerated in the Act, and irrespective of whether such individual has had any experience in the brokerage business.

Statistics of administrative proceedings to deny and revoke registration, to suspend and expel from membership in a national securities association or an exchange

Proceedings pending at start of fiscal year to:	
Revoke registration	22
Revoke registration and suspend or expel from NASD or exchanges	10
Deny registration to applicants	3
Cancel registration	2
Total proceedings pending	37
Proceedings instituted during fiscal year to:	
Revoke registration	24
Revoke registration and suspend or expel from NASD or exchanges	13
Deny registration to applicants	7
Cancel registration	1
Total proceedings instituted	45
Total proceedings current during fiscal year	82

Disposition of proceedings

Proceedings to revoke registration:	
Dismissed on withdrawal of registration	9
Dismissed—registration permitted to continue in effect	4
Dismissed on cancellation of registration	1
Registration revoked	10
Total	24
Proceedings to revoke registration and suspend or expel from NASD or exchanges:	
Registration revoked and firm expelled from NASD	5
Dismissed on withdrawal of registration	1
Dismissed—registration and membership permitted to continue in effect	5
Suspended for a period of time from NASD	1
Total	12
Proceedings to deny registration to applicant:	
Registration denied	4
Dismissed on withdrawal of application	2
Total	6
Proceedings to cancel registration:	
Dismissed upon withdrawal of registration	2
Registration canceled	1
Total	3
Total proceedings disposed of	45
Proceedings pending at end of fiscal year to:	
Revoke registration	22
Revoke registration and suspend or expel from NASD or exchanges	11
Deny registration to applicants	4
Cancel registration	0
Total proceedings pending at end of fiscal year	37
Total proceedings accounted for	82

Proceedings in which action was taken during the year include the following:

In a proceeding against *Robert Dermot French, doing business as French & Co.*[8] the Commission denied an application for registration as a broker-dealer after finding that the applicant had effected transactions as a broker and dealer without registration, had sold securities which were not registered under the Securities Act of 1933, and had been enjoined from sales of unregistered securities. In addition, the

[8] Securities Exchange Act Release No. 5267 (December 28, 1955)

Commission found that the applicant had filed a false and misleading financial statement in support of his application for registration.

A proceeding against *A. M. Kidder & Co.*[9] was based upon violations of the registration provisions of the Securities Act in connection with the sales of the stock of a Canadian corporation. A. M. Kidder & Co. made offers of rescission to all persons and firms to whom it or one of its partners in charge of its branch offices had sold shares of the Canadian corporation's stock. The Commission decided that it was not in the public interest to impose any penalty against the registrant, although it did find that a violation of the registration provisions of the Securities Act had been committed both by the firm and by one of its partners. A. M. Kidder & Co. as a result of its offer of rescission repurchased a total of 206,500 shares at a cost of approximately $216,500.

In another proceeding which was instituted against *Haley & Company, Inc.*[10] the Commission denied the application for registration, finding that Haley, its president, sold the applicant's preferred stock in violation of the antifraud provisions of the Securities Act of 1933 by representing to purchasers that they would receive dividends of 8 percent, and that Haley had invested money in the applicant's stock while failing to disclose that the applicant corporation was operating at a deficit, and dividends were paid out of capital, and that Haley did not in fact contribute cash to the applicant's capital; that Haley induced certain of his customers who had purchased the applicant's preferred stock to lend him money and to accept his notes, without disclosing that he was financially unable to repay the notes, as well as the fact that he intended to have the applicant use the money to repurchase its preferred stock from certain other customers; and that Haley also sold to four customers, all of whom were widows and inexperienced in securities matters, stock in a company that did no business and had no income.

In denial proceedings instituted against *Professional Investors, Inc.*[11] the Commission found that the applicant had delivered unregistered shares of its stock in violation of the Securities Act of 1933, had violated the antifraud provisions of that Act by publishing and circulating a magazine article describing certain securities without disclosing the compensation paid for such article, and had effected securities transactions as a broker and dealer in the over-the-counter market without being registered as such. The Commission denied the application for registration.

The registration of *Gabriel Sanders, doing business as Gabriel Securities,*[12] was revoked on charges that the registrant had appropriated

[9] Securities Exchange Act Release No. 5289 (March 21, 1956).
[10] Securities Exchange Act Release No. 5304 (April 25, 1956).
[11] Securities Exchange Act Release No. 5315 (May 25, 1956).
[12] Securities Exchange Act Release No. 5310 (May 11, 1956).

money and securities to his own use from customers who desired to purchase other securities. The record of proceedings disclosed that the registrant obtained from 35 customers a total of approximately $27,000 for the purchase by it of securities and that the registrant failed to deliver such securities and appropriated the money for his own use. In one instance a customer turned over to the registrant almost $6,000 in money and securities to pay for other securities which were to be purchased by the registrant. The registrant not only failed to deliver such securities but appropriated the money and the proceeds from the sale of the customer's securities.

The Commission also revoked the registration of four broker-dealers after proceedings were instituted on findings that the registrants had been permanently enjoined from engaging in or continuing certain conduct and practices in connection with the purchase and sale of securities.

The registration of *East Coast Securities Corp.*[13] was revoked after consideration was given to a record which disclosed that the registrant had been permanently enjoined by the State of New York in an action based on allegations that the registrant falsely represented in connection with the offering of an oil company's securities that the oil company had struck a producing gas well, was drilling a second well, and that most of the stock had been sold with very little remaining for the public. There were also allegations that the registrant falsely represented that members of the stock exchange were interested in acquiring all available shares of that oil company, that the stock would be listed on one of the exchanges and would double in price.

The revocation of *Kaye Real & Company, Inc.*[14] was based upon two injunctions against the firm, one obtained by State authorities in a New York State court and the other obtained by the Commission in the United States District Court for the Southern District of New York. The State court action charged insolvency, failure to comply with the Commission's net capital rule, and shortage in securities and money due or belonging to customers. The Commission's injunctive action was based upon violations of the registration and fraud provisions of the Securities Act.[15] After the entry of the revocation order, the registrant appealed to the Circuit Court of Appeals, which appeal was later dismissed by the court.[16]

The injunction against *Atlas Securities Corp.*[17] which the Commission considered in its revocation proceedings against that registrant was issued by a State court of New York on a complaint filed

[13] Securities Exchange Act Release No. 5198 (July 18, 1955).
[14] Securities Exchange Act Release No. 5226 (September 9, 1955).
[15] 122 Fed. Supp. 639 (D. C. S. D. N. Y.) (July 1954).
[16] C. A. 3. No. 11,762 (May 18, 1956).
[17] Securities Exchange Act Release No. 5247 (October 27, 1955).

by the State alleging that the registrant engaged in business while insolvent.

Revocation proceedings against *Kelleher Securities Corp.*[18] involved, among other things, an injunction issued upon the Commission's complaint. The complaint alleged among other things that the registrant had made false and misleading statements in the sale of certain securities concerning the identity and ownership of such securities, the use of the proceeds derived from the sale of such securities, the financial position of the issuer of the securities, and the advantages to be gained by canceling purchases of one security which the registrant was unable to deliver and investing the proceeds in another security. Further violations were alleged in the complaint regarding the sale by the registrant of certain securities at a price bearing no reasonable relation to prevailing market prices without disclosure of each market prices.

The registration of *R. H. Johnson & Co.*,[19] a partnership, was revoked upon a finding by the Commission, following a lengthy hearing, that there had been violations of the fraud provisions of the Securities Act and the Securities Exchange Act. The order also revoked the registration of R. H. Johnson, Inc., since R. H. Johnson was in control of both registrants. The Commission found that Johnson and five employees were each the cause of the order of revocation.[20] The firm, formed in 1935, had its principal office in New York with 2 branch offices in Boston and Philadelphia, and about 12 sales offices. At times it had over 100 salesmen servicing several thousand accounts.

The customers in whose accounts the transactions forming the basis for the proceedings took place were uninformed or inexperienced in securities matters, and generally relied upon the salesman's advice with respect to their transactions. The Commission found that the salesmen used this relationship of trust and confidence to cause an excessive number of transactions in the accounts, which frequently involved multiple trading in the same security and switches from one security to another, evidently motivated by a desire to produce income for themselves, as well as the registrant, without regard to the customers' best interests and in violation of a fiduciary duty owed to the customers. The Commission also found that despite notice of the fraudulent activities disclosed by the record of the hearing, the registrant failed adequately to supervise the salesmen, thereby permitting the practices to continue over a long period of time. The Commission's decision was later affirmed by the Court of Appeals for the District of Columbia, and a petition for writ of certiorari to the Supreme Court was denied.[21]

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[18] Securities Exchange Act Release No. 5268 (December 27, 1955)

[19] U. S. D. C. of D. C. No 2017-55 (Final Judgment May 20, 1955).

[20] Securities Exchange Act Release No. 5255 (November 16, 1955).

[21] Citations affirmed 231 F. 2 (d) 523 (April 5, 1956); cert. denied, S. C. Docket 174 (October 1956).

Financial Statements

Every registered broker-dealer is required by rule X–17A–5 to file with the Commission during each calendar year a report of financial condition. During the fiscal year 3,968 such reports were filed. These reports are analyzed by the staff to make certain that the registrant is in compliance with the net capital requirements prescribed by rule X–15C3–1. If a registrant is found not to be in compliance with the rule, and it is consistent with the public interest to permit him to effect compliance, a limited time is given him for that purpose. Failure to come into full compliance promptly results in appropriate action by the Commission. Revocation proceedings are also brought against any registrant who fails to make the necessary filing.

Net Capital Rule

As indicated in the 21st Annual Report, page 43, the Commission during the last fiscal year revised its net capital rule (rule X–15C3–1) to increase the safeguards thereby afforded to customers. No broker or dealer subject to this rule may permit his "aggregate indebtedness" to exceed 20 times his "net capital" as those terms are defined in the rule. These definitions were revised, effective May 20, 1955, to increase from 10 to 30 percent the deduction from market value of common stock forming a part of the capital of a broker or dealer, which is required to be made in computing his net capital. The revisions made at that time also included modified deductions from market values of bonds and preferred stocks in computing net capital and revisions with respect to the treatment of certain items in computing aggregate indebtedness. During the current fiscal year the rule was further revised to limit the exemption available thereunder. This revision eliminated the exemption afforded to all brokers and dealers who did not extend credit to customers or carry money or securities for the account of customers, and substituted an exemption available only to brokers whose activities are limited to soliciting subscriptions on behalf of issuers and who do not hold funds or securities in connection therewith. The Commission also reviewed the exemption afforded to members of certain stock exchanges whose rules impose capital requirements more comprehensive than those of the Commission's rule in order to make certain that all such exchanges had adequate inspection procedures for the enforcement of their rules. As a result of this review the Boston Stock Exchange, the Los Angeles Stock Exchange, the Pittsburgh Stock Exchange, and the Salt Lake Stock Exchange strengthened their enforcement procedures with respect to capital requirements for their members.

The Commission takes prompt action whenever it appears that any broker or dealer is not in compliance with this rule. Unless deficiencies are promptly corrected, injunctive action may be taken or

revocation proceedings commenced. During this fiscal year violations of this rule were alleged in 6 injunctive actions, 3 proceedings to revoke broker-dealer registrations, and 1 proceeding to deny such registration. The injunctive actions arising under this rule are referred to in this report under the heading, "Litigation Under the Securities Exchange Act of 1934."

Broker-Dealer Inspections

During 1956 the Commission placed increased emphasis upon its inspection program for registered brokers and dealers. Regular and periodic inspection of broker-dealers are a vital part of the Commission's activities for the protection of investors. The purpose of these inspections is to obtain compliance with the securities acts and the rules and regulations promulgated by the Commission and to detect and prevent violations.

An inspection ordinarily includes, among other items, (1) a determination of the financial condition of the broker-dealer; (2) review of pricing practices; (3) review of the treatment of customers' funds and securities; and (4) a determination whether adequate disclosures are made to customers. The inspection process also determines whether the required books and records are adequate and currently maintained, and whether broker-dealers are conforming with the margin and other requirements of regulation T, as prescribed by the Federal Reserve Board. They also check for "churning," "switching," sale of unregistered securities, use of improper sales literature or sales methods, and other fraudulent practices. These inspections frequently discover situations which, if not corrected, would result in losses to customers.

The following table shows the various types of violations disclosed as a result of the inspection program:

Type	*Fiscal 1956*
Financial difficulties	79
Hypothecation rules	25
Unreasonable prices for securities purchases	189
Regulation T of the Federal Reserve Board	141
"Secret Profits"	7
Confirmation and bookkeeping rules	545
Miscellaneous	90
Total indicated violations	1,076
Total number of inspections	952

The number of indicated violations found by inspections increased 31 percent in 1956 over 1955. This reflects existing conditions in the financial markets described in this report under "Enforcement Program." In particular, these conditions have brought a substantial number of new broker-dealers into the business. Many of these are

inexperienced and unfamiliar both with the obligations owed to their customers and with the rules of the Commission and established practices for the conduct of the business. A more serious problem is created by those who enter the business under present conditions in the hope of making a quick profit, rather than the establishment of a sound business based on responsible and ethical dealing. A substantial number of new brokers and dealers either lacked adequate financial resources or speculated unwisely, thus impairing their financial positions and threatening the safety of customers' funds or securities entrusted to them.

During the fiscal year the Commission filed 10 complaints in the Federal district courts based upon violations discovered in the course of broker-dealer inspections and commenced 7 proceedings to revoke the registration of brokers and dealers based upon violations so discovered. In the majority of instances the violations found are not of a character requiring formal enforcement action but are inadvertent or the result of a misunderstanding. In every such instance the broker-dealer is informed of the violations and required to report the steps he has taken to prevent a repetition. After an appropriate lapse of time it is the policy of the Commission again to inspect such brokers to determine whether they have in fact taken adequate measures to prevent repetition of the violations.

Several times during the course of the year the Commission dispatched so-called "task forces" of broker-dealer inspectors to particular areas where the public interest required a more intensive program than could be conducted with the manpower available in the particular area. During the fiscal year a task force of 6 inspectors and 2 attorneys conducted such inspections in the Denver Region, a task force of 2 inspectors visited the Hawaiian Islands, a task force of 2 inspectors conducted inspections in the Fort Worth Region, and at the end of the fiscal year 2-man task forces were at work in the Atlanta Region and in the State of Pennsylvania. The use of such task forces was necessary in order to cope with special problems existing in particular areas, but it is not a permanent solution of the problem since it tends to disrupt the inspection program in the areas from which personnel are dispatched.

During 1956, 952 inspections were made, which is the largest number since 1941. During the year, however, the number of registered broker-dealers increased from 4,334 to 4,591 and the number is continuing to increase, amounting to 4,652 at October 1, 1956. In response to these conditions the Commission proposes a substantial increase in the number of broker-dealer inspections to be made in 1957 and in future fiscal years.

In addition to the Commission's inspection program, the National Association of Securities Dealers, Inc., and the principal stock ex-

changes also conduct inspections of their members and some of the States also have inspection programs. Each inspecting agency conducts inspections in accordance with its own procedures and with particular reference to its own regulations and jurisdiction. Consequently, inspections by other agencies are not an adequate substitute for Commission inspections, since the inspector will not be primarily concerned with the detection and prevention of violations of the Federal securities laws and the Commission's regulations thereunder. The Commission and certain other inspecting agencies have, however, embarked upon a program of coordinating inspection activity for the purpose of avoiding unnecessary duplication of inspections and to obtain the widest possible coverage of brokers and dealers. This seems appropriate in view of the limited number of inspections which it is possible for the Commission to make. The program does not prevent the Commission from inspecting any person recently inspected by another agency, and this is done whenever reason therefor exists, but it has been necessary for the Commission to rely to a considerable degree upon the inspection programs of the major exchanges, such as the New York Stock Exchange.

Agencies now participating in the coordinated program include the New York Stock Exchange, the American Stock Exchange, the Midwest Stock Exchange, the Philadelphia-Baltimore Stock Exchange, the San Francisco Stock Exchange, and the National Association of Securities Dealers. During the fiscal year, and following discussions with the Commission's staff, the Boston and Los Angeles Stock Exchanges established regular field inspection programs and became participants in the program. During calendar 1955, an aggregate of 2,718 inspections covering 2,228 different firms were reported to have been made by the participating agencies.

SUPERVISION OF ACTIVITIES OF NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

Section 15A of the Securities Exchange Act of 1934 ("the Maloney Act") provides for the registration with the Commission of national securities associations. The statute prescribes standards for such associations. Their rules must be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts and practices and to perfect the mechanism of a free and open market and other requirements must be met. The Commission has jurisdiction to review disciplinary action by such associations and to consider all changes in their rules. The National Association of Securities Dealers, Inc. (NASD) is the only such association registered under the Act. That Association serves as a medium for self-regulation by over-the-counter brokers and dealers. Membership in this Association is important to brokers and dealers engaged in over-the-counter

activities since, as contemplated by section 15A (i) of the Act, the rules of the Association prevent members from dealing with nonmembers except upon the same terms and at the same prices as are accorded the general public. Accordingly, members may not accord the customary dealer's commissions, discounts, preferential rates, concessions, or allowances to nonmembers.

Membership in the National Association of Securities Dealers, Inc., at June 30, 1956, was 3,634. This represented an increase of 284 during the year as a result of 440 admissions to and 156 terminations of membership. At the same time there were registered with the National Association of Securities Dealers, Inc., as registered representatives, 48,566 individuals, including, generally, all partners, officers, salesmen, traders, and other persons employed by, or associated with, members in capacities which involve their doing business directly with the public. The number of registered representatives increased by 7,500 during the fiscal year as a result of 12,317 initial registrations, 3,353 re-registrations and 8,170 terminations of registrations.

Disciplinary Actions

During the fiscal year the Commission received from the NASD reports of final action in 102 disciplinary proceedings in which formal complaints had been filed against members alleging violations of specified provisions of the Association's Rules of Fair Practice. Each of these decisions is considered by the staff, and referred to the appropriate regional offices with comments as to whether further independent attention on the part of the Commission appears warranted. In most cases the staff also reviews the complete NASD file in such matters to determine whether the evidence there available indicates violations of the Federal securities laws which require enforcement action by the Commission. In 48 cases complaints were directed solely against member firms, while in 54 other cases the complaints included members and also 78 registered representatives of such members. One complaint was withdrawn prior to determination on the merits and, after consideration, 16 other complaints were dismissed on findings that alleged violations had not, in fact, occurred. In the remaining 85 cases the committees having jurisdiction found violations and in each of these cases some penalty was imposed on the firm and/or the registered representatives involved.

In 8 proceedings members were expelled, and in 6 proceedings members were suspended for periods ranging from 15 days to 1 year. In addition, the registration of 17 registered representatives was revoked and 7 other representatives were suspended for periods ranging from 30 days to 1 year. In 16 cases the only penalty imposed was censure of the firm or the representative found to have acted improperly, and 1 case was disposed of by acceptance of a statement pledging future compliance with the Rules of Fair Practice.

In 48 of the remaining cases members were fined sums ranging from $100 to $4,350, and aggregating $32,500, while in other instances representatives were fined sums ranging from $50 to $1,000, and aggregating $2,300. In addition to these direct monetary penalties, costs were assessed on firms or representatives in 55 instances. These costs ranged from $18.24 to $6,830.11, and aggregated $37,247.57. Many decisions involved multiple penalties so that, for example, a fine or a suspension, or both, was accompanied by the imposition of costs.

Commission Review of NASD Disciplinary Actions

Section 15A (g) of the Act provides that disciplinary actions by the NASD are subject to review by the Commission on its own motion or on the application of any aggrieved party. The effectiveness of any penalty imposed by the Association is stayed pending determination of any matter brought before the Commission for review. One such petition referred to in an earlier report was pending at the close of the last fiscal year, and three other petitions were filed during the year. Two of these cases were disposed of during the year and two were pending at the year end.[22]

The Commission affirmed a decision by the NASD which resulted in the expulsion from the Association of *Mitchell Securities, Inc.*,[23] a Baltimore broker-dealer. The NASD's District Business Conduct Committee found that Mitchell violated the NASD Rules of Fair Practice by selling securities to customers at prices which were not fair in view of all relevant circumstances, this being conduct inconsistent with just and equitable principles of trade, and suspended Mitchell from NASD membership for 6 months, imposed a $2,000 fine, and assessed costs of $744.40. Upon appeal by Mitchell to the NASD Board of Governors, the latter also found a violation of the Rules of Fair Practice but concluded that the penalty imposed by the committee was too lenient and expelled Mitchell from membership. Mitchell thereupon appealed to the Commission, which affirmed the NASD action and dismissed the appeal.

The NASD's action was based on 55 sales of Trans Western Oil & Gas Co. common stock effected by Mitchell acting as principal, involving a total of 26,000 shares effected at prices ranging from 75 cents to $1.50 per share, for an aggregate price of $24,950. The Commission found that in 12 of the transactions the per share price Mitchell charged its customers exceeded the price paid by Mitchell for the shares bought by it on the same day from other customers or dealers by amounts ranging from 31.6 to 75 percent; and in the remaining 43 transactions the per share price charged the customer

[22] The two pending cases concerned petitions filed on behalf of Managed Investment Programs (File 16-1A59) and Lerner & Co. (File 16-1A62).

[23] Securities Exchange Act Release No. 5320 (June 6, 1956).

exceeded the high asked price quoted by other dealers on the dates of the transactions by amounts ranging from 10 to 59 percent. The average markup in the 55 transactions was 34.9 percent.

The Commission rejected arguments advanced by Mitchell in support of the validity of its markups, stating that they were clearly excessive by any reasonable criteria and found, contrary to Mitchell's contentions, that it had not performed any special services in the interest of the customers or assumed risks in maintaining an inventory which would warrant such large markups.

The Commission also affirmed an NASD decision against *Phillips & Co.*, a New York broker-dealer firm and its principal partner, Gerald G. Bernheimer.[24] The NASD action appealed from involved the suspension of the Phillips firm from NASD membership for 2 years and an assessment against the firm of the full costs of the proceedings.

According to the Commission's decision, the proceedings were initiated by the NASD Business Conduct Committee on complaints of three customers to the effect that Bernheimer, knowing their limited financial circumstances, urged them to purchase stock of Quebec Oil Development, Ltd., "on the basis of representations as to future price increases of the stock and a promise, which he subsequently repudiated, that he would guarantee them against loss." Although the committee found that the existence of a formal guarantee against loss had not been established, it concluded that Bernheimer had accompanied his solicitations of the complainants with "extravagent representations and glowing promises" which induced them to believe that a profit would certainly accrue to them if they made the purchases, and that he knew that prior sales to their customers had depleted their cash reserves so that the purchase of additional securities he suggested was not suitable on the basis of their financial situation. The committee censured the firm, suspended it from membership for 1 year, and assessed it with $506.10 costs. On appeal, the NASD Board of Governors suspended the firm from membership for 2 years and assessed it with full costs of the proceedings.

Commission Review of Action on Membership

Section 15A (b) of the Exchange Act and the bylaws of the National Association of the Securities Dealers, Inc., provide that except where the Commission approves or directs to the contrary, no broker or dealer may be admitted to, or continued in, membership if he or any controlling or controlled person is expelled or is currently under suspension from such an Association for violation of a rule prohibiting conduct inconsistent with just and equitable principles of trade or

[24] Securities Exchange Act Release No. 5294 (April 19, 1956).

is subject to an order of the Commission denying or revoking his broker-dealer registration or was a "cause" of any such order of expulsion, current suspension or denial or revocation. At the beginning of the fiscal year two such cases were pending before the Commission and during the year three additional cases were brought before the Commission. One of the cases was disposed of during the year and four were pending at the year end.

In the exercising of its authority the Commission approved [25] an application for the continuation in membership of a firm while employing Lowell Niebuhr, who was under a disqualification, having been expelled by the NASD on findings that Lowell Niebuhr & Co., which Niebuhr controlled, had operated with insufficient capital and otherwise violated various NASD rules. The Commission had earlier in 1947 approved another member's continuance in membership while controlling Niebuhr. Niebuhr's association with that member had terminated and he sought new employment requiring further Commission consideration and approval.

Commission Action on NASD Rules

Section 15A (j) of the Act provides that any change in, or addition to, the rules of a registered securities association shall be disapproved by the Commission unless such change or addition appears to the Commission to be consistent with the requirements for such rules as contained in subsection 15 A (b) of the Act.

Section 2 of article I of the bylaws of the NASD has operated to disqualify from membership, or association with a member in a controlling or controlled capacity, persons under any of the disqualifications set out in 15A (b) (4) of the Act. After adoption by the Board of Governors, and approval by the membership, three new subsections were added, effective November 15, 1955, creating barriers to membership or registration with the Association as registered representative against persons who are subject to an order canceling or revoking registration as registered representative with the Association, or with any stock exchange for conduct contrary to high standards of commercial honor or just and equitable principles of trade or who have been convicted within the preceding 10 years of a felony or misdemeanor involving securities transactions or arising out of the conduct of the business of a broker or dealer or convicted within the preceding 10 years of any felony or misdemeanor which the Association finds involved embezzlement, fraudulent conversion, misappropriation of funds, or abuse or misuse of a fiduciary relationship. Jurisdiction for these restrictions is based on section 15A (b) (3) of the Act. As provided in section 15A (b), the Commission may be called on to determine whether it should approve or direct the admission to or con-

[25] Securities Exchange Act Release No. 5271.

tinuance in Association membership of a firm controlling or controlled by a person under one or more of these disqualifications.

The Association also adopted, effective June 1, 1956, after requisite action by the Board of Governors and the membership, a new section 2 (b) of article I of the bylaws which would require any person seeking membership or registration as registered representative in any 1 of 4 categories, including a sole proprietor, a general partner, an officer or any controlling or controlled person requiring registration as a representative to meet standards of technical proficiency in, and knowledge of the securities business. Qualification is achieved either by a minimum of 1 year's experience in the business in one of the capacities specified above or by passing a written examination as prescribed by the Board of Governors.

As part of this board program of creating competency standards for those who engage in the securities business, a qualifying examination was established. The nature and scope of the qualifying examination is established by schedule C, filed by the Association as an amendment to its registration statement. The amendment also prescribes the manner in which the examination shall be marked, the passing grade and the times, intervals and places at which it shall be given, and provides that a particular examination shall consist of 100 questions taken from the master list of 344 questions included in the filing.

In its consideration of the rules establishing competency standards the Commission found the proposed restrictions "necessary and appropriate in the public interest or for the protection of investors and to carry out the purposes of the section" (15 A (b) of the Act) and permitted the rules to become effective.

The Association also adopted various other amendments to its rules during the year here under review which were in the main technical, or concerned only members and not the investing public, or were designed to modernize and conform the then existing rules to methods, practices and circumstances now existing in the securities industry.

LITIGATION UNDER THE SECURITIES EXCHANGE ACT OF 1934

As a protective measure for the public the Commission is authorized to institute actions in the courts to enjoin broker-dealers and other persons from engaging in conduct violative of the Securities Exchange Act of 1934. Some of the actions brought as a result of such violations also include violations of other acts administered by the Commission.

In *S. E. C.* v. *Trevor Currie* [26] defendant, a registered broker-dealer, was permanently enjoined from further violations of the antifraud

[26] D. Colo. No. 5268 (January 19, 1956).

provisions of the Securities Act of 1933 and the antifraud provisions and bookkeeping requirements of the Securities Exchange Act of 1934. The complaint charged, among other things, that the defendant, in connection with his acceptance of brokerage orders from customers for the purchase of securities, falsely represented that he had purchased such securities for their accounts and omitted to disclose to the customers the source and amount of certain remuneration which he had received or expected to receive in connection with those transactions. The defendant consented to the entry of a judgment against him.

In S. E. C. v. *Harold L. Nielsen, doing business as Nielsen Investment Co.*,[27] a preliminary injunction was issued against the defendant to enjoin further violations of the registration and antifraud provisions of the Securities Act, the antifraud and bookkeeping provisions of the Securities Exchange Act and the net capital rule under the latter Act. The Commission charged the defendant with selling securities while insolvent without disclosing his financial condition to customers, and failing to deliver securities paid for by his customers or returning the purchase price to them.

The Commission obtained injunctions against the defendants in *S. E. C.* v. *Glenn Galen Kolb, individually and doing business as Glenn Kolb & Co.*;[28] *S. E. C.* v. *Doxey-Merkley & Co., William H. Doxey and Lon Babcock Merkley*;[29] *and S. E. C.* v. *Robert Dean Langlois, doing business as R. D. Langlois and Company*[30] restraining further violations of the Commission's rules pertaining to required net capital. In each case the defendants consented to the issuance of a permanent injunction.

In *S. E. C.* v. *National Securities, Inc., and Robert S. Herman*[31] the complaint alleged that the defendants had been soliciting and accepting orders for the purchase and sale of securities and had been soliciting and accepting the deposit of money and securities upon the representation that the defendant corporation was ready and able to execute such orders and meet its liabilities when in fact the defendant corporation had been unable to meet its current liabilities. By consent the defendants were enjoined from further violations of the antifraud provisions of the Securities Exchange Act and of the Commission's net capital rules.

A permanent injunction against further violation of the antifraud provisions of the Securities Exchange Act and the Commission's bookkeeping rules was also issued against *Daniel M. Sheehan, Jr., doing business as Sheehan & Co.*[32] by consent. The Commission's

[27] D. Idaho No. 3204-S. (November 16, 1955.)
[28] D. Colo. No. 5220. (December 16, 1955.)
[29] D. Utah No. C-165-55. (January 13, 1956.)
[30] D. Utah No. C-132-55. (December 6, 1955.)
[31] D. Utah No. C-129-55. (November 10, 1955.)
[32] D. Mass. No. 55-972-M. (October 31, 1955.)

complaint charged that the defendant has been soliciting and accepting the deposit of monies and securities from customers and representing that he was ready and able to execute orders and make prompt settlement therefor without disclosing that he was unable to meet his current liabilities. The Commission also charged that the defendant had not kept current the required books and records relating to his business as a broker-dealer.

In addition to these actions against broker-dealers, the Commission obtained an injunction against *William H. Van Loo* [33] for violations of the antifraud provisions of the Securities Exchange Act. Defendant obtained a list of registered shareholders of a particular company by representing that he was in the business of tracing the whereabouts of security holders whom the issuing companies were unable to contact and sought to acquire the securities from persons named on the stockholders' list, or their heirs or beneficiaries, representing that their shares were worth considerably less than the prevailing market price. Defendant represented that the securities had a small liquidation value when the company had never been in the process of liquidation, and that the deadline for an exchange of the securities for other securities had passed when no exchange had ever been authorized or put into effect. He also misrepresented the amount of stock registered in the names of certain deceased persons whose certificates were lost or destroyed, and caused the names of deceased persons who had been the registered owners of the securities to be signed on stock powers purporting to assign their rights and interests therein to himself. The defendant consented to the issuance of a permanent injunction.

Proxy Litigation

One of the most important cases successfully litigated by the Commission under the Securities and Exchange Act during the past fiscal year involved enforcement of the Commission's proxy rules. The Commission does not attempt to guide, control or interfere in the strategy employed by participants in a proxy contest and scrupulously maintains a neutral position in these contests. However, the Commission does scrutinize objectively and impartially the proxy material filed with it for the purpose of enforcing the standards of fair and adequate disclosure to investors which are the primary objectives of the Federal securities laws. The objective of the proxy regulations is to obtain for investors and stockholders a fair and complete statement of material facts and to prevent the dissemination to them of false and misleading statements. Where necessary the Commission is authorized by the Act to seek injunctive relief in the Federal courts to enforce these objectives. A complaint seeking such injunctive relief

[33] W. D. Mich. No. 2835 (December 8, 1955).

was filed by the Commission on August 3, 1955, in the United States District Court (S. D. N. Y.) against *Mitchell May, Jr., Alfred Parry, Jr., and Wilbur E. Dow, Jr., individually and as members of the Independent Stockholders Committee of Libby, McNeill & Libby,* charging that the defendants had been soliciting proxies from the stockholders for the election of directors at the meeting scheduled to be held on August 17, 1955, in violation of the Commission's proxy rules. The complaint charged, among other things, that the defendants failed to disclose all the names of persons on whose behalf the solicitation was being made and in their representations concerning the formation and membership of the committee the defendants failed to state the circumstances leading up to the formation of the committee and the identity and purpose of the individuals who sponsored and underwrote the activities of the committee. The complaint also alleged that the material sent to stockholders by the committee was materially false and misleading in that it contained misleading questions which improperly implied: (1) that the company did not make full disclosure of its operations to its stockholders, (2) had withheld a proper accounting for a portion of the 1954 period and (3) that the management was guilty of improper manipulation or mismanagement of corporate funds.

On August, 15, 1955, Circuit Judge Lumbard, sitting by designation as a district judge, filed his opinion sustaining our allegations[34] and on the following day Judge Lumbard entered a preliminary injunction enjoining the defendants from making further solicitations in violation of the proxy rules and from using the proxies they had obtained, and ordered postponement of the stockholders' meeting until September 7, 1955, to permit defendants to solicit new proxies in compliance with the proxy regulation if they so desired. The defendants, who did not resolicit, appealed to the United States Court of Appeals for the Second Circuit and, in connection therewith and prior to the stockholders' meeting, made unsuccessful applications first to Chief Circuit Judge Clark and then to Supreme Court Justice Harlan for a stay of Judge Lumbard's injunctive order. The meeting was held on September 7, 1955, at which time the management's slate was elected.

On January 11, 1956, the Court of Appeals for the Second Circuit affirmed Judge Lumbard's injunctive order.[35] Fully approving and adopting the "well-supported findings and conclusions of Judge Lumbard," the Court of Appeals held that the proxy rules were violated by the use of rhetorical questions in defendant's soliciting material which

[34] *S. E. C.* v. *May, et al.*, 134 F. Supp. 247 (S. D. N. Y. 1955). The complaint also alleged that the defendants (1) had presented a misleading statistical presentation of comparative earnings of the Libby Company and other food distributing companies and (2) had failed to disclose a plan to liquidate the company. Judge Lumbard held (1) that the statistics were a matter of argument and (2) that the evidence on the preliminary hearing was insufficient to sustain the liquidation allegation.

[35] *S. E. C.* v. *May, et al.*, 229 F. 2d 123 (1956).

were based on false assumptions and carried the previously stated false and misleading implications. Although these proceedings were brought under the Commission's proxy rules in effect prior to the January 1956 revision,[36] the court held also that the provision of the proxy rule calling for disclosure of every person on whose behalf the solicitation was being made required disclosure of those persons who were leading factors in the committee's formation and activities notwithstanding the fact that they were not technically designated committee members. The revised proxy rules now plainly spell out this requirement.[37] The court of appeals rejected as meritless defendants' attacks upon the constitutionality of section 14 (a) of the Securities Exchange Act of 1934 and the Commission's proxy regulation thereunder, including the contention that the rules provided for censorship in contravention of defendant's constitutional guarantee of free speech, stating:

> Appellants argue that § 14 (a) of the Securities Exchange Act of 1934, 15 U. S. C. § 78n (a), and regulations adopted thereunder are unconstitutional as unauthorized delegations of legislative power and otherwise; but these contentions have no merit. *American Power & Light Co.* v. *S. E. C.*, 329 U. S. 90; *Yakus* v. *United States*, 321 U. S. 414. Furthermore, the Commission's proxy rules as applied either to management or to insurgent stockholder groups are clearly authorized by the statute.

The Appellate Court also flatly rejected the argument advanced by the defendants that because of the apparent similarity of proxy contests to political campaigns, the various groups soliciting proxies should be permitted with comparative unrestraint to engage in the same type of "campaign oratory" as that of participants in a political contest. The court in refusing to accept this contention emphasized that "Congress has clearly entrusted to the Commission the duty of protecting the investing public against misleading statements made in the course of a struggle for corporate control." Thereafter defendants consented to the entry of a final judgment which made permanent the provisions of the preliminary injunction previously entered.

Inside Reporting Litigation

Section 16 (a) requires that every stockholder owning more than 10 percent of the stock of a corporation registered on an exchange and every officer and director thereof shall report his ownership and the monthly changes in that ownership to the Commission and the exchange. In the vast majority of cases, the required reports are filed promptly. On the rare occasions when the statutory requirement is flagrantly disregarded notwithstanding repeated reminders the Commission is compelled to seek court enforcement. During the past fiscal year, two such actions were brought. One was against

[36] For a discussion of these proxy regulation revisions, see pt., III, pp. 33-45.
[37] See rule X-14A-11 (b).

Samuel A. Alesker,[38] a director of ABC Vending Corp.; the other was against *William D. Vogel*, [39] a director of Wisconsin Bankshares Corp. Both actions are pending.

In *S. E. C.* v. *East Boston Co.*,[40] the Commission, on July 13, 1955, secured a summary judgment requiring defendant corporation to file annual reports for each of its fiscal years since 1948 with the Boston Stock Exchange and the Commission, as required by section 13 of the Securities Exchange Act, no later than November 1, 1955. The company thereafter asked the court to extend its time to file the required reports. The Commission countered with a petition asking that both defendant and its officers and directors be held in civil contempt of court. The court agreed with the Commission that the company was in contempt, but declined so to find as to the officers and directors. Annual reports for the delinquent years were thereafter filed with the Commission and the Exchange but upon examination the Commission found them to be inadequate, misleading and not in accord with its rules and regulations. The Commission again petitioned in contempt. On April 5, 1956, upon stipulation, the court ordered defendant to pay a fine of $3,000 to the Government as compensatory damages and to file corrected reports within 90 days. The fine has since been paid and amended reports were filed by June 18, 1956.

Participation as Amicus Curiae

In *Speed* v. *Transamerica Corp.*,[41] which was pending for decision at the close of the fiscal year, the Commission as *amicus curiae* filed a memorandum of law on the question of the materiality under rule X–10B–5 of the failure to disclose the asset value of stock purchased by a controlling majority stockholder from minority public stockholders and the majority stockholder's intent to liquidate the company. The Commission expressed the view that it could not properly be held, as a matter of law, that a great appreciation in the realizable asset value of such stock was not in itself a material fact which must be disclosed under the rule, wholly apart from proof of the controlling stockholder's intention at the time of the stock purchases with respect to the realization of that value. Nondisclosure of a great disparity between the price offered and the realizable asset value of the stock, our memorandum stated, is a fact entitled to independent consideration in the determination of materiality. The Commission also expressed the view that the intent on the part of the controlling stockholder to liquidate the corporation, whether or not such intent had been translated into corporate action at the time of the purchases in

[38] E. D. Pa. No. 20465 (April 3, 1956).
[39] E. D. Wisc. No. 56–C–89 (June 11, 1956).
[40] D. Mass. No. 54–438W (May 24, 1954).
[41] C. A. 3, No. 11836 (1956).

question, was required by the rule to be disclosed to minority shareholders whose stock was sought.

In *Nash* v. *J. Arthur Warner & Co., Inc.*,[42] judgment was entered for the defendants in a civil action for damages for overtrading or "churning" of certain customers' accounts in alleged violation of section 17 (a) of the Securities Act and sections 10 (b) and 15 (c) of the Securities Exchange Act and the Commission's rules under the latter sections. The judgment appears to have rested in large part on the court's conclusion of fact that the customers, rather than the securities firm involved, were responsible for the degree of activity in the accounts. At the request of the Court the Commission prepared and filed a brief as *amicus curiae* on several questions pertaining to the proper construction of the statutes and rules involved.

[42] 137 F. Supp. 615 (D. Mass. 1955). J. Arthur Warner & Co., Inc , et al were previously convicted as a result of a Commission investigation of violating the antifraud provisions of the Securities Act, the Mail Fraud and Conspiracy Statutes in connection with the fraudulent overtrading of customers accounts and also were enjoined from engaging in similar practices. See 21st Annual Report, p. 109.

PART VI

ADMINISTRATION OF THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

The Public Utility Holding Company Act of 1935 provides for three separate areas of regulation of holding company systems which control electric utility companies and companies engaged in the retail distribution of natural or manufactured gas. The first embraces those provisions of the Act, principally those in section 11 (b) (1), which require the physical integration of public utility and functionally related properties of holding company systems, and those provisions, principally section 11 (b) (2), which require the simplification of intercorporate relationships and financial structures of holding company systems. The second area of regulation covers financing operations of registered holding companies and their subsidiaries, acquisitions and dispositions of securities and properties, their accounting practices and servicing arrangements and intercompany transactions. The third area includes the provisions of the Act providing for exemptions, and those regulating the right of a person who is affiliated with a public utility company to acquire securities resulting in a second such affiliation.

COMPOSITION OF REGISTERED HOLDING COMPANY SYSTEMS—SUMMARY CHANGES

During 1956 two registered holding companies, Interstate Power Co.[1] and Wisconsin Southern Gas Co., Inc.,[2] disposed of their remaining subsidiaries by means of dissolution and merger and as a result their registrations as holding companies were terminated by orders of the Commission pursuant to section 5 (d) of the Act. As a consequence, there remained on June 30, 1956, 23 public utility holding company systems, controlling one or more electric or gas utility subsidiaries, which are subject to the regulatory provisions of the Act as registered systems. The aggregate assets of these systems as at December 31, 1955, less valuation reserves, amounted to $10,411 million. Included in these 23 systems were 27 registered holding companies of which 21 function solely as holding companies and 6 also function as operating companies plus 164 electric and gas utility subsidiaries, and 111 nonutility subsidiaries, a total of 302 companies. In two systems there are 2 registered holding companies each, and in another there are 3 registered holding companies. For convenience of discussion these 23 systems will be referred to as "active systems."

The following tabulation shows the number of holding companies, electric and gas utility companies and nonutility companies comprising the 23 active registered systems as at June 30, 1956, and their aggregate assets as of December 31, 1955.

[1] Holding Company Act Release No. 13039 (November 17, 1955).
[2] Holding Company Act Release No. 13015 (October 20, 1955).

Classification of Companies in Active Registered Holding Company Systems as of June 30, 1956

Active system	Solely registered holding companies	Registered holding-operating companies	Electric and gas utility subsidiaries	Non-utility subsidiaries	Total companies	Aggregate system assets, less valuation reserves, as at Dec. 31, 1955 (000,000 omitted)
1. American Gas and Electric Co	1		12	12	25	$1,071
2. American Natural Gas Co	1		2	4	7	514
3. Central Public Utility Corp	1		4	7	12	[1] 26
4. Central and South West Corp	1		6	0	7	495
5. Cities Service Co	1		1	40	42	[2] 1,095
6. Columbia Gas System, Inc., The	1		10	5	16	721
7. Consolidated Natural Gas Co	1		4	1	6	496
8. Delaware Power & Light Co		1	2	0	3	143
9. Eastern Utilities Associates	1		4	0	5	76
10. Electric Bond and Share Co	1		53	13	67	[3] 730
11. General Public Utilities Corp	1		8	4	13	677
12. Granite City Generating Co. (Vot. Tr.)	1		1	0	2	1
13. International Hydro-Electric System (Tr.)	2		2	1	5	[4] 31
14. Middle South Utilities, Inc	1		7	1	9	590
15. National Fuel Gas Co	1		4	6	11	155
16. New England Electric System	1		26	2	29	497
17. Ohio Edison Co		1	3	0	4	475
18. Philadelphia Electric Power Co		1	1	0	2	45
19. The Southern Co	1		4	4	9	880
20. Standard Shares, Inc	3		1	4	8	[5] 27
21. Union Electric Co		1	3	2	6	458
22. Utah Power & Light Co		1	1	0	2	184
23 West Penn Electric Co., The	1	1	12	7	21	457
Total companies all systems	21	6	171	113	311	9,844
Less: Adjustment to eliminate duplication in count resulting from five companies being subsidiaries, as defined in the Act, in two systems and two companies being subsidiaries, as defined in the Act, in three systems [6]			7	2	9	
Add: Adjustment to include assets of these 7 subsidiaries and to remove investments therein which are included in system assets above						567
Total companies in active systems	21	6	164	111	302	[7] 10,411

[1] Union Electrica de Canarias S. A., a 92.9 percent owned subsidiary, is included as an investment and not consolidated. Financial statements of this company expressed in United States dollars are not available.

[2] Total consolidated assets, less valuation reserves, of Cities Service Co and all of its subsidiaries amounted to $1,095 million at Dec 31, 1955 Cities' sole public utility subsidiary, Dominion Natural Gas Co., Ltd., had total assets, less valuation reserves, of $15 million on that date.

[3] Excludes Bond and Share's investment in its subsidiary, American & Foreign Power Co., Inc. (56-percent owned) which is not included in consolidation. For statistical purposes Foreign Power's consolidated assets, less valuation reserves, of $644 million have been combined with the assets of Bond and Share, adjusted, as before described.

[4] Pro forma as at Dec 31, 1955 Excludes consolidated assets of Gatineau Power Co. and subsidiaries which, after deducting valuation reserves, totaled $113 million at Dec. 31, 1955. IHES owns 18.8 percent of Gatineau's outstanding voting securities.

[5] Represents market value of the corporate assets of Standard Shares, Inc., at Sept. 30, 1955. Standard Shares owns 45.59 percent of the common stock of Standard Gas & Electric Co., a registered holding company, which in turn owns all of the common stock of Philadelphia Co., another registered holding company. Standard Shares, Standard Gas, and Philadelphia, together own 14.6 percent of the common stock of Duquesne Light Co., an electric utility subsidiary, as defined in the Act, whose total assets, less valuation reserves, amounted to $351 million at Dec 31, 1955. Philadelphia Co. owns 50 9 percent of the common stock of Pittsburgh Railways Co., a nonutility subsidiary whose total assets, less valuation reserves, amounted to $44 million at Dec. 31, 1955

[6] The 5 companies, each of which is a subsidiary, as defined in the Act, in 2 registered systems, are: Beech Bottom Power Co., Inc., and Windsor Power House Coal Co., each of which is owned 50 percent by the American Gas and Electric Co., system and 50 percent by The West Penn Electric Co. system; the Arkla-homa Corp., owned 32 percent by the Central & South West Corp. system, 34 percent by the Middle South Utilities, Inc., system and 34 percent by another electric utility company not associated with a registered system; Electric Energy, Inc., owned 10 percent by Middle South Utilities, Inc., system, 40 percent by Union Electric Co. system, and 50 percent by 3 electric utility companies not associated with registered systems; and Mississippi Valley Generating Co., owned 79 percent by Middle South Utilities, Inc., system and 21 percent by The Southern Co. system. The 2 companies, each of which is a subsidiary, as defined in the Act, in 3 registered systems, are· Ohio Valley Electric Corp., owned 37.8 percent by American Gas and Electric Co. system, 16.5 percent by Ohio Edison Co. system, 12.5 percent by The West Penn Electric Co. system and 33.2 percent by 7 electric utility companies not associated with registered systems, and Indiana-Kentucky Electric Corp., a wholly owned subsidiary of Ohio Valley Electric Corp.

[7] Includes assets of all subsidiaries, as defined in the Act, of registered holding companies where 50 percent or more of the voting securities of such subsidiaries are owned in the aggregate by 1 or more registered systems, with 2 exceptions, see 1 and 5 above

On June 30, 1955, there were 25 active registered systems, the aggregate assets of which, less valuation reserves, were $9,972 million as at December 31, 1954. Included in these systems, were 30 registered holding companies of which 23 functioned solely as holding companies and 7 also functioned as operating companies plus 168 electric and gas utility subsidiaries and 136 nonutility subsidiaries, a total of 334 companies. In each of 3 systems there were 2 registered holding companies, and in a third system there were 3 registered holding companies.

During 1956 active registered systems divested themselves of 2 gas utility subsidiaries with aggregate assets of $2.9 million and 7 nonutility subsidiaries with assets of $11.3 million. Three additional utility subsidiaries and 20 nonutility subsidiaries were merged into other system companies. These and other changes bringing about the net decrease of 32 in the number of companies comprising active registered systems during the fiscal year are summarized in the table below. Details of changes occurring in each system are set forth in appendix table 10.

Summary of changes in the composition of active registered public utility holding company systems, 12 months ended June 30, 1956

	Solely registered holding companies	Registered holding-operating companies	Electric and gas utility subsidiaries	Nonutility subsidiaries	Total companies
Companies in 25 active registered holding company systems—June 30, 1955	23	7	168	136	334
Additions during fiscal year 1956:					
Going concerns acquired				1	1
New companies organized			1	3	4
Total companies associated with active systems during fiscal year 1956	23	7	169	140	339
Deductions.					
Companies divested by holding companies; no longer subject to Act			2	7	9
Companies dissolved	1			1	2
Companies absorbed in mergers or consolidations			3	[1] 20	23
Companies converted from status of registered holding companies or subsidiaries thereof to status of exempt holding company systems or other status not associated with registered systems	1	1		1	3
Companies in 23 active registered holding company systems—June 30, 1956	21	6	164	111	302

[1] This reflects a reduction from the previous year in the number of nonutility subsidiaries reported by Cities Service Co., a registered holding company, in its Annual Report on Form U5S. Since the normal operations of the industrial subsidiaries of Cities Service are exempt from the provisions of the Holding Company Act pursuant to rule U-3D-15 thereunder, notification as to the manner of elimination or disposition of these 20 companies has not been received. Published reports concerning the system reveal no record of sales of any of these 20 companies to other persons. Accordingly, it has been assumed that they were eliminated through merger or consolidation.

The maximum number of companies subject to the Act as components of registered holding company systems at any one point of time was 1,620 in June 15, 1938. Since that date additional systems registered, with the result that 2,314 companies have been subject to the Act as registered holding companies and subsidiaries thereof

throughout the entire period from June 15, 1938 to June 30, 1956. Included in this total were 216 holding companies (solely holding companies and operating-holding companies), 998 electric and gas utility companies and 1,100 non-utility enterprises. From June 15, 1938 to June 30, 1956, 2,012 of these companies have been released from the active regulatory jurisdiction of the Act or have ceased to exist as separate corporate entities. Of this number 916 companies with assets aggregating approximately $14.9 billion as at their respective dates of divestment, have been divested by their respective parents and are no longer subject to the Act as components of registered systems.[3] The balance of 1,096 companies includes 765 which were released from the regulatory jurisdiction of the Act as a result of dissolutions, mergers and consolidations,[4] and 331 companies which ceased to be subject to the Act as components of registered systems as a result of exemptions granted under sections 2 and 3 of the Act and deregistrations pursuant to section 5 (d) of the Act.[5]

DEVELOPMENTS IN ACTIVE REGISTERED SYSTEMS

Among the significant corporate developments of registered systems have been the organization of new companies, divestments of subsidiaries, dispositions of nonretainable properties by operating subsidiaries, acquisitions by systems of additional subsidiaries, and, as previously indicated, the deregistration of certain holding company systems. Following is a discussion of each registered system in which there occurred during 1956 important corporate changes other than financing transactions which are treated in a separate section of this report at page 148 below.

American Gas and Electric Co.

This registered holding company and its 24 subsidiaries with consolidated assets, less valuation reserves, of $1,071 million at December 31, 1955, constitutes the largest registered holding company system subject to the provisions of the Act. American Gas owns a 37.8 percent interest in one of its subsidiaries, Ohio Valley Electric Corp.[5a] and the latter's wholly owned subsidiary, Indiana-Kentucky Electric Corp., which 2 companies have placed in operation 2 electric

[3] The 916 companies consist of 283 electric utility companies with assets of $10.5 billion, 180 gas utility companies with assets of $2.0 billion and 453 holding companies and nonutility enterprises with assets of $2.4 billion. These totals include companies which remained subject to the Act as components of registered systems immediately following their divestment and which subsequently were released from the regulatory jurisdiction of the Act as a result of exemptions, deregistrations, or other changes in status.

[4] Includes 104 registered holding companies (solely holding companies and operating-holding companies), 281 electric and gas utility companies and 380 nonutility companies.

[5] Includes 69 registered holding companies (solely holding companies and operating-holding companies), 96 electric and gas utility companies and 166 nonutility companies.

[5a] Nine other sponsor-companies own the remainder of the common stock of Ohio Valley: West Penn Electric Company and Ohio Edison Company, both of which are registered holding companies; The Cincinnati Gas & Electric Co., Kentucky Utilities Co. and Louisville Gas and Electric Co., all of which are public utility operating companies and also exempt holding companies; and Columbus and Southern Ohio Electric Co., The Dayton Power and Light Co., Southern Indiana Gas and Electric Co. and The Toledo Edison Co., all of which are public utility operating companies, not subsidiaries of any holding companies.

generating stations with combined capability of 2,365,000 kilowatts.[6] Almost all the output of these plants will be delivered under contract to an installation of the Atomic Energy Commission.[6a] The American Gas and Electric system provides electric utility service in more than 2,321 communities in Virginia, West Virginia, Tennessee, Ohio, Indiana, and Michigan having an aggregate population of approximately 4,836,000.

In a proposal approved by the Commission on July 26, 1956,[7] Appalachian Electric Power Co., a system company, acquired the assets and assumed the liabilities of Flat Top Power Co., another subsidiary of American Gas, with Flat Top being subsequently liquidated. In connection with the transaction, Appalachian issued 10,000 shares of it common stock to Flat Top, which upon its dissolution transferred the shares to American Gas.[8]

Cities Service Co.

Cities Service Co., which is a holding company controlling a large integrated petroleum production, refining and marketing organization, is also a registered holding company, having one public utility subsidiary, Dominion Natural Gas Co., Ltd. As at December 31, 1955, the system had consolidated assets, less valuation reserves, of $1,095 million of which Dominion Natural Gas accounted for $15 million.

With respect to a consolidated proceeding, described at page 57 of the 21st Annual Report, involving an exemption application filed by Cities pursuant to section 3 (a) (5) of the Act and a section 11 proceeding pertaining to the elimination of a publicly held 48.5 percent minority interest in its subsidiary, Arkansas Fuel Oil Corp. (Arkfuel), the Commission on August 31, 1956 denied the exemption application, holding, among other things, that the existence of the public minority interest constitutes a complexity and results in an inequitable distribution of voting power in violation of the Act, that it would be detrimental to the interest of investors to grant Cities the requested exemption, and that Cities and Arkfuel must within a reasonable time submit a program of compliance with the Act to effect either the elimination of the minority interest or the disposition by Cities

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[6] Two other subsidiaries are owned 50 percent each by a subsidiary of American Gas and by West Penn Power Co., a subsidiary of West Penn Electric Co., another registered holding company.

[6a] In its Findings and Opinion and Order (Holding Company Act Release No. 11578 dated November 7, 1952) authorizing the acquisitions of the common stock of Ohio Valley Electric Corporation by 6 of the 10 sponsor-stockholder companies and the acquisition by Ohio Valley of all the common stock of its wholly owned subsidiary, Indiana-Kentucky Electric Corporation, the Commission reserved jurisdiction to consider at a later date (1) the issues under section 10 of the Act raised by these acquisitions and (2) the questions presented under section 13 of the Act with respect to the performance of services for Ohio Valley and its subsidiary, Indiana-Kentucky, by American Gas and Electric Service Corporation, a subsidiary of American Gas and Electric Company, one of the sponsor-stockholder companies. On November 19, 1956, the Commission issued its Notice and Order directing the reopening of the proceeding. (Holding Company Act Release No. 13312).

[7] Holding Company Act Release No. 13234.

[8] Holding Company Act Release No. 13220 (Notice of Filing) July 10, 1956.

of its 51.5-percent interest.[9] On October 29, 1956, Cities filed a petition with the United States Court of Appeals for the Second Circuit seeking a review of the Commission's order pursuant to section 24 (a) of the Act.[10]

A petition filed by Reynolds Metals Co., in the United States Court of Appeals for the District of Columbia Circuit to review an order of the Commission approving the sale by Cities of its holdings of 51.5 percent of the common stock of Arkansas-Louisiana Gas Co. (Arkla) to W. R. Stephens Investment Co. which is described in the 21st Annual Report, was dismissed on the ground that the issues had been mooted.[11]

The Commission reexamined, pursuant to section 3 (c) of the Act, an exemption previously granted to W. R. Stephens Investment Co., Inc., under section 3 (a) (4) of the Act. The exemption was predicated, among other things, on an understanding that W. R. Stephens Investment Co. would distribute the Arkla common stock it had acquired and that prior to the distribution it would cause Arkla to transfer its natural gas and oil properties to a company to be newly organized, and to distribute to its stockholders the stock of the new company which it would receive for its properties, and that the Stephens Co. would sell to a nonaffiliated interstate pipeline company the capital stock of the new company that it would receive as a stockholder of Arkla. The facts developed at the current hearing indicate that the Stephens Co. proceeded with its plans to dispose of Arkla's properties until it learned that the proposed disposition would be taxable to the stockholders of Arkla as an ordinary dividend. At this point it abandoned the proposal. Accordingly, the Commission determined in an order dated March 30, 1956, to modify the exemption order so that, *inter alia*, in the event Arkla or Stephens Co. take any action which would require the filing of an application or declaration, if the former were a subsidiary of and the latter a registered holding company, they are required to give the Commission timely written notice of such proposal in order that the Commission may determine whether an application or declaration shall be filed with respect thereto.[12] Within recent weeks Stephens Co. has renewed its efforts to sell its holdings of Arkla stock.

The Columbia Gas System, Inc.

The Columbia Gas System, Inc., a holding company controlling 14 operating subsidiaries and a subsidiary service company, had consolidated assets, less valuation reserves, totaling $721 million as at December 31, 1955.

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[9] Holding Company Act Release No. 13254.

[10] *Cities Service Company* v. *S. E. C.* (C. A. 2, Civil Action No. 24371).

[11] *Reynolds Metals Company* v. *S. E. C.*, unreported (C. A. D. C., Civil Action No. 12,530, January 11, 1956).

[12] Holding Company Act Release No. 13142.

Certain subsidiaries produce and sell gasoline and other hydrocarbons and one subsidiary produces and sells oil. Retail natural gas operations are conducted in the States of Ohio, Pennsylvania, West Virginia, Kentucky, New York, Maryland, and Virginia. Service is provided to 1,303,601 customers. In addition, subsidiaries conduct an extensive wholesale business, selling natural gas to nonaffiliated public utility companies for resale to their customers.

The subsidiaries obtain their natural gas supplies partially from gas produced or purchased in the Appalachian area and partially from gas which is purchased from southwest pipeline companies or which is purchased from southwest producers and transported by southwest pipeline companies. The subsidiaries have extensive underground gas storage facilities located in the Appalachian area.

Columbia has filed a motion, on which hearings have been held, requesting that the Commission find Columbia and its subsidiaries to be in conformity with the standards of section 11 (b) (1) of the Act, and that the jurisdiction heretofore reserved in an order dated November 30, 1944,[13] be released. The Commission convened a hearing, which has been held, and in its notice thereof [14] specified 7 issues to be considered all relating to the general question of whether 6 subsidiary companies, namely, Atlantic Seaboard Corp. and Home Gas Co., both gas transmission companies, and Amere Gas Utilities Co., Virginia Gas Distribution Corp., The Keystone Gas Co., Inc., and Binghamton Gas Works, all gas utility companies, are either retainable as parts of Columbia's gas utility system or as one or more additional retainable public utility systems, and whether the nonutility businesses of these companies are retainable as being reasonably incidental or economically necessary or appropriate to the operations of the principal or any additional retainable system, as the case may be.

Eastern Utilities Associates

Eastern Utilities Associates is a holding company organized in the form of a voluntary association under the laws of Massachusetts. It has three direct public-utility subsidiary companies, Blackstone Valley Gas & Electric Co., Brockton Edison Co. and Fall River Electric Light Co. These three subsidiary companies jointly own an electric generating subsidiary, Montaup Electric Co. The system operates in the States of Rhode Island and Massachusetts. It serves 170,935 customers with electric utility service and has 48,070 gas customers. Consolidated assets of the system as at December 31, 1955, less valuation reserves, totaled $76 million.

The corporate simplification proceedings respecting the system before the Commission and the courts were reported in the 18th Annual Report, page 93, and the 19th Annual Report, page 57. On

[13] 17 S. E. C. 494.
[14] Holding Company Act Release No. 13070 (December 27, 1955).

April 4, 1950, the Commission, with the company's consent, ordered EUA to cause the disposition of the gas properties owned by Blackstone Valley Gas & Electric Co. ("Blackstone").[15] On July 10, 1951, a year's extension was granted.[16] On April 18, 1952, the Commission approved EUA's plan filed under section 11 (e) of the Act which, in brief, provided for the reclassification of its then outstanding common and convertible shares into a single class of common shares and the refinancing of a substantial portion of its bank debt.[17] Although the plan did not propose the disposition of the gas properties of Blackstone, it provided that EUA would cause such disposition to be accomplished in an appropriate manner. At the request of EUA the Commission, by letter dated July 17, 1952, advised the company that it did not intend to insist upon the disposition of Blackstone's gas properties prior to January 1, 1955, if the earnings from such property were necessary to enable the company to pay dividends of between $2 and $2.20 per share on its common stock. Subsequently EUA was able to increase its dividends from $2 to $2.20 per share without dependence upon the gas property earnings.

Plans for compliance with the Commission's 1950 divestment order have been the subject of conferences between the Commission's staff and EUA representatives and such plans have been facilitated by the adoption by the Rhode Island Legislature of a special act permitting the incorporation of a new company to hold the gas properties.[18]

Electric Bond and Share Co.

Electric Bond and Share Co., which no longer holds as much as 5 percent of the outstanding voting securities of any domestic electric or gas utility company, had total assets, less valuation reserves, of $127 million at December 31, 1955. This amount includes its investment in its 56 percent owned subsidiary, American & Foreign Power Co., Inc., which had consolidated assets, less valuation reserves, of $644 million on that date.

Electric Bond and Share Co. has made application for exemption pursuant to section 3 (a) (5) of the Act, which is described at page 60 of the 21st Annual Report. The presentation by Bond and Share of its direct case has been completed. This consisted of the production of witnesses as representatives of Bond and Share, Ebasco Services, Inc. and United Gas Corp., a former subsidiary of Bond and Share. The testimony of these witnesses, accompanied by the production of many exhibits, has been completed. Cross-examination by Commission counsel and by counsel for the intervenors has also been com-

[15] 31 S. E. C. 329.
[16] Holding Company Act Release No. 10663.
[17] Holding Company Act Release No. 11625.
[18] Special Act of the Rhode Island General Assembly, January 1956 session (S-325 "Substitute A") approved May 2, 1956.

pleted. The principal issues being considered in this proceeding relate to the possible retention of control over, or the absence of arm's-length bargaining with respect to the negotiations with and the performance of services for, public-utility holding companies and public-utility companies, which formerly were subsidiaries of Electric Bond and Share Company, by Ebasco Services, Inc., a wholly owned subsidiary service company.

These issues, which relate to the possible existence of affiliation between the companies and to the possible exercise of a controlling influence by Bond and Share through Ebasco over certain holding companies and public utility companies in the absence of stock ownership and interlocking directorships, are complex. Preparation of the case has required concentrated analysis of a vast amount of details concerning the operations of both Ebasco and certain of its client companies in order to evaluate the relationships between the two. Because of the long period of close association between those clients and the Bond and Share System, which formerly were indirect subsidiaries of Bond and Share, examination of the problem cannot be limited to present day operations, but must of necessity involve careful analysis of changes in operating methods and relationships extending over a period of several years.

General Public Utilities Corp.

General Public Utilities Corp. (GPU) is the top holding company of an electric utility system with consolidated assets, as of December 31, 1955, less valuation reserves, totaling $677 million. As a result of a merger undertaken in the past fiscal year, the number of domestic public-utility subsidiaries in the system was reduced from 7 to 6 and one wholly owned subsidiary registered holding company, through which GPU controlled 1 domestic and 2 foreign subsidiaries, was dissolved during the year. GPU has 2 subsidiaries operating in the Philippine Islands. The system renders electric utility service to 937,180 customers located in more than 1,350 communities in the States of Pennsylvania and New Jersey and to 267,738 customers in the Philippine Islands.

The Commission approved a joint application-declaration filed by GPU and certain system companies requesting that the Commission modify its order dated December 28, 1951, [19] issued pursuant to section 11 (b) (1) of the Act to enable GPU to retain its subsidiary, Northern Pennsylvania Power Co., and the latter's subsidiary, the Waverly Electric Light & Power Co., with North Penn being merged with Pennsylvania Electric Co. (Penelec).[20] The Commission modified its order because of the construction, subsequent to the divestment order, of a transmission line across North Penn's entire service

[19] 32 S. E. C. 807.
[20] Holding Company Act Release No. 13116 (March 2, 1956).

area from east to west which connected with the lines of Penelec, a retainable subsidiary in GPU's principal system, so that the properties of North Penn had become an integral part of the interconnected and coordinated properties of the GPU system. To avoid the "great grandfather" relationship prohibited by the second sentence of section 11 (b) (2), which would have arisen as a consequence of the merger by the interposition of two intermediate holding companies (Associated Electric Co. and Penelec) between GPU and Waverly, GPU and Associated Electric Co. requested, and was granted, authority to liquidate the latter company and to transfer its assets to GPU, subject to GPU's assumption of the companies' liabilities. These assets consisted principally of all the outstanding common stock of Penelec, all of the outstanding stock and $4 million principal amount of debentures of Manila Electric Co. and all of the outstanding securities of Escudero Electric Service Co., the latter two companies being public-utility companies operating in the Republic of the Philippines.[21]

Another significant development occurred with respect to the retention by GPU of its two public utility subsidiary companies in the Republic of the Philippines with respect to which a section 11 (b) (1) divestment order, originally issued by the Commission in 1942, suspended in 1945 and reinstated on December 28, 1951. Legislation enacted in the 84th Congress permits GPU to retain these properties. This legislation is discussed in detail under the heading "Legislative Activities," at page 17 of this report.

International Hydro-Electric System

International Hydro-Electric System ("IHES") is a registered holding company which, as a result of completion of the various steps required to bring the system into compliance with the standards of section 11 (b) of the Act, has reduced its public utility interests to 18.8 percent of the outstanding common stock of Gatineau Power Co., a Canadian electric utility company. In 1944, Bartholomew A. Brickley was appointed trustee of the system pursuant to section 11 (d) of the Act by the United States District Court for the District of Massachusetts. Various steps taken by the trustee to effect compliance with the provisions of section 11 (b) of the Act have been described in previous Annual Reports.[22] As at December 31, 1955, the assets of IHES were carried on its books at a total of $57 million. It is expected that this book figure will be revised to an amount approximating the current market value of the company's portfolio assets (now about $31 million including cash) upon conversion of the company to the status of a registered investment company. The consolidated assets of IHES's only public utility subsidiary, Gatineau

[21] Holding Company Act Release No. 13117 (March 2, 1956).

[22] 15th Annual Report, p. 106; 16th Annual Report, p 74; 17th Annual Report, p 82, 18th Annual Report, p. 95; 19th Annual Report, p. 60; 20th Annual Report, p. 58; and 21st Annual Report, p. 62.

Power Co. and its subsidiaries, less valuation reserves, totaled $113 million as of the same date.

During the fiscal year the Commission issued its Findings and Opinion [23] and Order [24] approving a section 11 (e) plan filed by the Interim Board of Directors of IHES providing for the continuation of IHES as a registered, closed-end, nondiversified investment company (renamed "Abacus Fund") and the retention of IHES's present assets consisting of: (*a*) the 18.8 percent of the outstanding common stock of Gatineau Power Co. noted above; (*b*) all of the outstanding common stock of Eastern New York Power Corp., an inactive company with assets of approximately $3 million in cash; (*c*) 4.6 percent of the outstanding common stock of New England Electric System, a registered holding company; and (*d*) cash in excess of $9 million. In addition, the plan provided for various changes in IHES's Declaration of Trust, the principal ones being: the renaming of IHES, "Abacus fund;" the elimination of the several classes of authorized capital stock and the designation of the new stock as $1 par value common stock; the provision of cumulative voting and preemptive rights for the stockholders; the increase of the quorum requirements for stockholders' meetings from one-third to one-half of the shares outstanding; the grant to the stockholders of the right to elect directors where, due to resignation, less than two-thirds of the remaining directors in office are elected by the stockholders; and the requirement that a quorum of directors be not less than a majority. Certain other proposed amendments of the Declaration of Trust, which would have reduced existing requirements for certain types of action from two-thirds to a simple majority vote of stockholders, were rejected by the Commission and eliminated from the provisions of the plan in accordance with the Commission's Findings and Opinion which stated that the proposals curtailed desirable stockholder protection and were therefore objectionable under the standards of the Act.

In conjunction with its approval of the Interim Board's Plan, the Commission also found (without, however, entering an order thereon) that IHES would qualify for an exemption pursuant to section 3 (a) (5) of the Act. The Commission also granted an application to modify the outstanding liquidation and dissolution order issued in 1942 pursuant to section 11 (b) (2) of the Act on the ground that the conditions upon which its previous order were predicated no longer existed.

The Interim Board's Plan was opposed by certain stockholder groups who submitted plans which the Commission rejected. The Commission's Findings and Opinion and Order were approved and ordered enforced by the United States District Court for the District of Massachusetts by order dated April 23, 1956.[25] An appeal has

[23] Holding Company Act Release No. 13044 (November 23, 1955).
[24] Holding Company Act Release No. 13083 (January 13, 1956).
[25] In re *International Hydro-Electric System*, unreported (D. Mass., Civil Action No. 2430, April 23, 1956).

been taken to the United States Court of Appeals for the First Circuit by two stockholder groups, namely, by Central-Illinois Securities Corp. and C. A. Johnson, and by the Equity Corp. In addition, the appellants petitioned the Court of Appeals for a stay of the district court's order pending disposition of their appeals which was granted on May 29, 1956.[26] The Court of Appeals on October 26, 1956, dismissed the appeals and affirmed the order of the district court.[27]

During the past year the Commission disposed of various applications for fees and expenses incurred up to September 30, 1954, by certain participants in the IHES reorganization proceedings in accordance with the procedure for processing such applications outlined at page 64, 21st Annual Report. Thirty-one applications were received requesting allowances aggregating some $1.7 millions. On November 25, 1955, the Commission issued an order approving maximum allowances aggregating some $965,000 for all but 7 of the 31 applicants.[28] These payments were subsequently approved by the reorganization court.[29] Hearings were held with respect to the remaining seven applications on which the trustee had been unable to reach settlements, and shortly after the close of the fiscal year the Commission issued its Findings and Opinion and a Supplemental Order disapproving the requests of 5 of the 7 applicants and approving allowances aggregating some $29,500 to the 2 remaining applicants.[30]

Interstate Power Co. (Delaware)

This company, which was formerly a public utility subsidiary of Ogden Corp., a registered holding company, is an electric utility operating company which had, at the beginning of the year, one wholly owned public utility subsidiary, East Dubuque Electric Co. On December 31, 1955, the consolidated assets of the 2 companies, less valuation reserves, were $63 million. The system was engaged, principally, in furnishing electricity to 96,657 customers in 224 communities in the States of Illinois, Iowa, Minnesota, and South Dakota. It also furnished a small amount of gas at retail to 13,555 customers in 2 communities in Illinois and South Dakota, and operated transportation facilities.

During 1956 the Commission approved a joint application-declaration filed by the companies proposing the dissolution and complete liquidation of East Dubuque with Interstate's acquisition of the latter's assets and the assumption of its liabilities.[31] This transaction was made possible by the enactment of an amendment, effective July 1, 1955, to section 28 of the Illinois Public Utilities Act exempting

[26] *Equity Corporation et al.* v. *Brickley*, unreported (C. A. 1, Civil Action Nos. 5127 and 5128).
[27] — F. 2d — (C. A. 1, 1956).
[28] Holding Company Act Release No. 13045.
[29] *In re International Hydro-Electric System*, unreported (D. Mass., Civil Action No. 2430 (December 16, 1955).
[30] Holding Company Act Release No. 13242 (August 23, 1956).
[31] Holding Company Act Release No. 12994 (September 26, 1955).

from the requirement of incorporation in Illinois "public utility companies owning or operating a public utility system situated partly in Illinois and partly in an adjoining State or States". [32] Following consummation of the proposal, and upon application by Interstate, the Commission entered an order pursuant to section 5 (d) of the Act declaring that the company had ceased to be a holding company.[33]

Middle South Utilities, Inc.

Middle South Utilities, Inc., functions solely as a holding company. It has 4 operating subsidiaries, Arkansas Power and Light Co., Louisiana Power and Light Co., Mississippi Power and Light Co., and New Orleans Public Service, Inc. Middle South also owns a 10-percent common stock interest in Electric Energy, Inc., an electric generating company described elsewhere in this report in the discussion of Union Electric Co., and a 79-percent interest in Mississippi Valley Generating Co., now an inactive company but originally organized for the purpose of supplying electric energy to the Tennessee Valley Authority as replacement for power supplied by the latter to the Atomic Energy Commission. Middle South's subsidiary, Arkansas Power and Light, owns a 34-percent common stock interest in Arklahoma Corp., a transmission facility owned jointly with two nonaffiliated power companies. One of these companies, Southwestern Gas & Electric Co., which owns a 32-percent interest in Arklahoma, is a subsidiary of Central & South West Corp., a nonaffiliated registered holding company. The Middle South system furnishes electric service to over 1,700 communities and extensive rural areas in the States of Arkansas, Mississippi, and Louisiana and furnishes gas service to 48 communities in Louisiana. Transit service is also provided in the New Orleans metropolitan area. The system services 815,658 electric customers and 231,477 gas customers. Consolidated assets of the system as at December 31, 1955, less valuation reserves, totaled $590 million. Included in the above are the system's investment in Electric Energy, Inc., Arklahoma Corp., and Mississippi Valley Generating Co.

Subsequent to the remand, on September 12, 1955, of the case of the *State of Tennessee, et al.* v. *S. E. C.*, which is described at page 85 of the 21st Annual Report, the Commission on November 4, 1955, rescinded its previously issued order authorizing the issuance of 44,000 shares of common stock by Mississippi Valley Generating Co. and the acquisition thereof by Middle South Utilities, Inc., and The Southern Co. With respect to the 8,690 shares of common stock already issued by Mississippi Valley and acquired by Middle South, the Commission reserved jurisdiction to determine at a later date the action to be taken thereon.[34]

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[32] State of Illinois Laws of 1955, S. B. 485, June 15, July 1, 1955; 23 Jones Illinois Statutes Annotated, 1955 Cumulative Supplement, 112.047.

[33] Holding Company Act Release No. 13039 (November 17, 1955).

[34] Holding Comapny Act Release No. 13029.

On March 20, 1953, the electric properties of the Middle South system were found by the Commission to constitute an integrated electric utility system; but in the same proceeding the Commission entered an order under section 11 (b) (1) of the Act directing Middle South and its subsidiary, Louisiana Power and Light Co. (Louisiana), to divest themselves of their interests in the nonelectric properties of Louisiana.[35] These included certain small water properties in Arcadia, La., and gas distributing properties providing service to some 48 communities in the northern and southeastern portions of the State of Louisiana including all of the territory extending around, but not embracing, the city of New Orleans. In compliance with this order, Louisiana filed an application-declaration for the purpose of transferring to a new company the nonelectric properties then held by Louisiana. Thereafter, the Louisiana Public Service Commission requested that the Commission not proceed with the application-declaration, and that it reopen the section 11 (b) (1) proceedings which had terminated in the order of March 20, 1953. It also urged that the Commission take certain evidence which the State commission alleged would indicate that the electric and gas properties of Louisiana Power should not be separated and that the combined properties be retained under a single corporate entity. Jefferson Parish, a political subdivision of the State of Louisiana, opposed the State commission in this matter. After considering an offer of proof filed by the Louisiana Commission, an order was entered by this Commission on September 13, 1955, denying the petition to reopen the section 11 (b) (1) proceeding.[36] A petition to review this order was filed by the State commission with the United States Court of Appeals for the Fifth Circuit which, on June 30, 1956, issued its Opinion holding, among other things, that the Commission erred in denying the petition to reopen the section 11 proceeding and thereupon remanded the matter to the Commission.[37] The Court of Appeals decided (1) that the Commission had improperly excluded from its consideration the question of what, if any, economies might be lost to Louisiana Power within the meaning of clause (A) of section 11 (b) (1) of the Act if it disposed of its gas properties as directed by the Commission, and (2) that the Commission's concept as to what constituted substantial economies was too rigid. Subsequent to the close of the fiscal year the Commission petitioned the United States Supreme Court to review the decision of the court of appeals.[37a]

National Fuel Gas Co.

National Fuel Gas Co. functions solely as a holding company. At the beginning of the fiscal year it had 4 domestic and 1 foreign gas

[35] Holding Company Act Release No. 11782.
[36] Holding Company Act Release No. 12978.
[37] *Louisiana Public Service Commission* v. *S. E. C.* 235 F. 2d 167 (C. A. 5, 1956).
[37a] The petition for a Writ of Certiorari was granted on December 3, 1956, Supreme Court No. 466.

utility subsidiaries and 6 nonutility subsidiaries. Four of the six nonutilities are engaged in the production of petroleum products, one holds and operates real estate, and another is a gas transmission company. The system is principally engaged in the production, transmission, and retail distribution of natural and mixed gas. Service is furnished to 504,265 customers in 78 communities in New York, Pennsylvania, and Ohio. As at December 31, 1955, consolidated assets of the system, less valuation reserves, amounted to $155 million.

During the past year National disposed of its holdings of its foreign utility subsidiary, Provincial Gas Co., Ltd., consisting of approximately 75 percent of the outstanding common stock of that company.

National also filed a proposal to eliminate a minority interest of approximately 38 percent of the common stock of its subsidiary, Pennsylvania Gas Co., which was held by 850 public stockholders. The proposal involved the issuance of additional common stock by National to be offered in exchange for the common stock of Pennsylvania Gas Co. held by the minority stockholders on the basis of 1.45 shares of National's stock for 1 share of Pennsylvania Gas Co.'s stock. One holder of a substantial amount of Pennsylvania Gas Co. stock appeared at the hearing in support of the proposals and no one appeared in opposition. In approving the transactions involved, the Commission found, among other things, that the exchange offer was reasonable and that the acquisition by National of the minority-held shares of Pennsylvania Gas Co. tended to minimize if not remove impediments and problems incident to the existence of such a minority interest in National's system. The Commission also noted that proposals having as their objective the reduction or elimination of publicly held minority interests in public-utility holding company systems should be encouraged.[38] The exchange offer was accepted by minority stockholders holding 191,771 shares and as a result National now owns 94.05 percent of Pennsylvania's outstanding capital stock as compared to its previous holdings of 62.26 percent.

The Southern Co.

The Southern Co. functions solely as a holding company over 4 public utility subsidiaries which furnish electric service to 1,318,553 customers in 1,394 communities in the States of Alabama, Florida, Georgia, and Mississippi. The system also includes a nonutility subsidiary and a mutual service company. Consolidated assets of the system as at December 31, 1955, less valuation reserves but including the Southern Co.'s investment in Mississippi Valley Generating Co., totaled $880 million. The public utility subsidiaries of the system were formerly part of the Commonwealth and Southern Corp. holding company system.

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[38] Holding Company Act Release No 13036 (November 17, 1955).

Subsequent to the remand, on September 12, 1955, of the case of the *State of Tennessee et al.* v. *S. E. C.*, which is described at page 85 of the 21st Annual Report, the Commission on November 4, 1955, rescinded its previously issued order authorizing the issuance of 44,000 shares of common stock by Mississippi Valley Generating Co. and the acquisition thereof by Middle South Utilities, Inc., and The Southern Co. With respect to the 2,310 shares of common stock already issued by Mississippi Valley and acquired by The Southern Co., the Commission reserved jurisdiction to determine at a later date the action to be taken thereon.[39]

On June 28, 1956, the Commission approved a joint application-declaration filed by the system companies and by Southern Electric Generating Co., a newly organized company, proposing among other things: (1) the issuance and sale by two subsidiary companies, Alabama Power Co. and Georgia Power Co., and the acquisition by The Southern Co. of their common stock for an aggregate consideration of $2 million; and (2) the issuance and sale and the acquisition by Alabama and Georgia of 10,000 shares each of the common stock of Southern Electric Generating Co. for an aggregate consideration of $2 million. These proposals constituted the initial financing for the construction by Southern Electric Generating Co. of a steam electric generating plant on the Coosa River in the State of Alabama which it is estimated will have a capacity of over 1.0 million kilowatts by the end of 1963. The overall financing requirements for the construction of the plant are estimated to require $150 million.[40]

Ohio Edison Co.

Ohio Edison Co. is an operating electric utility company and is also a registered holding company by virtue of its control of Pennsylvania Power Co., also an electric utility company. The electric facilities of the company and its subsidiary constitute an integrated electric utility system serving 508,453 customers in 588 communities and in various rural areas in Ohio and 79,157 customers in 136 communities and adjoining rural areas in Pennsylvania. In addition, Ohio Edison owns 16.5 percent of the voting securities of Ohio Valley Electric Corp., which is also affiliated with other registered holding systems, as described elsewhere in this report, in the discussion of the American Gas and Electric Co. system at page 129. Consolidated assets of Ohio and its subsidiary as at December 31, 1955, less valuation reserves and including Ohio Edison's investment in Ohio Valley Electric, aggregated $475 million.

During the past fiscal year Ohio Edison and Toledo Edison Co., a nonaffiliated public-utility company, entered into an exchange agreement which was approved by the Commission on September 30, 1955.[41]

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[39] Holding Company Act Release No. 13029 (November 4, 1955).
[40] Holding Company Act Releases Nos 13189 (June 1, 1956) and 13210 (June 28, 1956).
[41] Holding Company Act Release No 13001. (September 20, 1955)

Ohio Edison acquired from Toledo certain electric distribution and transmission facilities which are interconnected with Ohio Edison's remaining properties, and transferred to Toledo certain of its distribution and transmission facilities which are interconnected or capable of interconnection with Toledo's other properties. Ohio Edison also paid Toledo a cash adjustment balance of $1,460,000 subject to certain closing entries to adjust for taxes, unbilled revenues, accounts receivable, and other items. The transaction was consummated on November 7, 1955, under a modified agreement which provided for the payment by Ohio Edison of an additional $89,000 for adjustments due to property additions made by Toledo since the date of the agreement.

Standard Shares, Inc.
Standard Gas and Electric Co.
Philadelphia Co.

These companies are solely holding companies and all are registered under the Act. Their position in the system's corporate structure is described in the 21st Annual Report, page 70. Except in minor respects the system's corporate structure remains unchanged, with Duquesne Light Co. continuing to be the only public utility subsidiary in the system. The aggregate of the holdings of Standard Shares, Standard Gas and Philadelphia in the common stock of Duquesne constitutes 14.6 percent of the outstanding amount of that issue.

Standard Shares, Inc., which was formerly named Standard Power and Light Corp., remains the top holding company in the system. During 1956 its petition for modification of a dissolution order then outstanding under section 11 (b) of the Act was approved by the Commission.[42] At the same time the Commission approved the company's plan under section 11 (e) for conversion into a closed-end, nondiversified investment company. This plan was approved and ordered enforced by the United States District Court for the District of Delaware.[43] With Commission approval [44] the company's investments have been restated at approximately $31,000,000 which was substantially the market value thereof at the time the plan was enforced. The assets of the system's two subsidiaries, Pittsburgh Railways Co. and Duquesne Light Co., as at December 31, 1955, less valuation reserves, totaled $44 million and $351 million, respectively.

Under the plan, Standard Shares has embarked upon a restricted investment program, but it will continue to be a registered holding company under the Act until such time as the Commission, upon application, finds and declares by order under section 5 (d) of the Act that it has ceased to be a registered holding company.

[42] Holding Company Act Release No 13101 (February 16, 1956).
[43] *In re Standard Power and Light Corp*, unreported (D. Del. Civil Action No. 1793, March 13, 1956).
[44] Holding Company Act Release No 13178 (May 16, 1956).

Standard Gas & Electric Co. (Standard Gas) and Philadelphia Co. (Philadelphia) are subject to Commission orders to liquidate and dissolve.[45] It is proposed pursuant to a section 11 (e) plan that this liquidation and dissolution be accomplished by means of the divestment of a substantial part of the system's interests in Duquesne and of the system's entire interest in Pittsburgh Railways Co., a nonutility subsidiary. Unresolved tax difficulties have caused delay. During the fiscal year Standard Gas filed an application for approval of certain amendments to its section 11 (e) plan which would, among other things, amend a 1952 tax cutoff agreement between Philadelphia and Duquesne so as to permit some further progress towards consummation by reducing the need for Standard Gas and Philadelphia to retain assets to cover potential tax liabilities and thereby permitting distribution of common stock of Pittsburgh Railways Co. and Duquesne now held by these companies.

The tax difficulties arise from consolidated Federal income and excess profits tax returns filed by Standard Gas, Philadelphia, and certain other affiliated companies for the years 1942 to 1950, inclusive. At the end of the fiscal year the field agent of the Internal Revenue Service had reported on all of the years and had alleged tax deficiencies which, with interest, amount to some $33 million.

Union Electric Co.

This company, formerly known as Union Electric Co. of Missouri, is an electric utility operating company and also a registered holding company. It was formerly a subsidiary of the North American Co., which was dissolved on February 11, 1955. Union Electric and its subsidiaries provide electric utility service to 544,930 customers in the city of St. Louis and in other communities in eastern and central Missouri, and in portions of Illinois and Iowa. About 228 communities are served. Consolidated assets of the system as at December 31, 1955, less valuation reserves, and including Union Electric's investment in Electric Energy, Inc., totaled $458 million. In addition to its electric utility properties, Union Electric owns directly or indirectly through subsidiaries certain gas utility properties and nonutility assets. It also owns 40 percent of the voting securities of Electric Energy, Inc., which owns and operates a 6-unit steam electric generating station in Joppa, Ill., with aggregate capacity of 1,009,800 kilowatts. The station supplies 735,000 kilowatts of firm power to an Atomic Energy Commission installation near Paducah, Ky. The balance of its output is taken by the five electric utility systems which own all of the company's stock. Union Electric Co. is the largest stockholder of Electric Energy. Middle South Utilities, Inc., another registered holding company described elsewhere in this report, owns

[45] 28 S. E. C 35 (June 1, 1948), 28 S. E C. 944 (December 31, 1948), and 32 S. E. C 545 (August 14, 1951).

10 percent. The balance is owned by 3 other electric utility companies not otherwise connected with any registered holding company systems; Central Illinois Public Service Co. and Illinois Power Co. each own 20 percent and Kentucky Utilities Co. owns 10 percent. The total assets of Electric Energy, Inc., as at December 31, 1955, less valuation reserves, amounted to $195 million.[45a]

During the past year Union Electric disposed of its direct interest in Hevi-Duty Electric Co., a wholly owned nonutility subsidiary company, and its indirect interest in Anchor Manufacturing Co., a subsidiary of Hevi-Duty. The proposals to effectuate this disposition, which the Commission approved on May 4, 1956,[46] included, among other things, (1) the reclassification of Hevi-Duty's 2,500 shares of authorized and outstanding no par value common stock into 345,230 shares of $5 par value common stock; (2) an increase in the number of authorized shares of common stock as so reclassified to one million with provisions for preemptive rights and cumulative voting in the election of directors; (3) acquisition by Union Electric of the 345,230 shares of new Hevi-Duty common stock in exchange for the 2,500 shares of old common stock; and (4) distribution by Union Electric to its stockholders of the shares of the new common stock of Hevi-Duty at the rate of 1 share for each 30 shares of Union Electric common stock held of record on June 29, 1956. In addition, provision was made for the election of new directors to the boards of Hevi-Duty and Anchor, promptly after the distribution by Union Electric of the Hevi-Duty common stock. Subsequently, Hevi-Duty submitted a proposed slate of nominees which the Commission approved in an order dated June 28, 1956.[47] The Commission's order required Hevi-Duty to submit to its stockholders at the next annual meeting a charter amendment to increase the number of members of its board of directors so that a majority of such directors would be persons who were neither officers nor employees of either Hevi-Duty or Anchor and directed that the names of the nominees for the additional directors be submitted to the Commission for approval. The latter two requirements were consented to by Hevi-Duty and by Union Electric.

Union Electric also filed a notice of intention pursuant to rule U–44 (c) to sell its interests in Muzak Corp., consisting of 500 shares

[45a] In its Memorandum Opinion and Interim Order (Holding Company Act Release No. 10340 dated January 15, 1951) approving the acquisitions of the common stock of Electric Energy, Inc by four of the five sponsor-stockholder companies, the Commission reserved jurisdiction to consider at a later date (1) the issues under section 10 of the Act, which were raised by the acquisitions, and (2) the applications filed concurrently by three of the stockholder companies, Central Illinois Public Service Company, Illinois Power Company and Kentucky Utilities Company, for orders pursuant to section 2 (a) (7) (B) of the Act declaring each of such companies not to be a holding company with respect to Electric Energy, Inc. On November 19, 1956, the Commission entered its Notice and Order directing reopening of the proceeding. (Holding Company Act Release No. 13313).

[46] Holding Company Act Release No. 13170.

[47] Holding Company Act Release No. 13208 (June 28, 1956).

of 7-percent cumulative preferred stock having substantial dividend arrears thereon and its interest in a royalty agreement entitling Union Electric to royalties based on certain future operations of Muzak Corp. These interests were sold to and purchased by Muzak Corp. itself for $535,000 and $100,000 cash, respectively, on February 16, 1956.

Other nonutility dispositions made during the past year included the sale of properties constituting the St. Louis & Belleville Electric Railway Co. and the sale of water properties owned by Missouri Power & Light Co. located in Mexico, Missouri, on January 3, 1956 and July 16, 1956, respectively.

On March 6, 1956, Union Electric filed an application, which was pending at the close of the fiscal year, requesting an exemption from the Act pursuant to section 3 (a) (2) thereof on the ground that it is predominantly a public utility company whose operations as such do not extend beyond the State in which it is organized and States contiguous thereto. Union Electric also requested that the Commission release the jurisdiction previously reserved over the question of the retainability of the gas systems of Union Electric and its subsidiaries.[48]

Wisconsin Southern Gas Co., Inc.

This company, formerly known as Wisconsin Southern Gas and Appliance Corp., registered as a holding company on May 28, 1952, prior to which it had been an exempt holding company pursuant to rule U–9. The company distributes natural and propane gas in three counties in Wisconsin with a total population of 40,000. As at December 31, 1955, system assets, less depreciation reserves, totaled $3.8 million. The company had had one public utility subsidiary, a gas utility, and in the fiscal year ending June 30, 1955, it proposed a statutory merger with its subsidiary, in connection with which it applied for and was granted an exemption pursuant to section 3 (a) (1) of the Act. In the past fiscal year the merger was consummated, and the Commission issued an order pursuant to section 5 (d) of the Act declaring that the company had ceased to be a holding company.[49]

OTHER REGISTERED HOLDING COMPANIES

On June 30, 1955, there were 10 other companies subject to the provisions of the Act as registered holding companies but which as a result of having completed nearly all steps required for compliance with outstanding orders of the Commission under section 11 (b) of the Act, no longer held any public utility subsidiaries.[50] Seven of

[48] Holding Company Act File No. 31-635.

[49] Holding Company Act Release No. 13015 (October 20, 1955).

[50] Middle West Corp., New England Public Service Co., Northern New England Co., Engineers Public Service Co., Electric Power & Light Corp., American Power and Light Co , United Public Service Corp., United Corp., Western Kentucky Gas Co ; and Sinclair Oil Corp. (successor to The Mission Oil Co. and Southwestern Development Co).

these companies had completed all divestments of former subsidiaries and were in the final stages of liquidation.[51] During 1956 the Commission granted an application of one of these companies, American Power and Light Co., declaring pursuant to section 5 (d) of the Act that such company had ceased to be a holding company,[52] subject to the condition that the trustees in dissolution for American remain subject to the Commission's jurisdiction in respect to any further proceedings or orders the Commission may deem necessary or appropriate with respect to its order dated March 31, 1953, approving American's plan for liquidation under section 11 (e) of the Act.

During 1956 Electric Power & Light Corp., with the approval of the United States District Court for the Southern District of New York, made its final liquidating distribution of cash in an amount exceeding $1 million to certain of its common stockholders and holders of option warrants.[53]

Engineers Public Service Co. is another of the 7 registered holding companies in the final stages of liquidation and dissolution. Certain of its residual problems with respect to applications for fees and expenses incurred by participants in the company's reorganization under section 11 (e) of the Act were disposed of during the fiscal year. On March 14, 1956, the Commission issued a supplemental order approving payment of additional fees in the amount of $2,500 to each of 2 applicants in compromise of all claims for services rendered and disbursements made by them subsequent to the filing of their original fee application in 1949.[54] No further steps were taken during the past fiscal year by the other 4 registered holding companies in process of final liquidation.

Three other registered holding companies which were not in process of liquidation remain in business as going concerns, but were in final stages of conversion to other status. At the close of the preceding fiscal year, Western Kentucky Gas Co., a registered holding company, was in process of consummating the merger of its sole subsidiary, Shelbyville Gas Co., as described at page 74 of the 21st Annual Report. The merger was completed during 1956 and, upon application by Western Kentucky, the Commission issued its order pursuant to section 5 (d) of the Act declaring that the company had ceased to be a holding company and terminating its registration as such.[55]

The other two companies, Sinclair Oil Corp. (which formerly controlled Southwestern Development Co.) and United Corp., made sig-

[51] Middle West Corp., New England Public Service Co., Northern New England Co., Engineers Public Service Co, Electric Power & Light Corp., American Power and Light Co., and United Public Service Corp.

[52] Holding Company Act Release No. 13043 (November 21, 1955).

[53] *In re Electric Power & Light Corp.*, unreported (Civil Action No. 49-347, April 6, 1956).

[54] Holding Company Act Release Nos. 13129 (March 14, 1956) and 13154 (April 10, 1956).

[55] Holding Company Act Release No. 13059 (December 12, 1955).

nificant progress during the past fiscal year toward solution of their remaining problems.

Southwestern Development Co.
Sinclair Oil Corp.

The steps taken by Southwestern Development Co. and its subsidiaries to comply with the integration and simplification provisions of section 11 (b) of the Act are described in the 18th, 20th, and 21st Annual Reports, at pages 99, 65, and 69, respectively. An integral part of Southwestern's section 11 (e) plan related to the program of Sinclair Oil Corp., a partially exempt registered holding company, to dispose of its holdings of 384,860 shares (52.88 percent of common stock of Westpan Hydrocarbon Co., formerly a nonutility subsidiary of Southwestern, which shares were received by Sinclair under the provisions of Southwestern's plan. In the previous fiscal year Sinclair filed with the Commission a notice of intention pursuant to rule U–44 (c) to sell its Westpan holdings to Jalco, Inc., a nonaffiliated corporation, pursuant to a contract between the parties. The sale was not consummated and Sinclair and Jalco, Inc., entered into a new contract providing for the purchase by Jalco of Sinclair's holdings of Westpan common stock for an aggregate purchase price of $4,887,733. A new notice of intention to sell pursuant to rule U–44 (c) was filed with the Commission and, on May 22, 1956, the sale was consummated.

The United Corp.

On January 16, 1956, the Commission issued its findings, opinion and order pursuant to section 5 (d) of the Act declaring that United Corp. had ceased to be a holding company, and denying, among other things, the request of Randolph Phillips, a stockholder of United Corp., for a hearing.[56] On January 17, 1956, United filed its Notification of Registration pursuant to section 8 (a) of the Investment Company Act as a closed-end nondiversified investment company. Subsequently Phillips petitioned the Commission for a rehearing asserting as grounds therefor that the Commission's findings and opinion were not factually accurate and contained erroneous conclusions of law. The Commission denied the petition on February 16, 1956,[57] and Phillips filed a petition for review of the January 16 and February 16 orders in the United States Court of Appeals for the Second Circuit.[58] This case was pending at the close of the fiscal year.

During the fiscal year the Commission also disposed of applications for fees and expenses for services rendered in connection with United's 1944 Exchange Plan and its 1951 Amended Investment Company Plan. After a public hearing, filing of briefs, recommended decision by the hearing examiner, and oral argument, the Commission on

[56] Holding Company Act Release No. 13088.
[57] Holding Company Act Release No. 13102.
[58] *Phillips* v. *S. E. C.*, Civil Action No. 24041.

June 28, 1956, issued its findings and opinion and order approving and releasing jurisdiction over fees and expenses claimed by the various applicants aggregating some $543,000.[59] The United States District Court for the District of Delaware subsequently, directed enforcement of the Commission's order.[60]

During the past fiscal year the Court of Appeals for the Third Circuit affirmed an order of the United States District Court for the District of Delaware approving and enforcing an order of the Commission regarding certain provisions of United's Investment Company Plan under section 11 (e) relating to charter and bylaw provisions and to the cancellation of United's outstanding option warrants without compensation.[61] Subsequent to the close of the fiscal year a petition for certiorari to the United States Supreme Court was denied.[62]

FINANCING OF REGISTERED PUBLIC UTILITY HOLDING COMPANY SYSTEMS—TRENDS IN ELECTRIC AND GAS UTILITY INDUSTRIES

During 1956, registered holding companies and their subsidiaries sold to the public and to institutional investors $565 million of their securities, all to provide new capital. In the preceding fiscal year, registered systems sold $704 million of securities, of which $524 million was for new construction and $180 million was for the refunding of other securities. Thus, even though 9 subsidiaries of registered holding companies with aggregate assets of $14 million were divested during the fiscal year 1956 and two registered systems with total assets of $67 million were deregistered in that year, the volume of external financing by registered systems for new money purposes increased approximately $41 million, or 7.8 percent.

Excluding companies in registered holding company systems, electric and gas utility companies and gas pipeline companies in the electric and gas utility industries sold $1,980 million of securities to the public and to financial institutions in the fiscal year 1956. It is estimated that all but approximately $23 million of this amount, or about $1,957 million, was for new money purposes. In the fiscal year 1955 these companies sold $2,238 million of securities, of which approximately $592 million was for refunding purposes and about $1,646 million was used for new money purposes. The volume of new money financing by these companies in the fiscal year 1956 thus reflected an increase of approximately $315 million, or 19.1 percent, over the amount reported for the fiscal year 1955.

The increase in the volume of new money financing in 1956 over 1955 by registered systems and by other companies in the electric and gas

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[59] Holding Company Act Release No. 13194.

[60] *In re United Corporation*, unreported (Civil Action No. 1650, October 31, 1956).

[61] *General Protective Committee for the holders of the United Corporation's option warrants, et al.* v. *S. E. C.*, 232 F. 2d 601 (C. A. 3, 1956).

[62] 352 U. S. 859 (October 8, 1956).

utility industries was caused by the continuation of the rising trend of expenditures for new plant and equipment which became evident in the last quarter of the fiscal year 1955. In that 3-month period expenditures by electric, gas and water utilities amounted to a seasonally adjusted annual rate of $4,090 million. The volume of such expenditures has increased in each subsequent quarter, and in the final 3 months of the fiscal year 1956 reached a seasonally adjusted annual rate of $4,610 million. Actual expenditures by these industries increased from the $4,066 million reported for the fiscal year 1955 to a total of $4,547 million for the fiscal year 1956. Total funds generated internally by means of depreciation, depletion, and amortization accruals and by the retention of undistributed net income, increased from an estimated $1,128 million in the calendar year 1952 to $1,416 million in the calendar year 1955. In the calendar year 1955 approximately 33.7 percent of the plant expenditures reported by the electric and gas utility industries were financed from internal sources, as compared with 34.0 percent in 1954, 28.2 percent in 1953 and 29.7 percent in 1952. The balance of the funds required was derived from sales of new securities and from bank borrowings.

The following table sets forth the amounts of various types of securities sold in the fiscal years 1956 and 1955 by registered holding companies and their subsidiaries and by all other companies in the electric and gas utility industries.

As shown by the data in the following table, registered systems sold proportionately greater amounts of notes and debentures and proportionately smaller amounts of preferred stocks in the fiscal year 1956 than did the other companies in the electric and gas utility industries. In the fiscal year 1955 the pattern was markedly different. The percentage of the total external financing of registered systems represented by mortgage bonds in 1955 was 1 percent higher than in 1956. Notes accounted for a much smaller percentage of the total and preferred stock financing represented a much greater share. In contrast, between 1955 and 1956 all other companies showed decreases in debt categories and increases in both preferred and common stock financing. Registered systems sold proportionately greater amounts of common stocks in both years than did the other companies, with the percentage in 1956 showing an increase over 1955.

In addition to passing upon the 43 issues of securities totaling $565 million which were sold outside of their respective systems by registered holding companies and their subsidiaries in the fiscal year 1956, the Commission was required to authorize the issuance and sale of securities by subsidiaries of registered holding companies to their parents. That year 84 such issues with gross sales value of $199 million were sold, as compared with 108 issues totaling $224 million

Sales of securities for cash and issuances in connection with refunding exchanges to members of the public and to financial institutions by registered holding companies and their subsidiaries and by all other electric and gas utility companies, holding companies and gas pipeline companies in the electric and gas utility industries, fiscal years 1956 and 1955.[1]

[Dollar amounts in millions]

	Fiscal year 1956						Fiscal year 1955					
	Registered holding company systems		All other companies, electric and gas utility industries		Total companies, electric and gas utility industries		Registered holding company systems		All other companies, electric and gas utility industries		Total companies, electric and gas utility industries	
	Amount	*Percent*	*Amount*	*Percent*	*Amount*	*Percent*	*Amount*	*Percent*	*Amount*	*Percent*	*Amount*	*Percent*
Bonds	$332	58 8	$1,171	59.1	$1,503	59.1	$421	59 8	$1,433	64.1	$1,854	63.0
Debentures	80	14 2	131	6 6	211	8.3	25	3 6	232	10.3	257	8 8
Notes (due 5 years or longer)	20	3.5	38	1.9	58	2 2	36	5.1	71	3 2	107	3.6
Preferred stock	33	5 8	318	16 1	351	13 8	127	18 0	217	9.7	344	11.7
Common stock	100	17.7	322	16.3	422	16 6	95	13 5	285	12.7	380	12.9
Total	565	100.0	1,980	100 0	2,545	100 0	[2] 704	100 0	[2] 2,238	100.0	[2] 2,942	100 0

[1] Includes all public offerings, rights offerings, refunding exchange offerings and private placements with financial institutions. Security sales by natural gas producing companies are not included, with the exception of a few companies in registered holding company systems.

[2] These figures reflect certain differences from the comparable data for the fiscal year 1955 as set forth at pp. 77 and 78 of the 21st Annual Report because of later reports received and minor corrections.

in the preceding fiscal year. The 43 issues of securities amounting to $565 million sold externally included 27 issues with sales value of $386 million sold to the public and, by means of rights offerings, to outside shareholders. Sixteen issues totaling $179 million were placed directly with insurance companies and other financial institutions.

The types of securities included in the foregoing totals and the classes of companies in registered systems which sold the securities are shown in the following table.

Sales of securities for cash or pursuant to exchange offers authorized pursuant to secs. 6 and 7 of the Public Utility Holding Company Act of 1935 for the fiscal year ended June 30, 1956

(Securities issued in exchange for other securities in connection with reorganizations are excluded)

[Dollar amounts in millions]

	Type of sales				Totals, external financing		Sales by subsidiaries to their parents	
	Sales to public and outside stockholders		Private placements					
	Gross sales value	Number of issues	Gross sales value	Number of issues	Gross sales value	Number of issues	Gross sales value	Number of issues
Electric and gas utilities:								
Bonds	$173	13	$92	5	$265	18	$47	11
Debentures								
Notes			20	6	20	6	35	23
Preferred stock	33	5			33	5		
Common stock	17	3			17	3	89	35
Total	223	21	112	[1]11	335	32	171	60
Holding companies.								
Bonds								
Debentures	80	2			80	2		
Notes								
Common stock	83	4			83	4		
Total	163	6			163	6		
Nonutility companies.								
Bonds			67	5	67	5		
Debentures								
Notes							7	6
Common stock							21	9
Total			67	[2]5	67	5	28	15
Grand total	386	27	179	16	565	43	199	84

[1] Includes 10 issues in the amount of $107 million representing 10 installments of securities issued and sold by Ohio Valley Electric Corp pursuant to long-term construction financing arrangements exempted from competitive bidding requirements and authorized by the Commission in earlier fiscal years.

[2] These 5 issues represent 5 installments of securities issued and sold by American Louisiana Pipe Line Co. pursuant to a long-term construction financing arrangement exempted from competitive bidding requirements and authorized by the Commission in 1956.

Sales of securities by registered holding companies and by their subsidiaries pursuant to sections 6 and 7 of the Act and portfolio sales by registered holding companies under section 12 (d) are required to be made at competitive bidding in accordance with the provisions of rule U–50. Certain specified types of security issuances are automatically excepted from the competitive bidding requirement of the

rule by clauses (1) through (4) of paragraph (*a*) thereof. These include issues with proceeds of less than $1 million; private borrowings from financial institutions with maturities of 10 years or less; issues the acquisition of which have been approved by the Commission under section 10 of the Act; and pro rata issues to existing security holders, such as nonunderwritten common stock rights offerings to stockholders.

All of the 27 issues of securities totaling $386 million, shown by the above table as having been sold to the public and to outside shareholders during 1956, were sold at competitive bidding pursuant to rule U–50, with the exception of two issues of common stock aggregating $8 million for which automatic exemptions provided by the rule were available.[63]

The following table summarizes all sales of securities at competitive bidding pursuant to the requirements of rule U–50 for the fiscal year 1956 and for the entire period from the effective date of the rule to June 30, 1956.

Sales of securities at competitive bidding pursuant to rule U–50

[Dollar amounts in millions]

	Fiscal year 1956		May 7, 1941[1] to June 30, 1956	
	Number of issues	Volume	Number of issues	Volume
Bonds	13	$173	400	$6,024
Debentures	2	80	47	1,211
Notes			9	75
Preferred stock	5	33	116	989
Common stock	5	92	110	1,152
Total	25	378	682	9,451

[1] Effective date of rule U–50

In 1956, all but 1 of the 16 issues of private placements with gross sales value of $179 million, shown in the table on page 151, were sold by means of direct negotiations to financial institutions pursuant to orders of the Commission granting exemptions from competitive

[63] National Fuel Gas Co , a registered holding company, sold 447,797 shares of its common stock having a sales value of $7.9 million to its stockholders pursuant to a nonunderwritten rights offering which was automatically exempt from competitive bidding requirements pursuant to paragraph (a) (1) of rule U–50. Yankee Atomic Electric Co., a new corporation organized by its 12 electric utility company sponsors to build an atomic reactor power plant, sold $500,000 of its common stock in various amounts to the 12 companies As a result it became a subsidiary, as defined in the Act, of (1) New England Power Co., a subsidiary of New England Electric System, a registered holding company, and (2) of Connecticut Light & Power Co., an exempt holding company The sales of this stock and of $500,000 of notes by Yankee Atomic to its sponsor companies were automatically exempted from competitive bidding requirements by the provisions of paragraph (a) (4) of rule U–50.

bidding requirements as permitted by the provisions of paragraph (a) (5) of rule U–50.[64] Of the 15 issues of securities totaling $174 million exempted by order, 10 issues amounting to $107 million were sold by Ohio Valley Electric Corp. pursuant to long term construction financing agreements authorized and exempted from competitive bidding requirements by the Commission in earlier years. The remaining 5 of these issues in the amount of $67 million were pipeline mortgage bonds sold to insurance companies by American-Louisiana Pipe Line Co., a subsidiary of American Natural Gas Co., a registered holding company, pursuant to the long-term construction financing agreement authorized by the Commission during 1956 as described under "Relationships With State Public Utility Commissions" at page 166 of this report.

During 1956 only 2 orders were issued by the Commission pursuant to paragraph (a) (5) of rule U–50 exempting proposed issuances of securities from the competitive bidding requirements of the rule. The first was the order approving the American-Louisiana Pipe Line financing referred to above. The second related to the offer by National Fuel Gas Co., a registered holding company, of shares of its own stock in exchange for minority holdings of 234,772 shares of the common stock of its subsidiary, Pennsylvania Gas Co. National Fuel issued 286,768 shares of its stock in connection with this offering. This issue is not included in the preceding tables showing the total volume of financing by registered holding company systems and by all other companies in the electric and gas utility systems, because it involved the issuance of securities in exchange for other securities in connection with a reorganization transaction.

The following table shows the numbers of issues and dollar volume of securities sold by registered systems from the effective date of rule U–50 to June 30, 1956, pursuant to orders of the Commission granting exemptions from competitive bidding requirements. Issues sold with and without the aid of investment banker underwritings are listed separately.

[64] The issue not exempted by order of the Commission pursuant to rule U–50 (a) (5) was a note issue in the amount of $5 million sold to commercial banks by Kingsport Utilities, Inc., a subsidiary of American Gas and Electric Co., a registered holding company. This sale was automatically exempt from competitive bidding requirements by the provisions of par. (a) (2) of rule U–50, because the maturity of the note did not exceed 10 years and it was purchased by commercial banks.

Sales by registered holding companies and their subsidiaries of securities exempted from competitive bidding requirements pursuant to the provisions of par. (a) (5) of rule U–50 by orders of the Commission entered from May 7, 1941,[1] to June 30, 1956

[Dollar amounts in millions]

	Underwritten		Nonunderwritten		Total	
	Number of issues	Amount	Number of issues	Amount	Number of issues	Amount
Bonds	4	$27	76	$1,087	80	$1,114
Debentures	3	83	5	37	8	120
Notes			29	83	29	83
Preferred Stock	12	109	25	265	37	374
Common Stock	33	279	52	230	85	509
Total	52	$498	187	$1,702	239	$2,200

[1] Effective date of rule U–50

In 1956 registered systems sold 7 issues of common stock totaling $100 million to the public and outside stockholders. All other companies in the electric and gas utility industries sold 67 issues of common stock amounting to $322 million. Following the trend of earlier years, the rights offering to stockholders continued to be the favorite method for this type of financing. The following table shows the numbers of common issues and dollar volume sold by registered systems and by all other companies by means of rights offerings and public offerings.

Common equity financing during the fiscal year 1956 by registered holding company systems and by all other electric and gas utility companies, including holding companies, and gas transmission companies. Secondary offerings and intercompany transactions excluded

[Dollar volume in millions]

Type of offering	Registered holding company systems		All other electric and gas utilities		Total electric and gas utility industries	
	Number of issues	Volume	Number of issues	Volume	Number of issues	Volume
Rights	5	$91	27	$247	32	$338
Public	1	9	13	70	14	79
Miscellaneous [1]	1	([2])	27	5	28	5
Total sales of common stocks	7	100	67	322	74	422

[1] All but one of these sales were small offerings made pursuant to Regulation A, promulgated under the Securities Act of 1933.
[2] Sale by Yankee Atomic Electric Co. of $327,000 of its common stock to sponsors not associated with registered systems.

The underwritten rights offering without oversubscription privileges appears to have been increasingly popular in the electric and gas utility industries in 1956. This is shown by the following table which indicates the types of rights offerings employed in 1955 and 1956 by registered systems, and by other electric and gas companies.

Rights offerings of common stocks during the fiscal years 1955 and 1956 by all electric and gas utility companies, including holding companies and gas transmission companies secondary offerings, and intercompany transactions excluded

[Dollar amounts in millions]

	Underwritten offerings								Nonunderwritten offerings							
	With over-subscription privileges				Without over-subscription privileges				With over-subscription privileges				Without over-subscription privileges			
	Issues		Volume		Issues		Volume		Issues		Volume		Issues		Volume	
	1955	1956	1955	1956	1955	1956	1955	1956	1955	1956	1955	1956	1955	1956	1955	1956
Companies in registered holding company systems	-------	1	-------	$35	1	3	$14	$48	3	1	$22	$8	1	-------	$23	-------
All other electric and gas utilities and gas transmission companies	8	4	$40	9	14	20	113	213	2	2	20	22	2	2	6	$3
Total	8	5	40	44	15	23	127	261	5	3	42	30	3	2	29	3

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The discounts below market price at which electric and gas utilities set the subscription prices for their common stock rights offerings varied considerably in 1956. The offerings by registered systems carried discounts in the range from 5.00 to more than 10 percent, with 4 of their 5 rights offerings in the 5.00 to 9.99 percent bracket. The discounts chosen by other companies in the electric and gas utility industries extended over the entire range from 0 to more than 10 percent. In the preceding fiscal year the rights offering discounts set by registered systems and by other companies in the electric and gas industries showed a somewhat greater preference for the 10 percent or more range. Data for the 2 fiscal years are summarized in the following table:

Discounts below market price at which the subscription prices of rights offerings of common stock have been set by all electric and gas utility companies, holding companies and gas pipeline companies during the fiscal years 1956 and 1955

	Fiscal year 1956				Fiscal year 1955			
		Discount ranges				Discount ranges		
	Number of issues	0 to 4.99 percent	5.00 to 9.99 percent	10.00 percent or more	Number of issues	0 to 4.99 percent	5 00 to 9 99 percent	10.00 percent or more
Companies in registered holding company systems	5	0	4	1	5	0	3	2
All other electric and gas utility companies, etc	28	9	14	5	26	7	12	7
Total	33	9	18	6	31	7	15	9

FINANCING STANDARDS—IMPORTANCE OF CAPITALIZATION RATIOS

The Commission has consistently urged the maintenance of sound capital structures by registered holding company systems since the Act became law. As stated in its 10th Annual Report: "A balanced capital structure provides a considerable measure of insurance against bankruptcy, enables the utility to raise new money economically, and avoids the possibility of deterioration in service to consumers if there is a decline in earnings." [65]

The statutory basis for the Commission's concern with this problem lies in sections 1 (b), 6 (b), and 7 (d) of the Act. In section 1 (b), Congress declared that "the national public interest, the interest of investors in the securities of holding companies and their subsidiary companies and affiliates, and the interest of consumers of electric energy and * * * gas are or may be adversely affected" when, among other things, " * * * control of such companies is exerted through disproportionately small investment" (sec. 1 (b) (3)) and "when in any

[65] P 99.

other respect there is * * * lack of economies in the raising of capital" (sec. 1 (b) (5)). Section 1 (c) directs that "all the provisions of this title shall be interpreted to meet the problems and eliminate the evils as enumerated in this section."

Section 6 (a) requires all securities issued by registered holding companies or their subsidiaries, not exempt under section 6 (b), to be subject to a declaration meeting the standards of section 7. Among the standards of section 7 (d) is the requirement that the Commission shall not permit a declaration to become effective if it finds that "the security is not reasonably adapted to the security structure of the declarant and other companies in the same holding company system; the security is not reasonably adapted to the earning power of the declarant; or the terms and conditions of the issue or sale of the security are detrimental to the public interest or the interest of investors or consumers."

Section 6 (b) exempts securities issued by a subsidiary which are solely for the purpose of financing the business of such subsidiary company and have been expressly authorized by the State commission of the State in which such subsidiary company is organized and doing business, but this exemption is made subject to "such terms and conditions as [the Commission] deems appropriate in the public interest or for the protection of investors or consumers."

Passage of the act by the Congress was preceded by long and detailed investigation by the Federal Trade Commission of the public utility industry, particularly as it was affected by the control exerted by the holding company device. As a result of its study, the Federal Trade Commission found that among the abuses of the holding company device was "Corporate organization which gives powers inconsistent with a just division of responsibilities and emoluments as between various groups or parties furnishing capital by loan or by contribution, either directly or indirectly by purchase, succession, or otherwise." [66] On the basis of these studies, Congress determined that the national public interest and the interest of investors and consumers were adversely affected when control of subsidiary public-utility companies "is exerted through disproportionately small investment" and this became a cornerstone of section 1 (b) (3) of the Act.

That the pyramided capital structures of many of the holding company systems were ill-equipped to withstand the rigors of any sudden decline in earnings is evident from the following facts. From September 1, 1929, to April 15, 1936, a total of 36 public-utility operating company subsidiaries of holding companies, with outstanding securities in the hands of the public of some $445 million, went

[66] Summary Report of the Federal Trade Commission, vol. 73-A, p. 62, January 28, 1935, Doc. 92, pt 73-A, 70th Cong., 1st sess

into bankruptcy or receivership. Sixteen additional companies, with about $152 million of securities outstanding in the hands of the public, offered readjustment or extension plans after defaulting on interest payments.[67] Many other operating companies escaped bankruptcy or receivership by deferring needed replacements, stinting on maintenance, and by stopping dividends on the publicly held preferred as well as the controlling common stocks. Of preferred stocks of operating subsidiaries aggregating about $1.6 billion (involuntary liquidation preference) at December 31, 1940, approximately $453 million (or 27 percent) were in default, such accumulated arrears amounting to $165 million.[68]

As might be expected, because of the greater leverage factor present, holding companies were in even more distressed financial condition. From September 1, 1929, to April 15, 1936, a total of 53 holding companies, with about $1.7 billion of securities outstanding went into receivership or bankruptcy. An additional 23 holding companies, with about $535 million of outstanding securities, defaulted on interest and offered readjustment plans.[69] The corporate income of many of the holding companies was insufficient to service both their debt securities and preferred stock, and arrears on the latter continued to mount. As of December 31, 1940, registered holding companies had outstanding approximately $2,501,723,000 of preferred stock, of which $1,442,188,000 (or 58 percent) was in arrears, the total arrears as of that date aggregating approximately $476,000,000.[70]

Since 1935 the electric utility industry has made very substantial strides toward basic financial soundness. While improved economic conditions have, of course, provided a favorable basis for such development, and most industries have shared, to a greater or lesser degree, in the general prosperity which has developed since that date, it is clear beyond any doubt that the combined regulatory efforts of the Securities and Exchange Commission, the Federal Power Commission, and the State regulatory commissions, have contributed materially to this improved financial health. The arrears on the operating company and holding company preferred stocks which existed at the end of 1940 have been eliminated; some $1,107,000,000 of electric plant adjustments (i. e., writeups and other inflationary items—account No. 107) have been eliminated from the electric utility plant accounts, and approximately $517,000,000 of electric plant acquisition adjustments (account No. 100.5) have been or are being amortized or otherwise disposed of; depreciation reserves have nearly doubled in terms of percentage of utility plant account; the proportion of outstanding long-term debt to net utility plant has substantially

[67] Tenth Annual Report for the year ended June 30, 1944, at p. 87.
[68] *Id.*, at p 87.
[69] Tenth Annual Report for the Year Ended June 30, 1944, at pp. 86 and 87.
[70] *Id* , at p. 87.

decreased; corporate structures have been substantially simplified and unnecessary corporate entities have been eliminated; and actual investment in common stock equity has been materially increased as a result of reorganizations, equity contributions by the parent, sales of equity securities, and the like.

As at the end of 1955, on the basis of the aggregate of the balance sheets of all class A and class B privately owned electric utility companies in the United States (as classified by the FPC), the composite capital structure was as follows: long-term debt 50.7 percent; preferred stock 12.3 percent; and common stock and surplus 37.0 percent. The composite percentage of long-term debt to net utility plant was 52.5 percent. The composite percentage of reserve for depreciation to gross utility plant was 19.0 percent. The composite annual depreciation accrual rate amounted to 2.3 percent of gross utility plant. Similarly on a composite basis, income deductions were earned (after taxes) 3.84 times, while income deductions plus preferred dividend requirements were earned 2.88 times.

It is interesting to note that whereas in 1935 the electric and gas utilities subject to the Public Utility Holding Company Act earned their income deductions plus preferred dividend requirements an average of 1.23 times (after taxes), the composite coverage in 1955, even on the basis of including parent company interest charges, of composite income deductions and preferred dividend requirements of the 12 principal electric registered holding company systems was 2.73 times. In the case of the 4 gas registered holding company systems, the composite coverage in 1955 was 3.55 times; and on a combined basis, for the 16 systems, the composite coverage in 1955 was 2.88 times. These composite coverages in 1955 are considerably better than the composite coverage of triple-A credit utilities in 1935.

In the *Eastern Utilities Associates* case (Holding Company Act Release No. 11625, p. 55, Dec. 18, 1952) the Commission prescribed, in connection with its approval of collateral trust bonds, that the system's funded debt ratio should not exceed 60% and that its common stock equity ratio should not be less than 30%. Since the remaining component of capital in a system with this maximum debt and minimum common stock equity would ordinarily be preferred stock, this prescription is sometimes characterized as expressing a 60–10–30 policy. Although the Commission has not attempted to prescribe optimum or ideal capitalization ratios, nor assumed that the 60–10–30 policy of the *Eastern Utilities* case sets a fixed or permanent standard to be applied to all systems, these ratios have been generally regarded as embodying the present working policy of the Commission.

The Commission's capitalization ratio standards are applied both on a consolidated basis and on an individual operating-company basis.

In carrying out its duties under the Public Utility Holding Company Act as respects security issuances, the Commission, while insisting at all times upon adherence to the standards of the Act, does not approach security issues with a rigid, preconceived set of requirements applicable to all situations. It considers one of its major functions to be that of helping companies to meet the requirements of the Act. For example, where the terms of a proposed security issue, as initially filed with the Commission, fail to meet one or more of the statutory standards, the Commission does not simply refuse to permit the issue to be sold, but seeks to strengthen the terms of the issue. This work is done largely over the conference table and in informal meetings with the company's officials and its financial and legal advisers.

As a remedial measure, designed to conform corporate structures to statutory standards where the ratio of debt to net property is excessive, the Commission has frequently required issuers to follow some systematic debt reduction plan. In some instances, conditions have been attached to the Commission's orders requiring that the interest savings from refunding or a certain amount of net earnings be reserved to redeem outstanding debt. In other instances, the Commission has required the inclusion of sinking fund provisions whereby the issuer agrees to devote annually a stated amount to retirement of bonds or to property additions. In still other instances, the objective of debt reduction has been achieved by means of serial financing.

Among other means employed to strengthen the financial structure of weak companies the Commission has required more adequate maintenance and depreciation charges, restrictions on dividends, limitations as to the future issuance of securities having a preference over the proposed security issue, restatement of certain accounting items, and other provisions.

In certain cases where the proposed issue has already been approved by a State commission, the issue is exempt from section 7 of the Act, and the jurisdiction of the Securities and Exchange Commission is limited to attaching, for the protection of investors and consumers, terms and conditions to its order of exemption. It has been the Commission's practice to communicate with the appropriate State commission to discuss any problems raised by the issue and to cooperate in settling the problems which exist. When it appears that a proposed debt issue in a section 6 (b) case is excessive, or that there is an insufficient equity "cushion" under the senior securities, including preferred stock issues, it is the Commission's policy to impose conditions which will improve the company's financial structure.

The Commission under unusual circumstances has departed from its general policy with respect to capitalization ratio standards even in the absence of factors which would bring about a relatively rapid improvement. Generally, such cases involve situations where a sub-

sidiary company was formed by a public utility company in conjunction with one or more unaffiliated public utility companies for the purpose of building and owning generating facilities or transmission lines whose output or use was for the benefit of the sponsoring companies or a Government agency.

That the achievement and preservation of sound capitalization ratios are essential to the financial health of the public utility industry has been recognized not only by the Commission and some other regulatory bodies, but also by informed writers on the subject. Most of these authorities are generally agreed on the necessity for an adequate "cushion" of common stock equity to withstand the shock of a severe decline in earnings, and for not too excessive an amount of debt, notwithstanding the apparent cheapness of bond money versus common stock money and the deductibility for tax purposes of interest expense. Quite a number urge that a company should not use up all of its bonding credit, but rather should reserve a substantial portion of it for such time when it may become difficult to sell common stock.

On September 5, 1956, the Commission announced that its Division of Corporate Regulation has undertaken a study for the purpose of determining the advisability of recommending that the Commission issue for comment by interested persons a proposed Statement of Policy relative to appropriate capitalization ratios in connection with security issues by registered holding companies and their subsidiary operating companies subject to the Act. The Division considers that an administrative determination by the Commission through a Statement of Policy may be a desirable means of apprising issuers subject to the Act and investors and consumers of the standards respecting capitalization ratios which the Commission would generally apply in determining (1) whether to impose terms and conditions in granting applications under section 6 (b) or (2) whether to make adverse findings in respect of declarations pursuant to section 7 (d) of the Act.

The views and comments received from interested persons regarding the advisability of promulgating a formal Statement of Policy are being carefully considered by the staff of the Division for the purpose of making its recommendation to the Commission.

FINANCING OF ELECTRIC GENERATING COMPANIES DEVELOPING ATOMIC POWER OR SUPPLYING ELECTRIC ENERGY TO INSTALLATIONS OF THE ATOMIC ENERGY COMMISSION

Three large generating companies sponsored by certain registered holding company systems in cooperation with several nonaffiliated utility companies were organized in previous years to furnish power to installations of the Atomic Energy Commission. Electric Energy, Inc., owns and operates a steam electric generating station which supplies power to the Atomic Energy Commission project near

Paducah, Ky. The operations of this company and the ownership of its common stock are described at page 143 of this report under the discussion of Union Electric Co.

Ohio Valley Electric Corp. and its subsidiary, Indiana-Kentucky Electric Corp., were also organized to furnish electric energy to the Atomic Energy Commission at its plant near Portsmouth, Ohio. These companies are described at page 129 of this report under the discussion of the American Gas and Electric Company system.

A fourth company, Mississippi Valley Generating Co., was organized in July 1954 by two registered holding companies, Middle South Utilities, Inc. and The Southern Co., for the purpose of furnishing power to the Atomic Energy Commission, or to the Tennessee Valley Authority for the account of the AEC in replacement of power furnished by TVA to the AEC. However, the power contract embracing the terms of this arrangement was canceled by the Government of the United States. Details concerning the proceedings before the Commission with respect to the financing of Mississippi Valley and the action taken by the Commission to rescind certain authorizations are described at pages 84–85 of the 21st Annual Report and in this report at pages 138 and 140. Electric Energy, Inc., and Ohio Valley Electric Corp. obtained no new financing authorizations from the Commission during the past fiscal year. However, Ohio Valley issued and sold during the year $91,500,000 of bonds and $15,250,000 of notes pursuant to construction financing commitments negotiated in earlier years. The organization and previous financing arrangements of these companies are described in the 17th, 18th, 20th, and 21st Annual Reports.[71]

In the past fiscal year the Commission was presented with the first formal proposal under the Act relating to the construction of an electric generating plant powered by atomic energy.[72] In this case, the Commission approved the issuance and sale of $500,000 par value capital stock and $500,000 of unsecured noninterest bearing notes, as part of the initial financing program for a new company, Yankee Atomic Electric Co., to be formed by a group of 12 sponsoring utility and holding companies for the purpose of constructing and operating an atomic power plant estimated to cost about $33,400,000. The Commission also approved the acquisition of these securities by six

[71] 17th Annual Report p. 102; 18th Annual Report p. 122; 19th Annual Report p. 80, 20th Annual Report pp. 84, 86; 21st Annual Report pp. 81, 83, 84, 85.

[72] Yankee Atomic Electric Power Co. et al., Holding Company Act Release No. 13048 (November 25, 1955). The 12 public-utility and holding companies which have sponsored the project are: New England Power Co., subsidiary of New England Electric System, a registered holding company, The Connecticut Light and Power Co., The Hartford Electric Light Co., Western Massachusetts Companies, Public Service Co. of New Hampshire, Montaub Electric Co , Boston Edison Co., Central Maine Power Co., Connecticut Power Co., New Bedford Gas and Edison Co., Cambridge Electric Light Co., and Central Vermont Public Service Co.

of the sponsoring companies which were required to obtain the authorization of the Commission pursuant to the provisions of the Act.

Two of the sponsors, New England Power Co., a subsidiary of New England Electric System, a holding company registered under the Act, and Connecticut Light and Power Co., an operating-holding company exempt from the provisions of the Act, each proposed to acquire more than 10 percent of the voting stock of Yankee. These two companies were required to obtain the Commission's approval of their acquisitions of Yankee stock and they also applied for exemptions from the provisions of the Act as holding companies. Four other sponsoring companies, the Hartford Electric Light Co., Western Massachusetts Cos., Public Service Co. of New Hampshire, and Montaup Electric Co., were affiliates of other public-utility companies and for that reason were also required to obtain approval of the Commission of their proposed acquisitions of Yankee stock. Montaup Electric Co. is a subsidiary of Eastern Utilities Associates, a registered holding company. The Commission authorized all of the proposed transactions and granted the requested exemptions without imposing any terms or conditions. In its opinion, the Commission took into account the novel and unusual circumstances present in the case, noting among other things, that the Yankee project will involve unusual risks, not merely in higher capital costs, but also with respect to the dependability of its operation and the possibility of its early obsolescence as new developments in the atomic power field are made. However, it added that a group approach will not merely minimize these risks to each of the sponsoring utilities but will provide them with a full opportunity to gain experience in the new field of atomic power.

The Commission made the findings required by sections 10 (b) and 10 (c) of the Act in respect of the proposed acquisitions of securities of Yankee Atomic by the sponsor companies. In applying the standards of section 10 (b) of the Act, the Commission noted that the sponsor companies would not acquire any control over each other by virtue of the proposed joint undertaking, that the interlocking relations and arrangements embraced by the project were the normal requirements of a joint operation of that type, and that they did not create a relationship of a kind which is detrimental to the public interest of investors or consumers or the interest.

In considering the application of section 10 (c) of the Act, the Commission found that the proposed acquisitions of Yankee Atomic's securities by the sponsor companies would not be detrimental to the carrying out of the integration and corporate simplification provisions of section 11 of the Act, and that the joint project tended towards the economical and efficient development of an integrated electric utility system in the New England area. It was noted that the sponsor companies supplied about 90 percent of the power require-

ments of the New England States and that Yankee Atomic's plant was capable of physical interconnection with all sponsor companies.

The Yankee case demonstrates the adaptability of the Holding Company Act, as administered by the Commission, to meet the needs of the atomic age. Yankee's sponsors have been able to combine their forces to develop atomic power in full compliance with the Act without seeking or receiving any exemption based on the research and development aspects of the project. It appears that the effect of the Act is not to impede this important development but rather to channel it along sound corporate and financial lines and to prevent the advent of atomic power from causing the reappearance of abuses which the Act was so successfully designed to remove.

RULES, FORMS, AND STATEMENTS OF POLICY

In accordance with a continuing program to reexamine the rules and forms adopted pursuant to the Act and to issue statements of policy regarding interpretations and procedures under the Act, the Commission in the past fiscal year adopted an amendment to one rule, adopted two statements of policy, and withdrew a proposal to amend a rule.

On February 17, 1956, the Commission adopted Statements of Policy with respect to first mortgage bonds [73] and preferred stocks of public utility companies.[74] In effect, these Statements of Policy represent a codification of certain principles and policies prescribed for the protective provisions of securities announced on a case-by-case basis over a period of 15 years, as modified in the light of experience and a reappraisal of those principles and policies and in the further light of comments received from various interested persons whose views were solicited by the Commission prior to adoption of the Statements of Policy. It is expected that the adoption of these Statements of Policy will bring about substantial simplification in the administration of the Act. Among other things, the Statements provide the means of achieving a greater degree of uniformity of administration and interpretation than was permissible under methods formerly used. They also provide investors, the issuing company, and the professional practitioners who specialize in this field with a convenient guide to enable them to determine in advance the basic requirements required by the Commission in examining proposals for the issuance and sale of mortgage bonds and preferred stocks of public utility companies subject to the Act.

In the 84th Congress, legislation was introduced to amend the Public Utility Holding Company Act so as to exempt from its provisions nuclear power reactor companies and their sponsors.[75] These amending bills failed of adoption after having been the subject of study

[73] Holding Company Act Release No. 13105

[74] Holding Company Act Release No. 13106.

[75] See the discussion of S 2643 and related bills under "Legislative Activities", pp 12-16, *supra*.

and comment and extensive hearings before a special subcommittee of the Senate Committee on Interstate and Foreign Commerce.

In the course of the subcommittee hearings it appeared that the managements of some utility and industrial companies might be reluctant to engage in sponsoring nuclear power projects because of fear of involvement in the Holding Company Act. To a large degree the Commission believed these fears groundless. Whereas the Commission had opposed efforts to grant automatic and permanent exemptions to nuclear power projects, it did agree as a matter of policy that nonprofit reactor companies were entitled to exempt status at least as long as they remained predominantly research and development projects. The Commission also found, in the last sentence of section 2 (a) (3) of the Act, authority to exempt certain nonprofit reactor companies by order or by rule.

Although none of the companies asserting fear of the Act as a deterrent to peaceful nuclear power development had in fact sought an exemptive rule or order, the Commission published for comment [76] and ultimately adopted [77] an amendment to rule U–7 for the benefit of nuclear power projects.

The amended rule in substance declares that a nuclear reactor company is not an electric utility company if (1) its ". . . only connection with the generation, transmission, or distribution of electric energy is the ownership or operation of facilities used for the production of heat or steam from special nuclear material which heat or steam is used in the generation of electric energy . . .", (2) if it ". . . is organized not for profit . . ." and (3) if it ". . . is engaged primarily in research and development activities." Certain filing requirements are set out for companies claiming exemption under the rule, and a procedure is established for challenge by the Commission.

Since it follows that if a non-profit nuclear reactor company in developmental stages is not a utility company, then no sponsor can become a holding company under the Act by virtue of its owning voting securities of the reactor company, the amended rule provides a device by which nuclear power projects can be organized without causing sponsors to become subject to the Act. This is not the only device, as the *Yankee Atomic Electric Co.* case and several other existing nuclear power projects attest, but the Commission believes it to be an important contribution to peaceful development in this important area. The Chairman stated, in a release on behalf of the Commission accompanying the adoption of the amended rule:

> The Securities and Exchange Commission is fully aware of the national and worldwide importance of the development of nuclear power for peaceful purposes in accordance with the policies expressed by the Congress in the Atomic Energy Act of 1954. These include the promotion of world peace, improvement of the

[76] Holding Company Act Release No 13200, June 15, 1956.
[77] Holding Company Act Release No 13221, July 13, 1956.

general welfare, increase in the standard of living, and strengthening of free competition in private enterprise.

We do not believe that the Public Utility Holding Company Act, as administered by the Securities and Exchange Commission, should deter private enterprise from going forward with nuclear power projects. We believe that nuclear reactors for the generation of electricity can be developed and ultimately incorporated into the electric utility industry in a manner consistent with the principles and standards of the Holding Company Act.

With minor exceptions, rule U–50 requires competitive bidding in connection with the issuance or sale of securities by registered holding companies and their subsidiaries. In the fiscal year 1953, the Commission undertook a study as to whether competitive bidding should be imposed as a condition to the exemption afforded by section 6 (b) of the Act. On November 25, 1953, the Commission published a notice of a proposed amendment to rule U–50 which would exempt from the competitive bidding requirements of the rule securities issued by public utility subsidiaries of registered holding companies if such issues had been expressly authorized by a State commission.[78] Extensive written comments on the proposal were received and public hearings on the matter were held in March 1954. No further action on the proposal was taken and on July 2, 1956, the Commission announced its decision not to adopt the proposed amendment to rule U–50.[79]

RELATIONSHIPS WITH STATE PUBLIC UTILITY COMMISSIONS

The long established policy of the Commission is to cooperate to the fullest extent possible with State and local regulatory authorities in all matters where their respective jurisdictions complement each other and in all other instances where such cooperation is desirable and appropriate. This policy was carried forward with renewed effectiveness in 1956. The underlying objective of the Holding Company Act is to free operating electric and gas utility companies from the control of absentee and uneconomic holding companies and to provide effective supervision over those regional integrated holding company systems which will continue in operation subject to the Act following compliance with the integration and corporate simplification provisions of section 11 (b) of the Act, thereby permitting more effective regulation of operating utility companies by the States and municipalities in which they operate.

This fundamental concept is inherent in the basic policies set out in the preamble of the Act. In section 1 (a) it is stated that: "Public-utility holding companies and their subsidiary companies are affected with a national public interest in that, among other things, * * * their activities extending over many States are not susceptible of effective control by any State and make difficult, if not impossible, effective State regulation of public-utility companies."

[78] See 20th Annual Report, p. 73.

[79] Holding Company Act Release No. 13213.

In section 1 (b) of the Act, Congress enumerated the serious abuses in public utility holding company financing and operations which it had found to exist and expressly stated that it was the policy of the Act, in accordance with which all other sections of the statute were to be construed, to meet the problems and eliminate the evils described. Among the abuses enumerated are several expressed references to obstructions to State regulation: (1) the issuance of securities by holding companies and other companies in holding company systems without the approval or consent of the States having jurisdiction over subsidiary public-utility companies; (2) the issuance of securities by subsidiary public-utility companies under circumstances which subject those companies to the burden of supporting overcapitalized financial structures and tend to prevent voluntary rate reductions; (3) the allocation of service company charges among subsidiary public-utility companies in different States so as to present problems of regulation which cannot be dealt with effectively by the States; and (4) the control of the accounting practices and rate, dividend and other policies of subsidiary public-utility companies so as to obstruct State regulation.[80]

This policy fostering cooperation with State regulatory authorities finds direct expression in a number of other sections of the Act. For example, section 6 (b) directs the Commission to exempt from the requirements of section 7 an issuance and sale of securities which has been expressly authorized by a State commission of the State in which the issuer is both organized and doing business and where the issuance of the securities is solely for the purpose of financing the issuer's business. In granting an exemption pursuant to section 6 (b), however, the Commission is empowered to impose such terms and conditions as it deems appropriate in the public interest or for the protection of

[80] The abuses set forth in sec. 1 (b) of the Act are as follows

"(1) When such investors cannot obtain the information necessary to appraise the financial position or earning power of the issuers, because of the absence of uniform standard accounts; when such securities are issued without the approval or consent of the States having jurisdiction over subsidiary public-utility companies; when such securities are issued upon the basis of fictitious or unsound asset values having no fair relation to the sums invested in or the earning capacity of the properties and upon the basis of paper profits from intercompany transactions, or in anticipation of excessive revenues from subsidiary public-utility companies; when such securities are issued by a subsidiary public-utility company under circumstances which subject such company to the burden of supporting an overcapitalized structure and tend to prevent voluntary rate reductions;

"(2) When subsidiary public-utility companies are subjected to excessive charges for services, construction work, equipment, and materials, or enter into transactions in which evils result from an absence of arm's-length bargaining or from restraint of free and independent competition; when service, management, construction, and other contracts involve the allocation of charges among subsidiary public-utility companies in different States so as to present problems of regulation which cannot be dealt with effectively by the States;

"(3) When control of subsidiary public-utility companies affects the accounting practices and rate, dividend, and other policies of such companies so as to complicate and obstruct State regulation of such companies, or when control of such companies is exerted through disproportionately small investment,

"(4) When the growth and extension of holding companies bears no relation to economy of management and operation or the integration and coordination of related operating properties; or

"(5) When in any other respect there is lack of economy of management and operation of public-utility companies or lack of efficiency and adequacy of service rendered by such companies, or lack of effective public regulation, or lack of economies in the raising of capital."

investors and consumers—a reservation which is essential to coordinate properly the financing practices of subsidiaries and their holding company parents so as to safeguard the overall financial integrity of the holding company system. In all instances where a State Commission has indicated an interest in the subject matter, the Commission has followed the regular practice of communicating with the State commission to discuss the issues raised by the proposal and to cooperate with it in settling the questions presented.

In this connection, the President of the National Association of Railroad and Utilities Commissioners, in addressing the Association's sixty-eighth annual convention in San Francisco in July 1956, stated:

> Supervision over the issuance of securities by intrastate utilities is an important function and in most jurisdictions such financing must be passed upon by State commissions. In many important cases, the proposed financing is also reviewed by the Securities and Exchange Commission. In this important area of dual regulation our relations with the Federal agency are harmonious.

In its enforcement of the geographical integration and corporate simplification provisions of section 11 (b) of the Act, in which area the Commission's jurisdiction is exclusive, interested State commissions are always notified of all developments and are given the privilege of participating as parties in proceedings whenever they so request. The Commission endeavors to defer to the wishes of State commissions in such cases to the extent permitted by the requirements of section 11, as interpreted by the Commission and by the courts.

Certain security and utility asset acquisitions similarly are exempted under section 9 (b) where they have been approved by a State commission. Moreover, the Commission may not authorize security issues (sec. 7 (g)) or the acquisition of assets (sec. 10 (f)) unless applicable State laws have been complied with. Section 8 prevents the ownership of both electric and gas utility properties in violation of State law, and section 20 (b) requires that accounting standards established by the Commission shall not be inconsistent with the provisions of applicable State law.

Other provisions of the Act reflect the congressional intent that the Commission's work be coordinated with the work of State commissions. Section 19 expressly provides that in any proceeding before it, the Commission shall admit as a party any interested State, State commission, municipality or any political subdivision of the State. In accordance with this provision the Commission regularly notifies all interested State commissions of any proceedings before it which may affect the work of such commission.

A number of specific sections of the Act look toward action by the Commission and State commissions on a cooperative basis. Section 18 authorizes the Commission to make available to State commissions information obtained in the course of its investigations under the

Act and also places the investigatory powers of the Commission at the disposal of State commissions. Section 13 (d) empowers the Commission, upon the request of a State commission, to require after notice and opportunity for hearing, the revision or elimination of inequitable servicing arrangements among the member companies of a mutual service company. Section 13 (g), which authorizes the Commission to conduct investigations and make recommendations with respect to servicing arrangements, directs that such recommendations be made available to State commissions.

An excellent example of cooperation with State commissions is described in the Commission's order [81] and Findings and Opinion,[82] issued on July 29, 1955, and July 20, 1955, respectively, approving a proposal for the issuance and sale to institutional investors of $97,500,000 principal amount First Mortgage Pipeline Bonds by American Louisiana Pipe Line Co., an interstate natural gas pipeline subsidiary of American Natural Gas Co., a registered holding company. The company also proposed the sale of $20,000,000 of common stock of its parent. The purpose of the financing was to obtain funds to construct a new pipeline that would connect Louisiana gulf coast gas fields with the system's facilities at points near Detroit and Bridgman, Mich. In support of their proposal, applicants represented that the new facilities would relieve an existing natural gas shortage in the States of Wisconsin and Michigan.

Appearances in the proceedings before the Commission were entered by the attorney general of the State of Wisconsin, the Public Service Commission of Wisconsin, the Michigan Public Service Commission, and the Corporation Counsel for the city of Detroit, Mich. Interested local gas companies also entered appearances and all of the parties participated actively in the hearings.

One of the two main issues raised by the proposal was whether the redemption provisions of the indenture securing the bonds were in conflict with established policies and precedents set forth by the Commission in similar cases. The prices at which the bonds could be redeemed for general purposes began at 104¼ percent. However, in the event the bonds were to be redeemed for the purpose of refunding at a lower interest rate, the prices at which the bonds could be called started at 115 percent, with declining prices in subsequent years. This latter provision gave the Commission considerable concern since it rendered refunding by the issuer improbable for several years and appeared to be in conflict with the established requirement of the Commission that senior securities be fully redeemable at the option of the issuing company upon the payment of a reasonable premium.

[81] Holding Company Act Release No. 12953.
[82] Holding Company Act Release No. 12991.

The Wisconsin Public Service Commission took the position that if the reduction of the redemption premiums through renegotiation of the bond indenture provisions with the prospective purchasers could not be accomplished without undue delay, or if progress on the pipeline would be seriously impaired or obstructed thereby, the financing should be approved. The city of Detroit and the Michigan Public Service Commission urged the Commission to approve the financing as proposed and not to jeopardize the pipeline by requiring a further renegotiation of the redemption premiums. They stated that delay in the construction of the line would have an adverse effect on a great number of consumers in urgent need of natural gas. The Commission, giving weight to the views expressed by the State and local regulatory bodies on behalf of the urgent consumer interests present in the case, approved the financing proposal without imposing terms or conditions, although it reaffirmed its policy against non-redeemable features or excessively high call premiums in senior securities, citing the Congressional policy against "lack of economies in the raising of capital" set forth in section 1 (b) (5) of the Act.

Another issue confronting the Commission arose out of the company's application for exemption of the proposed bond issue from the competitive bidding requirements of rule U–50. The Commission granted the exemption, but expressed concern over the limited extent to which competitive conditions had been maintained in negotiations for the sale of the bonds. The record of the proceedings showed that the pipeline company had entered into the bond purchase agreement with the Metropolitan Life Insurance Co. and that a small participation was given to the Mutual Life Insurance Co. of New York. The proposed sale was not discussed with any other prospective purchasers. In its opinion, the Commission stated that it recognized the activity of Metropolitan Life in the field of pipeline construction financing, but felt that more than one major source of funds for a sound pipeline enterprise might be found. In conclusion, it pointed out that in the future the Commission will expect, as a condition to obtaining an exception from rule U–50, that an issuer give evidence that it has discussed its issue with a reasonable number of prospective purchasers.

In addition to the specific cases in which the Commission and its staff have had occasion to cooperate or to coordinate their efforts with those of State commissions, the Commission has participated actively in the work of the National Association of Railroad and Utilities Commissioners since the Holding Company Act became law in 1935. All members of the Commission, its Secretary and its general counsel have been members of the Association continuously throughout the period. In all but 2 years a member of the Commission has served on the Executive Committee of the Association.

Commissioner Clarence H. Adams served on the Association's Executive Committee during the fiscal year, and he has been succeeded by Commissioner Andrew Downey Orrick. Members of the Commission have also served on various special and standing committees of the Association and its Secretary has served in similar capacities. In addition, members of the Commission's staff have served on accounting and other technical committees of the Association. Members of the Commission and members of its staff have attended all annual conventions of the Association and on a number of such occasions they have been invited to address the Association. This relationship has provided the Commission and its staff with a most valuable vehicle for the interchange of views on questions of mutual interest which is so essential to effective administration of the Holding Company Act.

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PART VII

PARTICIPATION OF THE COMMISSION IN CORPORATE REORGANIZATIONS UNDER CHAPTER X OF THE NATIONAL BANKRUPTCY ACT, AS AMENDED

Chapter X of the National Bankruptcy Act provides a procedure for reorganizing corporations in the United States District Courts. The Commission's duties under Chapter X are to provide independent expert assistance to the court and investors on the various legal and financial questions that arise in the proceeding, and to prepare reports on plans of reorganization. The Commission acts in an advisory capacity only and generally participates in proceedings in which there is a substantial public investor interest.

Under section 208 of Chapter X, the Commission is required to file a notice of appearance in a Chapter X proceeding if so requested by the judge of the court. The Commission may file a notice of appearance upon its own motion if approved by the judge of the court. Upon the filing of the notice, the Commission is deemed to be a party in interest with the right to be heard on all matters. The Commission has no right of appeal in a Chapter X proceeding, but it may participate in appeals taken by others.

Section 172 of Chapter X provides that if the scheduled indebtedness of a debtor does not exceed $3,000,000, the judge may, before approving any plan, submit such plan to the Commission for its examination and report. If the indebtedness exceeds $3,000,000, the judge must submit the plan to the Commission before he may approve it. The Commission is not obligated to file a report, and it has no authority either to veto or to require the adoption of a plan of reorganization or to render a decision on any other issue in the proceeding. Its recommendations are made for the benefit of the court and the security holders, affording them its disinterested views in a highly complex area of corporate law and finance.

SUMMARY OF ACTIVITIES

The Commission participated during 1956 in 33 proceedings involving the reorganization of 52 companies with aggregate stated assets of $455,136,000 and aggregate stated indebtedness of $324,036,000. During the year the Commission, with court approval, filed notices of appearances in 6 new proceedings under Chapter X involving companies with aggregate stated assets of $15,578,000 and aggregate

stated indebtedness of $16,837,000. Proceedings involving 4 principal debtor corporations were closed during the year. At the end of the year, the Commission was actively participating in 29 reorganization proceedings involving 48 companies with aggregate stated assets of $344,564,000 and aggregate stated indebtedness of $318,344,000.

Timing of Participation

Usually the Commission does not enter a case until the court has approved the petition for reorganization. However, section 208 of Chapter X, which authorizes the appearance of the Commission, either at the request of the court or upon the Commission's own motion if granted by the court, does not require the Commission to wait until approval of the petition. Developments in a particular case may impel the Commission to move to appear as soon as practicable, without awaiting approval of the petition.

In August 1954 an involuntary petition under Chapter X was filed by certain creditors against *Hudson & Manhattan Railroad Co.* in the United States District Court, Southern District of New York, and, after the company had moved to dismiss the proceeding, it filed an answer admitting that it was unable to pay its debts as they mature. The court thereupon approved the creditors' petition and appointed a trustee.[1] Thereafter a stockholder filed an answer denying that the debtor was unable to pay its debts as they mature. Subsequently, the company filed an amended answer and the court at this point requested the Commission to file its appearance, which the Commission did. Although the company had originally filed an answer consenting to reorganization under Chapter X, the company petitioned the court in March 1955 for leave to file a contrary answer. The court denied this petition. A hearing was then held on the issue of whether the debtor was unable to pay its debts as they mature and the court affirmed its approval of the involuntary petition on the ground that efforts to refinance the debtor's bonds, which matured in 2½ years, "had been abandoned as fruitless" * * * and "to insist on further liquidation to a point of actual default would be to ignore the purpose of Chapter X, which contemplates court intervention while there is still some hope of survival through readjustment of fixed obligations." [2] A further ground for the court's holding that the debtor was unable to pay its obligations as they mature was the fact that it was paying its current obligations by a process of liquidation inconsistent with its continuation as a going business.

The foregoing determinations of the district court were in accord with views expressed by the Commission, and were affirmed by the United States Court of Appeals for the Second Circuit.[3]

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[1] *In the Matter of Hudson & Manhattan Railroad Co*, 126 F. Supp. 359 (1954).

[2] *In the Matter of Hudson & Manhattan Railroad Co*, 138 F. Supp. 195 (1955).

[3] *In the Matter of Hudson & Manhattan Railroad Co.*, 229 F. 2d 616, cert. den., *Hudson & Manhattan Railroad Co.* v. *Harding, et al.*, 351 U. S. 582 (1956).

Generally the Commission participates only in proceedings in which there is a substantial public investor interest. However, there are many cases which, while the value of assets and numbers of investors involved do not appear to warrant participation as a party by the Commission, nevertheless appear to require continuous and careful observation. In these cases, the Commission makes suggestions to the trustee and the parties and occasionally submits briefs or reports.

One such case pending during 1956 was the reorganization of *Horsting Oil Co.* The trustees appointed by the United States District Court, Northern District of Illinois, filed an amended plan of reorganization based upon the issuance of additional shares of stock and all of the present stockholders were to be given the right to subscribe to the stock in proportion to their present holdings. One of the principal stockholders, who had been the debtor's executive vice president, agreed to subscribe to all shares not taken by other stockholders. Before the amended plan was acted upon by the court, this principal stockholder had been found guilty of making false and misleading representations in soliciting sales of fractional interests for the company. The Commission advised the trustees of the fact that this stockholder had been convicted of violations of the Securities Act of 1933 and also called their attention to the fact that the plan would leave this stockholder in control of the reorganized company. The trustees did not withdraw from their sponsorship of the amended plan and the Commission filed its appearance in the proceeding in order that it might be in a position to object to the plan.

Examinations and Reports on Plans of Reorganization

During 1956 the Commission issued two supplemental advisory reports in the consolidated reorganization proceedings involving *Inland Gas Corp.*, *Kentucky Fuel Gas Corp.*, and *American Fuel & Power Co.* These supplemental reports were issued as a result of the submission to the Commission by the United States District Court, Eastern District of Kentucky, of an amended plan of reorganization for these debtors. This plan, identified as the trustee's plan, provided for the sale of certain physical properties and materials and supplies of Inland Gas Corp. and three of the American Fuel & Power Co's. subsidiaries. The Commission found the trustee's plan, as finally amended, fair and equitable and feasible, and it was approved by the court and accepted by one of two classes of affected security holders but rejected by the other class. The court subsequently issued an order denying confirmation of this plan, because of the existence of a tax question and because it provided for payment to

unsecured creditors of interests accrued on the principal amounts of their claims from the date of filing of the Chapter X petition. This order has been appealed.

The district court also found unworthy of consideration a plan submitted by a creditor providing for an internal reorganization of the debtor, holding that the plan was neither fair nor feasible and provided for "heavy indebtedness." This order was also appealed. These two appeals are now pending before the United States Court of Appeals, Sixth Circuit, [4] and the Commission has taken the position in that court that the district court properly refused to confirm the trustee's plan because the plan had not been accepted by the creditors affected thereby and an internal reorganization plan appears to be available which would eliminate the tax question. The Commission also contends that the district court should have submitted the creditor's plan providing for an internal reorganization to the Commission for examination and report. It asserts that the fact that a plan appears to have features which are unfair or unfeasible does not necessarily make it unworthy of consideration since often the improper features are not of the essence of the plan and might be subsequently corrected. As to the district court's objection to "heavy indebtedness," the Commission contends that with respect to questions of feasibility, which involve a financial judgment to the future, it was intended by Congress that the Commission's analysis should be made available to courts and investors.

A very important issue in both appeals involves the question whether public holders of unsecured debt may be deprived of postreorganization interest. The Commission contends that the statutory limitations of section 63a of the Bankruptcy Act, which sets forth the types of debts that may be proved and allowed in bankruptcy, do not apply in Chapter X. It further contends that the barring of postreorganization interest to public holders of unsecured debt in the circumstances of this case is improper since the surplus would be distributed to a creditor whose holdings were subordinated by reason of its inequitable conduct towards the public holders of unsecured debt of the debtor.

During 1956 a plan of reorganization proposed by the trustee of *Third Avenue Transit Corp.* and its subsidiaries was submitted to the Commission for examination and report. The Commission concluded that the plan was not feasible in light of the debtor's history and the risks inherent in its business because the consolidated debt ratio proposed for the reorganized company was in the Commission's opinion grossly excessive. The Commission, therefore, recommended

[4] *In the Matter of Inland Gas Corp.; In the Matter of Kentucky Fuel Gas Corp; In the Matter of American Fuel & Power Co., Nos. 12861-12867.*

that consideration be given to amending the plan to eliminate proposed new income debentures and substitute new common stock therefor, to improve the sinking fund for proposed new bonds that were to be issued, and to provide for the merger of Third Avenue and its principal operating subsidiary, Surface Transportation Co., Inc. As to fairness, the Commission concluded that the plan would be fair to all classes of creditors and security holders if it were amended to provide for more effective competition for the underwriting of the new securities to be issued by the reorganized company, to provide for more equitable provisions respecting the composition of the initial board of directors, and to eliminate provisions for settlement of claims against former officers and directors of Third Avenue unless based upon valid consideration. In a supplemental report to the district court on the amendments to the plan submitted by the trustee, the Commission expressed the view that the plan was still unfeasible in that the proposed amendments failed to meet the basic objections expressed by the Commission in its advisory report.

Through the assistance of the Commission's staff a new plan of reorganization was worked out. The trustee withdrew his earlier plan and, jointly with an adjustment bondholders' committee, sponsored a plan which provided for the merger of Third Avenue and its principal operating subsidiary and for the issuance by the new company of new first mortgage bonds and common stock. All of the new common stock would be acquired by Fifth Avenue Coach Lines, Inc., in consideration for which it would issue to the trustee shares of its own common stock and cash. Under the plan the refunding bondholders of Third Avenue were treated substantially the same as in the earlier plan except that the sinking fund was appropriately strengthened. The adjustment bondholders were afforded substantially better treatment under the new plan. The Commission reported to the district court in a second supplemental report that the joint plan was fair and equitable and feasible. Later in approving the plan, the court commended the Commission and the New York Public Service Commission for their assistance.[5]

Activities With Respect to Allowances

The Commission has taken an active part in the matter of allowance of compensation for those claiming to have rendered services and incurred expenses in Chapter X proceedings. In making allowances the court seeks to protect the estate from exorbitant charges,

[5] In the court's opinion Judge Dimock stated:

"The plan, down to the minutest detail, has been discussed and approved in the reports of the New York Public Service Commission and the Securities and Exchange Commission. It would be presumptuous for me to attempt to add everything to the analysis of these experts. I have nothing but praise for the widsom of the legislation which gave the court the benefit of their participation and nothing but gratitude for the enormous amount of work done by these two bodies on very demanding schedules as the court submitted plan after plan and amendment after amendment to them." *In the Matter of Third Avenue Transit Corp. and Subsidiaries.* (U. S. D. C. S. D. N. Y. Nos. 85851, 86410, 86413, 86412, 86537 Consolidated.)

at the same time providing equitable treatment to the applicants. The Commission receives no allowances from estates in reorganization and is able to present a wholly disinterested and impartial view. In each case in which the Commission participates it makes a careful study of the applications of the various parties to the end that unnecessary duplication of services shall not be compensated and that compensation shall be allotted on the basis of the work done by each claimant and of his relative contribution to the administration of the estate and the formulation of a plan.

A significant decision involving allowances was rendered during 1956 in the *Central States Electric Corp.* reorganization in the United States District Court, Eastern District of Virginia.[6] The trustees appointed by the court had brought an action in the United States District Court, Southern District of New York, against former officers and directors of the debtor and others. This action was ultimately unsuccessful and certain of the defendants made application to the District Court in New York for allowance of expense and attorneys' fees pursuant to article 6A of the New York General Corporation Law, which provides for indemnification of officers and directors of litigation expenses under certain conditions. The United States Court of Appeals, Second Circuit, reversed and directed, dismissal of the New York District Court's order assessing expenses and attorneys' fees against the debtor in favor of the former officers and directors.[7] The basis of the reversal was that jurisdiction concerning such allowances was in the reorganization court in Virginia. Thereafter, attorneys for certain of the defendants in the prior action applied to the reorganization court seeking compensation. One of the grounds relied on was the contention that the attorneys' services in defending the directors advanced or benefited the reorganization proceeding in that termination of the litigation was necessary for the final disposition of the reorganization proceeding. The Commission was an active participant in the reorganization from the outset and urged that the petition be denied. The reorganization court dismissed the petition on the grounds that the New York General Corporation Law was not binding upon it and that counsel for the defendants, seeking to avoid liability for certain claims asserted by the trustees, did not contribute anything to the reorganization. An appeal has been filed by the unsuccessful applicants in the United States Court of Appeals, Fourth Circuit.[8] The matter was pending at the close of the fiscal year.

[6] *In the Matter of Central States Electric Corp.*, Civil Action No. 16-620
[7] *Austrian* v. *Williams*, 216 F. 2d 278 (1954).
[8] *LeBoeuf* v. *Austrian*, No. 7304, (November Term 1956)

Commission's Activities Under Chapter XI

Section 328 of Chapter XI of the Bankruptcy Act provides that the Commission may apply to the district court for dismissal of a Chapter XI proceeding when it believes that the case properly belongs under Chapter X. The question of whether Chapter X or Chapter XI is the appropriate statutory proceeding for the financial rehabilitation of a corporation in a particular case is one which has arisen with increasing frequency in recent years. This problem was illustrated in the recent decision of the United States Supreme Court in the *General Stores Corporation* case, where the court considered whether Chapter X or Chapter XI was available for relief of the corporation involved.[9]

General Stores Corporation's publicly held securities consisted of over 2,000,000 shares of $1 par value common stock owned by more than 7,000 widely scattered shareholders. It had no other publicly held securities. For some years General Stores (formerly D. A. Schulte, Inc.) operated a chain of tobacco stores. After a reorganization under section 77B of the Bankruptcy Act in 1940 and a few years of prosperity, substantial losses caused a new management to be installed. It decided to abandon the existing business and to have the corporation acquire the stock of two drug chains. In October 1954 General Stores filed a petition under Chapter XI in the United States District Court, Southern District of New York, proposing an arrangement extending its unsecured obligations. The court granted motions of the Commission and a stockholder to dismiss the Chapter XI proceedings [10] and this decision was affirmed by the United States Court of Appeals, Second Circuit.[11]

The Supreme Court granted a petition for a writ of certiorari [12] filed by the corporation and, with two Justices dissenting, affirmed the Court of Appeals' decision holding that "the lower court took a fair reading of c. X and the functions it served and reasonably concluded" that General Stores Corporation "needed a more pervasive reorganization than is available under c. XI." [13] Accordingly, it found that the district court's "exercise of discretion" did not transcend "the allowable bounds." Following the decision of the Supreme Court, General Stores filed a voluntary petition under Chapter X.

The Supreme Court disagreed with the Commission's contention that public ownership of the debtor's securities is the determinative factor. The court recognized that in most cases where the debtor's securities are publicly held Chapter X might well afford the more appropriate remedy but stated that neither the character of the debtor nor its capital structure is controlling. The essential criterion

[9] *General Stores Corp.* v. *Shlensky et al.*, 350 U. S. 462 (1956).
[10] *In re General Stores Corporation*, 129 F. Supp. 801 (1955).
[11] *In re General Stores Corporation*, 222 F. 2d 134 (1955).
[12] *General Stores Corp.* v. *Shlensky et al.*, 350 U. S. 809 (1955).
[13] *General Stores* v. *Shlensky*, 350 U. S. 462 (1956).

is the needs to be served. To the extent that the Supreme Court did not lay down absolute criteria in the *General Stores* case, an area of uncertainty remains as to the choice of remedies by a corporation in need of debtor relief. The question of determining whether the Commission should move to dismiss a Chapter XI petition will necessitate an extensive examination of the facts in each particular case.

Subsequent to the Supreme Court's decision in the *General Stores* case the United States Court of Appeals, Sixth Circuit, affirmed the decision of the United States District Court, Western District of Michigan, refusing to dismiss a Chapter XI proceeding involving *Wilcox-Gay Corporation* and referred to the Supreme Court's pronouncement in the *General Stores* case "that the District Judge * * * was privileged to exercise * * * sound discretion".[14] The Commission did not seek a writ of certiorari.

Where there are indications of misdeeds by management, Chapter X appears to provide the appropriate proceeding for the needs to be served. Accordingly the Commission moved for dismissal of a petition filed in the United States District Court, Western District of Washington, by *Alaska Telephone Corp.* under Chapter XI, because the circumstances of the case called for an investigation into the existence of possible causes of action against the management and the underwriters. The Chapter XI petition disclosed that *Alaska's* $71,600 of outstanding debentures were held by approximately 1,300 investors residing at a great distance from the company's operations and offices and from the forum of the court proceeding. Shortly after the Commission's motion, *Alaska* consented to file under Chapter X and the district court approved the petition.[15]

In another case arising before the decision in the *General Stores* case, a motion by the Commission to dismiss a proceeding brought by *Liberty Baking Corp.* for an arrangement under Chapter XI was denied by the United States District Court, Southern District of New York.[16] Of *Liberty's* outstanding debt securities, 65 percent, amounting to $1,031,820, is in the hands of public investors; the entire issue of presently outstanding preferred stock and 20 percent of Liberty's common stock are also publicly held. The Commission has appealed the district court's decision, contending that the Chapter XI arrangement in this case does not accord public debenture holders fair and equitable treatment because these security holders are not fully compensated while stockholders are accorded participation under the plan. The Commission contends that the district court erred in permitting the debtor to utilize Chapter XI.

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[14] *Securities and Exchange Commission* v. *Wilcox-Gay Corporation*, 231 F. 2d 859 (1956).

[15] For a discussion of the indictment of officers of Alaska and the underwriter of its debentures, see the section on criminal proceedings in Part XI herein.

[16] *In re Liberty Baking Corp.*, Civil Action No. 91173 (1955).

PART VIII

ADMINISTRATION OF THE TRUST INDENTURE ACT OF 1939

The Trust Indenture Act of 1939 requires that bonds, notes, debentures, and similar securities publicly offered for sale, except as specifically exempted by the Act, be issued under an indenture which meets the requirements of the Act and has been duly qualified with the Commission. The Act requires that indentures to be qualified include specified provisions which provide means by which the rights of holders of securities issued under such indentures may be protected and enforced. These provisions relate to designated standards of eligibility and qualification of the corporate trustee to provide reasonable financial responsibility and to minimize conflicting interests. The Act outlaws exculpatory provisions formerly used to eliminate all liability of the indenture trustee and imposes on the trustee, after default, the duty to use the same degree of care and skill "in the exercise of the rights and powers invested in it by the indenture" as a prudent man would use in the conduct of his own affairs.

The provisions of the Trust Indenture Act are closely integrated with the requirements of the Securities Act. Registration pursuant to the Securities Act of securities to be issued under a trust indenture subject to the Trust Indenture Act is not permitted to become effective unless the indenture conforms to the requirements of the latter Act, and necessary information as to the trustee and the indenture must be contained in the registration statement. In the case of securities issued in exchange for other securities of the same issuer and securities issued under a plan approved by a court or other proper authority which, although exempted from the registration requirements of the Securities Act, are not exempted from the requirements of the Trust Indenture Act, the obligor must file an application for the qualification of the indenture, including a statement of the required information concerning the eligibility and qualification of the trustee.

Number of indentures filed under the Trust Indenture Act of 1939

	Number	Aggregate amount
Indentures pending June 30, 1955	12	$275,452,000
Indentures filed during fiscal year	183	4,495,059,626
Total	195	4,770,511,626
Disposition during fiscal year:		
Indentures qualified	168	3,992,059,526
Indentures deleted by amendment or withdrawn	7	124,302,800
Indentures pending June 30, 1956	20	654,149,300
	195	4,770,511,626

Section 304 (d) of the Act permits an exemption from any one or more provisions of the Act in the case of corporations organized and existing under the laws of a foreign government if and to the extent the Commission finds that compliance with such provision or provisions is not necessary in the public interest and for the protection of investors. During the year certain German corporations filed applications pursuant to this provision for exemption from the provisions of the Act requiring that the rights, powers, duties and obligations under the indenture be conferred upon an American Institutional Trustee alone or jointly with a German cotrustee except under certain circumstances.[1] These applications were made in connection with the issuance of debt adjustment bonds by such corporations under offers of settlement made pursuant to the London Agreement on German External Debts of February 27, 1953, between the Federal Republic of Germany, the United States of America and other countries. It was the contention of the corporations that the vesting of title and related powers in the German cotrustee was essential to the orderly settlement and payment of the obligations, in that the bondholders' rights in the security were rights in German property, created under German mortgage laws and to a large extent dependent upon the interpretation of the German laws implementing the London Agreement, and that the rights in the security should be adjudicated only by German courts. While the vesting of title to the security in the cotrustee necessarily results in certain acts (relating to the release of property, the reduction of the registered amount of liens and the disposition of release moneys) being performable by the cotrustee, any such action is subject to ultimate control by the American Institutional Trustee if such control is exercised within 30 days after notice of the proposed action by the cotrustee.

[1] Trust Indenture Act Releases Nos. 81, 88, 89, 91, and 98.

PART IX

ADMINISTRATION OF THE INVESTMENT COMPANY ACT OF 1940

The Investment Company Act of 1940 provides for the registration and regulation of companies engaged primarily in the business of investing, reinvesting, holding and trading in securities. The Act requires, among other things, disclosure of the finances and investment policies of these companies, prohibits such companies from changing the nature of their business or their investment policies without the approval of their stockholders, regulates the means of custody of the companies' assets, prohibits underwriters, investment bankers, and brokers from constituting more than a minority of the directors of such companies, requires management contracts to be submitted to security holders for their approval, prohibits transactions between such companies and their officers, directors and affiliates except with the approval of the Commission, and regulates the issuance of senior securities. The Act requires face-amount certificate companies to maintain reserves adequate to meet maturity payments upon their certificates.

COMPANIES REGISTERED UNDER THE ACT

As of June 30, 1956, there were 399 investment companies registered under the Act, and it is estimated that on that date the aggregate value of their assets was approximately $14 billion. This represents an increase of approximately $2 billion over the corresponding total at June 30, 1955. These companies were classified as follows:

Management open-end	201
Management closed-end	106
Unit	79
Face amount	13
Total	399

TYPES OF NEW INVESTMENT COMPANIES REGISTERED

During 1956, 46 new companies registered under the Act while the registration of 34 was terminated. These companies were classified as follows:

	Registered during the fiscal year	Registration terminated during the fiscal year
Management open-end	21	4
Management closed-end	17	21
Unit	8	9
Total	46	34

The classification of two management closed-end registered investment companies was changed to management open-end companies during the year.

The new management investment companies registered under the Act during the year subscribed to a wide variety of investment objectives. Five of these companies were organized for the purpose of emphasizing investment in industrial companies engaged in various phases of automation, several others for investment in the securities of life insurance companies, and several for investments in so-called "special situations." For the first time an investment company organized in Hawaii registered under the Act in order to make its shares available for sale in the continental United States. Each of the nine unit investment companies registered during the year was organized to operate periodic payment plans for the purchase of the common stock of a single specified industrial corporation or shares of other investment companies.

GROWTH OF INVESTMENT COMPANY ASSETS

The striking growth of investment company assets during the past 15 years, particularly in the most recent years, is shown in the following table:

Number of investment companies registered under the Investment Company Act of 1940 and the estimated aggregate assets at the end of each fiscal year 1941 through 1956

Fiscal year ended June 30	Number of companies				Estimated aggregate assets at end of year (in millions)
	Registered at beginning of year	Registered during year	Registration terminated during year	Registered at end of year	
1941	0	450	14	436	$2,500
1942	436	17	46	407	2,400
1943	407	14	31	390	2,300
1944	390	8	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
Total		729	330		

STUDY OF SIZE OF INVESTMENT COMPANIES

Under section 14 (b) "The Commission is authorized, at such times as it deems that any substantial further increase in size of investment companies creates any problem involving the protection of investors or the public interest, to make a study and investigation of the effects

of size on the investment policy of investment companies and on security markets, on concentration of control of wealth and industry, and on companies in which investment companies are interested, and from time to time to report the results of its studies and investigations and its recommendations to the Congress." This provision has been in effect since the adoption of the Act, but no study or investigation has been made.

With funds made available by the Congress in its 1956 and 1957 fiscal year appropriations the Commission has commenced a study under this section of the Act. The great expansion in the aggregate assets of investment companies registered under the Investment Company Act, from approximately $2.5 billion in 1941 to the present total of approximately $14 billion, the rapid growth in size in recent years of investment companies, and the growing significance of investment companies as holders of equity securities traded in the market are some of the reasons for such a study. As the first step, the Commission has retained the services of Prof. Paul F. Wendt, professor of finance at the University of California (Berkeley), and two associates on the faculty, James E. Walter and James R. Longstreet, to report on a program for research and study for the Commission. When this necessary groundwork has been completed the Commission hopes to be in a position to determine the statistical and other data which may be relevant, and the methods to be used in obtaining them.

CURRENT INFORMATION

The basic information disclosed in notifications of registration and registration statements is required by rules promulgated under the statute to be kept up to date, except in the case of certain inactive unit trusts or face-amount companies. During the 1956 fiscal year the following current reports and documents were filed:

Annual reports	267
Quarterly reports	195
Periodic reports to stockholders (containing financial statements)	698
Copies of sales literature	1,935

APPLICATIONS AND PROCEEDINGS

One of the functions of the Commission in its regulation of investment companies is to determine whether applications for exemption filed under various provisions of the Act may be granted pursuant to the statutory standards. Under section 6 (c) of the Act, the Commission is empowered, either upon its own motion or by order upon application, to exempt any person, security or transaction from any provision of the Act if and to the extent such exemption is necessary or appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act. Various other sections, such as 6 (d), 9 (b), 10 (f),

11 (a), 17 (b), and 23 (c) contain specific provisions and standards pursuant to which the Commission may grant exemptions from particular sections of the Act or may approve certain types of transactions.

During 1956 a total of 172 applications of various types were pending before the Commission, of which 115 were disposed of, leaving 57 pending on June 30, 1956. Thirty-three of the 128 applications filed during the fiscal year were for general exemptions, 24 for orders terminating registrations, 33 for orders under section 17 of the Act permitting transactions between investment companies and affiliates, and 38 for other relief. The various sections of the Act under which these applications were filed, and their disposition during the fiscal year, are shown in the following table:

Applications filed with and acted upon by the Commission under the investment Company Act of 1940 during the fiscal year ended June 30, 1956

Sections	Subject involved	Pending July 1, 1955	Filed	Closed	Pending June 30, 1956
2, 3, 6	Status and exemption	12	33	24	21
7 (d)	Registration of foreign investment companies	1	1	0	2
8, 35	Compliance with registration requirements	0	1	1	0
8 (f)	Termination of registration	12	[a] 24	[b] 23	13
9, 10, 16	Regulation of affiliations of directors, officers, employees, investment advisers, underwriters, and others.	1	15	16	0
11, 25	Regulation of security exchange offers and reorganization matters.	1	2	1	2
12, 13, 14 (a), 15	Regulation of functions and activities of investment companies.	2	6	8	0
17	Regulation of transactions with affiliated persons.	11	33	29	15
18, 19, 21, 22, 23	Requirements as to capital structures, loans, distributions and redemptions, and related matters.	4	9	10	3
28 (b)	Regulation of face-amount certificate companies	0	2	2	0
32	Accounting supervision	0	2	1	1
Total		44	128	115	57

[a] Excludes 12 sec 8 (f) proceedings initiated by the Commission on its own motion without application.
[b] Excludes 7 sec 8 (f) orders entered by the Commission on its own motion without application.

In the past fiscal year eight applications relating to the following companies were set down for formal hearing: *Atlas Corp.*,[1] *International Mining Corp.*,[2] *Investors Diversified Services, Inc.*,[3] *North River Securities Co., Inc.*,[4] *B. S. F. Co.*,[5] *Private Investment Fund for Governmental Personnel, Inc.*,[6] *Atomic, Chemical & Electronic Shares, Inc.*,[7] and *Alleghany Corp.*[8] These matters are discussed below and illustrate the problems arising under various sections of the Act.

[1] Investment Company Act Release No. 2301 (January 24, 1956).
[2] Investment Company Act Release No. 2332 (April 2, 1956).
[3] Investment Company Act Release No. 2228 (September 21, 1955).
[4] Investment Company Act Release No. 2378 (June 25, 1956).
[5] Investment Company Act Release No. 2380 (June 27, 1956).
[6] Investment Company Act Release No. 2307 (January 27, 1956)
[7] Investment Company Act Release No. 2335 (April 6, 1956).
[8] Investment Company Act Release Nos. 2313 and 2323 (February 13 and March 2, 1956).

Of the matters considered by the Commission pursuant to formal applications filed under a particular section of the Act, those arising under section 17 (a) and (b) of the Act requiring a determination of the fairness of transactions between affiliates are generally the most difficult and complex. The *Atlas Corp.* and the *International Mining Corp.* matters are two examples, both of which involved the merger of affiliated companies in which it was necessary to value securities of diverse types for the purpose of assuring their equitable allocation among public security holders of the merging companies. In the *Investors Diversified Services, Inc.*, matter, that company was under common control with Atlantic Life Insurance Co. and Life Companies, Inc., and sought to exchange its holdings of preferred stock in one of these insurance companies for that of the other and to purchase additional shares. The Commission granted the requested exemptions in the foregoing cases upon finding that the transactions were fair and reasonable and involved no overreaching. The *North River* case involved the purchase of the assets of real estate companies and the securities of a wholesale hardware company from affiliated persons. This matter was pending at the end of the year.

Matters involving affiliated transactions as to which no hearing was necessary included (i) the purchase by an affiliate from an investment company of the control of a business development company;[9] (ii) the exchange by two investment companies of the second mortgage bonds of an affiliated industrial company for its debentures and common stock warrants;[10] and (iii) the surrender of securities by a company controlled by an investment company to an affiliated company in partial liquidation and the receipt of cash and other securities therefor.[11]

Another important activity under the Investment Company Act relates to questions and proceedings arising under sections 3 and 6 as to whether a company is required to register under the Act or whether a company is entitled to an exemption from any or all the provisions of the Act. Much of this work is accomplished by correspondence and by conference. In the *B. S. F. Co.* matter mentioned above, which was pending at the close of the fiscal year, and in *Real Silk Hosiery Mills, Inc.*,[12] formal hearings were held to determine the claims of these companies that they were primarily engaged in a business other than that of an investment company. In addition, the Commission has instituted injunctive proceedings against the *Variable Annuity Life Insurance Company of America* alleging that it is an investment company required to register under the Act. An alterna-

[9] *American Research & Development Co.*, Investment Company Act Release No. 2254 (November 3, 1955).
[10] *Axe Houghton Fund A*, Investment Company Act Release No. 2373 (June 22, 1956).
[11] *E. I. DuPont De Nemours and Co.*, Investment Company Act Release No. 2208 (August 5, 1955).
[12] Application granted. *Real Silk Hosiery Mills, Inc.*, Investment Company Act Release No. 2220 (August 22, 1955).

tive allegation seeks the registration of the variable annuity reserve fund maintained by the company as an investment company. This matter is discussed more fully hereinafter under Litigation.

Section 35 of the Act authorizes the Commission to prevent an investment company from adopting a deceptive or misleading name or implying that the company or its securities have been recommended or approved by the United States or an agency or officer thereof. *The Private Investment Fund for Governmental Personnel, Inc.*, mentioned above, involved both of these aspects of section 35, including an issue of possible confusion in name with an existing insurance company. Hearings in this matter have been held, the case was argued before the Commission and the matter was pending at the close of the fiscal year. In the *Atomic, Chemical & Electronic Shares, Inc.*, case, two established existing investment companies claimed that because of similarity of names with a proposed investment company the public would be misled as to the identities of the companies. The matter, after being noticed for hearing, was settled by a change in the name of the new company.

Due perhaps to the increase in recent years in the number of investment companies and the highly competitive nature of the industry, there appears to be a growing tendency to adopt corporate names containing some special sales appeal by implying that its securities have particular investment characteristics or that the company invests in a particular industry. Such names may be misleading and deceptive unless the investment policies of the company offer reasonable assurance that the implications of the name will be realized. In numerous instances during the year the Commission settled such problems administratively by requiring either a modification of the name or the conformance of the company's investment policy to the representations implicit in the name.

Some transactions involving investment companies, while important and complicated, do not require a filing under the statute by the investment company or any affiliated person. Nevertheless, these matters are scrutinized by reason of the Commission's responsibilities under sections 25 and 36 of the Act to bring court proceedings if it believes that proposed transactions in reorganizations are grossly unfair or that management has committed a "gross abuse of trust." An important example of this type of matter which arose in 1956 involved the proposal of an investment company to repurchase a substantial number of its outstanding shares of preferred stock on the market with cash on hand. The stock was entitled to accumulated dividend arrears for a considerable number of years, although in recent years the current dividends had been more than earned and had been paid. These excess earnings which might have been used to reduce the dividend arrears had instead been retained by the

company although admittedly not needed in the business. It appeared inequitable to the Commission that such funds, on which all the preferred stockholders had an equitable claim, be used to buy out a few preferred stockholders. This was particularly true since the market price of the stock was substantially less than its liquidating value as well as its redemption price and the benefits arising from such a use of the funds would redound essentially to the common stock and not the remaining preferred stockholders. After the Commission's views had been brought to the company's attention, the repurchase program was abandoned.

Alleghany Corp.

The question of Alleghany Corp.'s status as an investment company and the litigation in connection therewith is described in detail at pages 101–102 of the Commission's 21st Annual Report. Since that report Alleghany's status has been resolved for the time being by its registration as an investment company on December 9, 1955.

On November 18, 1955, a special three judge court of the United States District Court for the Southern District of New York, upon complaint of certain Alleghany stockholders, entered an opinion finding, among other things, that Alleghany was an investment company subject to regulation under the Act and that the Interstate Commerce Commission had improperly asserted jurisdiction over Alleghany by orders dated March 2 and May 24, 1955.[13] The Interstate Commerce Commission orders, if effective, would have subjected Alleghany to regulation under the Interstate Commerce Act and thus brought it within the exceptive provisions of section 3 (c) (9) of the Investment Company Act.

Since the three-judge court found that the Interstate Commerce Commission either had no jurisdiction over Alleghany or had not properly exercised it, the court found certain Interstate Commerce Commission orders of May 26 and June 22, 1955, to be a nullity. These orders had approved Alleghany's issuance of new convertible preferred stock in exchange for an outstanding issue of preferred stock which had a claim on assets of approximately $33,000,000. Having found Alleghany to be an unregistered investment company on June 23, 1955, the court found the issuance of the new preferred stock on that day to be unlawful under section 7 of the Investment Company Act. This section prohibits, among other things, the use of the mails or means of interstate commerce by an unregistered investment company in effecting security transactions.

[13] *Breswick & Co.* v. *U. S. et al.*, 138 F. Supp. 123 (1955) In the proceedings before the Interstate Commerce Commission this Commission had filed memoranda setting forth the view that Alleghany was primarily an investment company and that accordingly the Interstate Commerce Commission should in its discretion limit its jurisdiction to matters relating to any acquisition of a carrier by Alleghany, and that in other respects Alleghany should be subject to the broader and more comprehensive regulatory provisions of the Investment Company Act.

Pursuant to its finding the court entered a final injunction on December 23, 1955, making permanent earlier orders restraining the distribution and transfer of approximately 400,000 shares of the new convertible preferred stock which was held by the exchange agent for delivery. The transfer of 900,000 shares of this stock which had been delivered to the stockholders through the mails on June 23, 1955, had also been preliminarily enjoined, but Mr. Justice John Marshall Harlan of the United States Supreme Court stayed the preliminary injunction in this respect. Trading in the new convertible preferred stock has been suspended on the stock exchanges since June 1955.

Alleghany and the Interstate Commerce Commission have filed notices of appeal to the United States Supreme Court from the three-judge court order of December 23, 1955, and the matter is now pending for argument.

Shortly after Alleghany had registered as an investment company a number of its preferred and common stockholders, as well as Alleghany itself, filed applications with the Commission seeking an exemption, *nunc pro tunc*, under section 6 (c) of the Act from the provisions of section 7 of the Act for the issuance and exchange of the new preferred stock. Objection to the granting of the application was entered by certain common stockholders, who were the complainants in the injunctive actions. Extensive public hearings were held and the matter was pending before the Commission at the end of the fiscal year.[13a]

RULES AND REGULATIONS

Section 17 (a) prohibits, with certain exceptions, an affiliate of a registered investment company from purchasing from, or selling to, the investment company securities or property. The terms "purchase" and "sale" as used in this section embrace distributions of various kinds made by investment companies to their security holders, sometimes under circumstances in which the evils intended to be prevented by this section of the Act are not present. To obviate the burden on the Commission and on the companies involved in filing and considering certain of these transactions under the exemptive

[13a] On November 30, 1956, the Commission denied the applications for exemption, *Alleghany Corporation*, Investment Company Act Release No. 2446. The Commission found that the new convertible preferred stock was a right to purchase, specifically outlawed by Section 18 (d) of the Investment Company Act, and not a senior security which would be exempt from Section 18 (d). It stated that whether a security is a right to purchase "is not controlled by the nominal designation given the security but is rather appropriately based on a realistic appraisal of the rights and values attaching to it at time of issuance", and pointed out that the preferred stock attributes of the new stock are "clearly subordinate and probably have an indiscernible influence on its market value." The Commission concluded that the requested exemption from the statute could not be granted in view of the difficulties of evaluating the new security that would be imposed on investors, both present as well as prospective, to whom the safeguards of the statute extend, and the fact that it was not able to find on the basis of the record, which was unclear and conflicting as to the ultimate value of the new stock, that the exchange offer fell within the range of fairness.

Commissioner Patterson dissented on the ground that, since the new preferred stock carried with it a priority over the common stock as to distribution of assets and payment of dividends, it was a senior security and therefore specifically exempted by Section 18 (e) (2) from the prohibitions of Section 18, and that the record showed the exchange offer fell within the permissible range of fairness.

provisions of section 17 (b) of the Act, the Commission on September 28, 1955, after notice and opportunity for public hearing, adopted its rule N–17A–5 which provides as follows: "When a company makes a pro rata distribution in cash or in kind among its common stockholders without giving any election to any stockholder as to the specific assets which such stockholder shall receive, such distribution shall not be deemed to involve a sale to or a purchase from such distributing company as those terms are used in sections 17 (a) of the Act."

LITIGATION UNDER THE INVESTMENT COMPANY ACT OF 1940

Just before the end of the fiscal year the Commission filed a complaint in the United States District Court for the District of Columbia against the Variable Annuity Life Insurance Co. of America, Inc.[14] (VALIC) in which it was alleged that the company is issuing securities which should be registered under the Securities Act of 1933 and that the company, or in the alternative certain funds which it administers, is an investment company which should be registered under the Investment Company Act of 1940. In its answer, VALIC, among other things, denied that the contracts it is selling are securities and that it is an investment company. VALIC is one of the first companies to sell to the general public so-called "variable annuities," which are widely recognized as a new and novel instrument. The company is incorporated under the laws of the District of Columbia pertaining to the incorporation of life insurance companies and is supervised by the Superintendent of Insurance of the District of Columbia. Since the filing of the complaint, VALIC has been issued a license to transact business in the State of West Virginia by the West Virginia Commissioner of Insurance. VALIC intends to invest the "net premiums" which it receives from the sale of its contracts in equity type investments such as common stocks. During the accumulation period, the purchaser of a contract will be credited with "accumulation units" representing his interest in the underlying investments. The value of the "accumulation unit" will increase or decrease in accordance with the value of the underlying investments. Prior to the "maturity date," the purchaser may receive the cash value of his proportionate share of the investments. At "maturity," the purchaser has an election to convert his "accumulation units" into "annuity units" under various options set forth in the contracts. The number of "annuity units" which a purchaser will receive involves a mortality factor. Like the "accumulation unit," the "annuity unit" varies in value in accordance with the underlying investments. Broadly speaking, the case presents to the Court the questions, *inter alia*, of whether the VALIC contracts fall within the exemption of

[14] D. C. No. 2549–56.

insurance or annuity contracts from registration contained within section 3 (a) (8) of the Securities Act of 1933 and whether the company's primary and predominant business is the writing of insurance and thus the company is exempt under section 3 (a) (3) from the registration provisions of the Investment Company Act of 1940.

RECENT DEVELOPMENTS

Investment Clubs

A new development relating to the activities of the Commission under the Investment Company Act is the rapid growth in recent years of so-called investment clubs. While no firsthand information is available as to the number of such clubs in existence or the number of people involved, officials of a federation of approximately 1,700 clubs with approximately 23,000 members, estimate there are about 15,000 investment clubs in existence involving about 200,000 persons.

An investment club, generally speaking, is an investment company in miniature, formed by a small group of persons. The typical investment club consists of approximately 15 persons organized under a partnership arrangement, although some are organized as corporations. Periodically, specific amounts in the form of dues are paid to one member designated as secretary or treasurer by all members and the proceeds are pooled and invested in stocks. The investments are held in the name of the club or of one of the members. All members share equally in profits and losses and may withdraw their pro rata share of the club's net asset value upon notice and at certain times. Usually there is no paid officer or investment adviser, although increasing interest has been shown by various brokerage houses in counseling clubs on their investments. Various stocks are discussed at periodic meetings and investments are made with the consent of the majority of the members.

The Commission has given consideration to the fact that membership in the club constitutes participation in a "profit sharing agreement" or "investment contract" and thus constitutes a security, and that the club as such falls within the definition of an investment company under the Act. However, section 3 (c) (1) of the Act excludes an investment company which has less than 100 stockholders and which is "not making and does not propose to make a public offering of its securities." Since so far as the Commission is aware these clubs consist of less than 100 members, the central question under the Act is whether a club is making or proposes to make a public offering of its membership. If a public offering were involved, registration under the Securities Act of 1933 would also be required because the exemptions provided in section 3 (a) (11) of that Act for an intrastate offering or under regulation A for an offering of $300,000 or less is not available to investment companies.

Liquidation or Withdrawal Plans

New programs or methods for the sale of mutual fund shares make their appearance from time to time and require the Commission's scrutiny. During the past fiscal year there appeared a number of plans under which a purchaser of open-end investment company shares may arrange for the redemption of sufficient number of his shares to provide a fixed dollar monthly repayment until the principal sum is exhausted. These plans may be misleading to the investor unless there is a full realization that the monthly repayments he receives represents not only income and capital gains but also a return of his own capital. Another facet of the problem is the necessity under the plan of liquidating an investor's shares at times when because of adverse markets the net asset value of the shares redeemed may be low. Still another aspect of the problem is the fairness of charging a full sales commission for the purchase of mutual fund shares when all or part of the shares purchased are concurrently being redeemed. These are some of the aspects of this particular sales device which the Commission is now studying.

Certain Insurance Company Contracts

Late in the fiscal year the Commission's attention was drawn to a new type of contractual arrangement offered for sale by certain insurance companies in connection with their conventional life insurance policies. Though varying in detail, they involve essentially the creation of a separate identifiable fund of common stocks created either by payments made to the company specifically for such purpose or by the withholding and investment of dividends payable to the insurance policyholder. The participant's interest in the fund and its investment results may be absolute or contingent upon his surviving a given period of years. While certain mortality aspects may be present, there are no aspects of "risk shifting" such as is present in pure life insurance, and the contracts are apparently offered solely on an investment basis.

The Commission is investigating the questions whether the registration of contracts of this type is required under the Securities Act of 1933 because the contract is in fact severable from the insurance policy to which it is appended and constitutes in itself a security, and whether the fund of common stocks created by the arrangement would under the Investment Company Act comprise an investment company required to register under that Act.

PART X

ADMINISTRATION OF THE INVESTMENT ADVISERS ACT OF 1940

Persons engaged for compensation in the business of advising others with respect to securities are required under the Investment Advisers Act of 1940 to register as investment advisers. Under the Act it is unlawful for investment advisers to engage in practices which constitute fraud or deceit. The Act also requires investment advisers to disclose the nature of their interest in transactions which they may effect for their clients, prohibits profit-sharing arrangements and, for all practical purposes, prevents the assignment of any investment advisory contract without the consent of the interested client.

The Investment Advisers Act gives the Commission no power to inspect the books and records of investment advisers, nor may the Commission deny or revoke the registration of an investment adviser except upon the ground that he has been convicted of certain offenses involving securities or arising out of his conduct as an investment adviser or in certain other financial relationships, or if he has been enjoined by a court of competent jurisdiction on the same grounds, or if he has falsified his application. Violation of the Investment Advisers Act or the Federal securities laws is not a ground for revocation absent prior conviction or injunction in court. Although the Act prohibits investment advisers from engaging in practices which amount to a fraud upon their clients, the lack of effective procedures for the enforcement of the statute has made it difficult for the Commission to control the activities of tipsters who make extravagant representations relating to speculative securities. The Commission is currently considering recomemndations to the Congress for amendments to this Act which would permit more effective enforcement and greater protection to the investing public.

ADMINISTRATIVE PROCEEDINGS

An application for registration as an investment adviser filed by *Bradford Dorr* [1] was denied by the Commission following a proceeding in which it appeared that the applicant had been permanently enjoined by a United States district court from engaging in and continuing certain conduct and practices in connection with his activity

[1] Investment Advisers Act Release No. 84 (August 12, 1955).

as an investment adviser and, in answer to a question in his application for registration, falsely represented that he was not so enjoined. A permanent injunction had been entered against the applicant in 1939 enjoining him, in effect, from committing further violations of section 17 (b) of the Securities Act of 1933 on the basis of allegation that the applicant was publishing and circulating an investment service consisting of a book and monthly supplements thereto in which the applicant described various bank stocks and recommended the purchase and sale thereof without disclosing the receipt from securities dealers of a percentage of their commissions on transactions in such stocks induced by such recommendations.

LITIGATION UNDER THE INVESTMENT ADVISERS ACT OF 1940

An injunctive action was filed by the Commission against *Clifford A. Greenman, doing business as the Western Trader & Investor and the Western Trader, Inc.*,[2] its successor, to enjoin the defendants from further violations of sections 206 (1), (2), and (3) of the Investment Advisers Act of 1940, as well as of the registration and antifraud provisions of the Securities Act of 1933 and the antifraud provisions of the Securities Exchange Act of 1934. The complaint charged, among other things, that the defendants represented to purchasers and prospective purchasers of stock of a uranium company that such company had ore reserves in the amount of $70,791,000 but omitted to state that these ore reserves were predicated on only 4 samplings, 3 of which were taken more than a decade ago, and that the defendants took undisclosed profits in discretionary accounts in connection with the purchase and sale of securities and converted to their own use funds deposited with them by persons to whom representations were made that such funds should be kept by the defendants in a special trust fund not to be used except for the accounts of such customers. A final judgment by consent was entered and a permanent injunction was issued by the court in accordance with the Commission's prayer. The court also appointed a permanent receiver for the assets of the defendants.

In another injunctive action against a registered investment adviser, the Commission charged *Thomas L. North, doing business as North's News Letter*, with violations of section 17 (b) of the Securities Act of 1933. This action is described under the heading "Litigation Under the Securities Act of 1933" appearing elsewhere in this report.

[2] D. Utah No. C-67-56. (May 7, 1956)

PART XI

RELATED ACTIVITIES OF THE COMMISSION

COURT PROCEEDINGS

Civil Proceedings

At the beginning of the fiscal year 1956 there were pending in the courts 14 injunctive and related enforcement proceedings instituted by the Commission to prevent fraudulent and other illegal practices in the sale or purchase of securities. During the year 35 additional proceedings were instituted and 28 cases were disposed of, leaving 21 such proceedings pending at the end of the year. In addition the Commission participated in a number of corporate reorganization cases under chapter X of the Bankruptcy Act, in 6 proceedings in the district courts under section 11 (e) of the Public Utility Holding Company Act; and in 7 miscellaneous actions, usually as *amicus curiae*, to advise the court of its views regarding the construction of provisions of statutes administered by the Commission which were involved in private lawsuits. The Commission also participated in 30 civil appeals. Of these, 12 came before the courts on petition for review of an administrative order, 7 arose out of corporate reorganizations in which the Commission had taken an active part, 6 were appeals in actions brought by or against the Commission, 2 were appeals from orders entered pursuant to section 11 (e) of the Public Utility Holding Company Act, and 3 were appeals in cases in which the Commission appeared as amicus curiae.

Complete lists of all cases in which the Commission appeared before a Federal or State court, either as a party or as amicus curiae, during the fiscal year, and the status of such cases at the close of the year, are contained in the appendix tables 14 and 16 to 23, inclusive.

Certain significant aspects of the Commission's litigation during the year are discussed in the sections of this report relating to the statutes under which the litigation arose.

Criminal Proceedings

The statutes administered by the Commission provide for the transmission of evidence of violations to the Attorney General, who may institute criminal proceedings. The regional offices of the Commission prepare detailed reports in cases where the facts appear to warrant criminal prosecution. After careful review by the General Counsel's Office, these are considered by the Commission, and if it

believes criminal prosecution is appropriate they are forwarded to the Attorney General. Commission employees familiar with the case often assist the United States attorneys in its presentation to the grand jury, the conduct of the trial, and the preparation of briefs on appeal. The Commission also submits parole reports prepared by its investigators relating to convicted offenders.

Seventeen new cases were referred to the Justice Department for prosecution during the past fiscal year. From 1934 to June 30, 1956, 2,283 defendants have been indicted in United States district courts in 543 cases developed by the Commission. These figures included 10 indictments returned during the past fiscal year against 24 defendants. Also during the fiscal year 1956 there were 14 convictions in 12 cases, making the total 1,237 convictions in 513 cases. In one of these cases the defendant, whose prior conviction had previously been reversed was convicted on his *nolo contendere* plea entered at the retrial. On the basis of these 513 cases the Commission's record of convictions is 87 percent. Convictions against 2 defendants were affirmed by a court of appeals in 1 case and a criminal contempt conviction was also affirmed. An appeal is pending in another case in which the sole defendant was convicted.

Cases in 1956 again covered a wide variety of charges of fraudulent practices including broker-dealer frauds, and promotions involving oil, gas and mining ventures, insurance, and other types of businesses.

Broker-dealers figured in several cases. Stanley C. Shaver, Sr., who had, among other things, falsely advised that two Florida telephone companies would merge in order to induce his customers to purchase stock and had thereafter converted to his own use the funds provided for this purpose, was convicted in the United States District Court for the Southern District of Florida, placed on probation for 5 years, and ordered to pay back $8,000 to defrauded customers. The defendant in *U. S.* v. *Ernstrom* (E. D. N. Y.), advised clients to purchase over-the-counter securities at prices in excess of the market prices, without disclosing this fact to them. Edwiin R. Hawley, a broker-dealer, who had embezzled customers' funds, was sentenced to 5 years probation and ordered to pay a $5,000 fine (*U. S.* v. *Hawley*, D. Ariz., sentenced S. D. Cal.).

Another defendant indicted in his capacity as broker-dealer is awaiting trial. W. F. Tellier and two officers of the Alaska Telephone Corp. (*U. S.* v. *Tellier, et al.*, E. D. N. Y.),[1] are charged, among other things, with concealing the fact that Alaska Telephone Corp., whose debentures investors were being asked to buy, was unable to pay interest out of earnings, and was paying it instead from sales of new debentures. In addition, the indictment charges that Tellier advanced

[1] This case was tried after the close of the fiscal year. The jury failed to agree on a verdict and the case is awaiting retrial.

funds to the Telephone Corp. with the understanding that he would receive repayment from the proceeds of new debenture sales and did not disclose this to his customers. Tellier is also charged in a subsequent indictment with fraud in selling uranium stock. This indictment charges that in his capacity as a broker he persuaded customers to buy shares of Consolidated Uranium Mines, Inc., by making numerous false claims as to its value. It also charges that he purchased shares for one cent and sold them through his company for between 75 cents and $1.87, without disclosing his original cost to his customers. After the close of the fiscal year a third indictment was resumed against Tellier and others charging them with fraud in the sale of a stock of Colorado Uranium Mines, Inc., Mesa Uranium Corp., Three States Uranium Corporation, Paradox Uranium Mining Corporation, Consolidated Uranium Mines Inc., Cherokee Uranium Mining Corp. and Blackstone Uranium Mines, Inc., in violation of the anti-fraud provisions of the Securities Act and the Mail Fraud Statute and with conspiracy to violate these statutory provisions, as well as the registration provisions of the Securities Act and conspiracy to defraud the United States by filing false documents and reports with the Commission.

Other cases concerned allegedly fraudulent business ventures. *U. S.* v. *Horton, et al.*, in which an indictment was obtained in the Southern District of California, involved the promotion of a wingless airplane. It is alleged that the airplane in question was represented to potential investors as one which would carry twice the load, twice as far, and twice as fast as any other plane. It is also alleged that a proposed Horton airplane was represented as capable of carrying 4,000 passengers 25,000 miles nonstop at over 400 miles per hour.

As in past years, a large number of the Commission's cases centered around oil and gas ventures. In the fiscal year 1956, 5 allegedly fraudulent oil and gas promotions led to 2 convictions and a number of pending indictments. One convicted defendant, Ben H. Frank, had been found guilty earlier but the conviction was reversed because of judicial error. He subsequently entered a plea of *nolo contendere* (*U. S.* v. *Frank*, W. D. Okla.). A conviction was also obtained against *William F. Horsting* (E. D. Wis.). Horsting had misrepresented the amounts paid for various leases, misstated the company's earlier record, deceived investors by claiming that funds invested were in trust, and used the money so obtained for his own purposes. *Ben E. Young* (E. D. Wash.) is charged with taking money for advanced rent and filing fees on oil leases and converting the money to his own use. *Eldridge S. Price* and his wife (N. D. Ga.) are charged with falsely representing to investors, *inter alia*, that certain lands were proven to have oil, that they owned large

amounts of drilling equipment and other valuable assets and that Price had never drilled a dry well.

The indictment pending against *Homer W. Snowden* and *Allen A. Borton* (E. D. Ill.) covers a large scale oil promotion as well as the sale of securities in other enterprises, including an insurance company. It is charged in this case that the defendants falsely guaranteed that the investors' money would be refunded on demand and made numerous other misrepresentations.

A 5-year sentence and $3,000 fine was imposed upon Arthur V. Donaldson (*U. S.* v. *Donaldson*, D. C. Mont.) for fraud in connection with an insurance company promotion. Donaldson sold stock in a health and accident insurance company by falsely representing the manner in which the funds were to be used, the extent of company assets, and the progress made toward creating the company as a going concern. Sale of stock in another insurance venture also gave rise to the indictment of *James O. Jensen, et al.* in the District Court at Spokane (E. D. Wash.). The charges include allegations that the defendants falsely told a large number of investors that the sale of stock in the Washington Insurance Co. had the approval of the State Insurance Commission, that all funds would be Commission supervised, and that investors would receive 6-percent interest and could withdraw their investment at any time.

Richard Bowler was convicted and sentenced (E. D. Wash.) for fraudulently representing to investors that a warehouse and storage company was a debt free, profitable operation when, in fact, it had a $350,000 debt and had defaulted on its interest payments. Bowler has filed an appeal. In *U. S.* v. *Holsman* (N. D. Ill.) the two defendants, father and son, were convicted for selling stock in a fraudulent venture involving construction of a cooperative apartment house. The promotion was effected by a series of false and misleading statements, such as that all funds would be watched over by a conservative trust company. In fact, the defendants diverted to their own use a considerable part of the funds obtained from investors. A promoter of a mining venture was sentenced to 1 year (*U. S.* v. *Elliott*, S. D. Cal.).

In the criminal appellate cases, the convictions of *James Robert Palmer* and his wife, Lenore, for violations of the antifraud provisions of the Securities Act and the Mail Fraud Statute, were affirmed in December 1955 by the Court of Appeals for the tenth Circuit.[2] The Palmers, who had conducted business as Ace Motors, fraudulently obtained funds through the issuance of fictitious notes and spurious automobile chattel mortgages. In addition, James Palmer fraudulently sold preferred stock of Ace Finance, Inc., by means of numerous misrepresentations, including claims that each investment

[2] *Palmer* v. *U. S.*, 229 F. 2d 861, cert. den., 350 U. S. 906 (1956).

was insured up to $10,000; that a reserve fund of $25,000 was maintained to make refunds to investors; and that Ace Finance was audited every quarter by the Controller of Currency of the State of Colorado.

In *Mills* v. *U. S. ex rel S. E. C.*,[3] the Court of Appeals affirmed Mills' conviction for criminal contempt for violating preliminary and final injunctive decrees enjoining him from selling securities in violation of the registration provisions of the Securities Act of 1933. Mills' contempt arose from his sale to the public of Searchlight Consolidated Mining & Milling Co. common stock without registering the stock with the Commission.

COMPLAINTS AND INVESTIGATIONS

The Commission conducts investigations under authority contained in each of the acts which it administers for the purpose of determining whether violations of these laws have occurred. Conduct of such investigations is the responsibility of the Commission's nine regional offices working under the general supervision of the Division of Trading and Exchanges. As in the case of the Federal Bureau of Investigation and other government enforcement agencies, the Commission's investigation files are nonpublic since making such files public would seriously impar, if not make impossible, effective investigation work. Furthermore this policy protects innocent persons where the subject of an investigation is found ultimately to be innocent of wrongdoing.

Complaints by the investing public, together with the Commission's broker-dealer inspection program with respect to registered broker-dealers and the Commission's surveillance of the securities markets, account for most of the leads which develop into Commission investigations. Complaints and inquiries received from the public number many thousands every year. These complaints and broker-dealer inspection reports are carefully examined with a view toward determining whether violations of the acts are revealed which merit enforcement attention. Where a brief examination is necessary to determine whether or not a violation occurred, a preliminary investigation may be initiated for the purpose of determining whether further investigation is justified.

These preliminary investigations which are generally limited to an examination of the Commission's files, correspondence with persons in possession of pertinent information, and telephone or personal interviews with a small number of individuals, may serve to provide the information needed for a determination of whether a violation has occurred. Where the preliminary investigation is sufficient to disclose

[3] (C. A. 9, No. 14613 (unreported).

that no violation has been committed or that a violation has occurred because of a misunderstanding or ignorance of the law, no further action is ordinarily taken except that under the latter circumstances the offender is informed of his violations and steps are taken to procure compliance. In this manner the preliminary investigation results in compliance with the law before the investing public has suffered serious damage or loss.

In the event that a satisfactory disposition cannot be made following such a preliminary investigation, the matter is docketed as a case and a full, detailed investigation is made. The Commission may, in connection with such investigation, issue a formal order appointing officers from members of its staff to issue subpenas calling for the appearance of witnesses to testify under oath and for the production of documents. Authority under it is limited to the persons named by the Commission in that order and its use is limited to the subject matter specifically designated. During the fiscal year 47 such orders were issued.

Upon completion of an investigation the regional administrator of the office in which the investigation is being conducted receives a report from the investigators assigned to the case and, following a review of that report, the regional administrator submits a recommendation that appropriate action be instituted by the Commission or that the investigation be closed. These reports in every instance are reviewed and analyzed by the staff of the Commission's principal office before being presented to the Commission for disposition.

In cases where it appears that a criminal prosecution would be appropriate, the action of the Commission may take the form of a reference of the evidence to the Department of Justice. In that event, members of the staff familiar with the development of the investigation, assist the United States Attorney, to whom the Department of Justice has assigned the matter, in the presentation of the evidence to a grand jury, and, where an indictment is returned, in the prosecution of the case.

In other cases the Commission may authorize institution of a civil proceeding for injunctive relief or bring administrative proceedings against broker-dealers and investment advisers. At times where it appears appropriate to do so, the Commission will also refer evidence of violations of other Federal statutes and State laws to the Department of Justice or other interested Federal or State authority.

During prior fiscal years intensive efforts were made to close old cases upon which further work did not appear to be justified with the result that the investigations pending at the beginning of the year largely included matters requiring active work. An unusual proportion of these involved complex situations requiring intensive effort by numerous investigators to develop all of the pertinent information.

This situation resulted in a decrease in the number of cases closed as compared with prior years. The following table reflects investigative activities:

	Preliminary investigations	Docketed investigations	Total
Pending June 30, 1955	163	481	644
New cases	163	175	338
Transferred from preliminary	0	24	24
Total	326	680	1,006
Closed	84	85	169
Transferred to docketed	24	0	24
Pending at June 30, 1956	218	595	813

Restitution

While the statutes administered by the Commission do not specifically authorize it to bring action or conduct investigations for the purpose of effecting recovery of money for investors, a substantial amount is recovered each year by investors as a result of investigations by the Commission. The amount of such recoveries cannot be computed with any degree of accuracy. It is estimated that several millions of dollars annually are so restored.

For example, in one situation during 1956, an investigation disclosed a distribution in violation of the registration requirements of the Securities Act to residents of the United States, of securities of a Canadian mining venture by a registered broker-dealer located in this country. The firm recognized its responsibility and, regardless of the proceedings instituted by the Commission to determine whether its registration as a broker-dealer should be revoked, voluntarily effected an offer of rescission at a cost to it of over $200,000.

Payments to members of the public through the Commission's enforcement efforts also result from the appointment by the courts of receivers at the instance of the Commission in connection with broker-dealer injunctive actions. Where the situation warrants such action, the Commission will seek appointment of a receiver by the court to preserve assets of firms against whom action is taken for distribution to customers. While neither the Securities Act of 1933 nor the Securities Exchange Act of 1934 contains specific authorization for the appointment of a receiver which the Commission may seek in order to fully protect the public interest, the Federal courts have consistently sustained the Commission's position that the authority to appoint such a receiver is inherent in the broad equity power of the judiciary.[3a]

[3a] Recent cases in which the Federal courts have at the Commission's request appointed such receivers include:

S. E. C. v. Barrett Herrick & Co., Inc., S. D. N. Y. No. 112-396 (September 11, 1956)

S. E. C. v. Golden-Dersch & Co., Inc., S. D. N. Y. No. 112-377 (September 7, 1956)

S. E. C. v. Coombs & Company of Washington, D. C., U. S. D. C. No. 3437-56 (August 17, 1956)

The effect of the enforcement program cannot, of course, be measured by money restored to customers and investors as a result of Commission action. Far more important is the money saved to the investing public by vigorous enforcement action to prevent fraudulent transactions before they can be consummated.

Enforcement Problems With Respect to Canadian Securities

In general the initiation and conduct of investigations with respect to violations which have their origin in Canada parallel other enforcement procedures. The principal difference arises from the territorial limitations of the Commission's authority and the fact that in a large majority of such cases the evidence is located, as are the violators, in a foreign country. The Commission staff cannot examine these persons under oath or inspect their books and records nor is it possible to obtain proof of the falsity of their representations concerning the issuers of the securities being offered for sale. Even where evidence is available, sanctions such as criminal or civil prosecution or administrative proceedings cannot be effective unless personal jurisdiction over the defendants is obtained. The difficulty in obtaining the requisite personal jurisdiction is highlighted by the narrow construction given by the Canadian courts to the Supplementary Extradition Convention between Canada and the United States. In the first case, *U. S.* v. *Link and Green*, 3 D. L. R. 386 (1955), brought under the new extradition arrangements which had been designed to permit extradition from Canada of persons engaged in the fraudulent sale of securities by mail and telephone to United States residents, the Canadian courts denied extradition. At the conclusion of the 5 weeks hearing, the extradition judge announced that he was satisfied that a *prima facie* case of fraud had been made out against the defendants involved, but nevertheless denied the extradition request because he did not approve of the extent of the evidence which might be admissible in the prosecution of these defendants in the United States. Application was made to the Supreme Court of Canada for leave to appeal the decision, and that application was denied by the court for lack of jurisdiction, *U. S.* v. *Link and Green* (1955) S. C. R. 183. Negotiations aimed at a solution of the problem have been continued through the Department of State. Meanwhile, enforcement efforts are necessarily dependent to a very large degree upon the cooperation of appropriate Canadian Federal and Provincial officials which, as mentioned in this Report under "Enforcement Program", has been excellent.

Despite these difficulties, the Commission and other Federal agencies have made aggressive efforts to cope with the overall situation. Hundreds of investigations have been made, injunctions have been secured whenever jurisdiction over the violator could be obtained, a substantial number of criminal indictments have been entered, and over 80 postal fraud orders have been issued. A central clearing

house for information concerning violators has been established within the Commission, whereby information in the possession of numerous law enforcement agencies is compiled and exchanged.

Early in 1956, there was reason to be optimistic concerning the progress being made. Available information indicated that fraudulent offerings from Canada had decreased very substantially since the peak of 1949–52, both in number and in magnitude. This progress was the more encouraging because the past year or two have been a period of activity in the securities market and relatively high public interest in speculative securities when an increase rather than a decrease in the fraudulent offerings from Canada might reasonably have been anticipated.

The favorable trend which was noted earlier in the year was reversed in the succeeding months of 1956 and is a cause for serious concern. The recent instances of fraudulent activity seem to be largely attributable to a small coterie operating in western Canada. There is reason to believe that this newly troublesome group includes notorious "stockateers" from Eastern Canada who were forced to discontinue activities there because of the vigilance of Quebec and Ontario authorities.

The migration of persons engaged in illegal sales activities from one province to another in Canada creates a problem for the Canadian authorities who have been vigorously cooperating with the Commission; and points up the inadequacy of provincial regulation to bring this illegal activity under control. The limitations of provincial law did not, however, prevent effective action by Canadian provincial authorities against 6 broker-dealers and 3 securities issuers whose registrations were either canceled or not renewed upon expiration following complaints submitted by the Commission. In particular, the cooperation of the provincial authorities of Ontario and Quebec and their positive attitude toward the enforcement of their respective securities regulations have contributed greatly to the measure of success that has resulted from the cooperative enforcement program. In this connection, enactment of new legislation has enabled Quebec authorities to take forceful measures to halt fraudulent sales activities in that province. The Quebec Legislature which created the Securities Commission for that province was fully aware of the need for its Commission to be in a position to deal effectively with securities violators and therefore armed it with summary power to penalize and halt the activities of those persons who did not comply with the requirements of the law. It should also be mentioned that the Canadian provincial and Federal authorities have continued to cooperate with the Commission by making available evidence from their official files for use in proceedings initiated by the Commission,

as well as by furnishing the assistance of members of their staffs in some instances. The Commission has cooperated with and assisted Canadian authorities by obtaining and making available evidence necessary for enforcement actions in that country.

In April 1956 the Commission revised its Canadian restricted list, initially issued in September 1951, which contains a list of Canadian issuers whose securities the Commission has reason to believe recently have been or currently are being distributed in the United States in violation of the registration requirements of the Securities Act of 1933. The Commission's release publishing the list also, and for the first time, specified the conditions under which a name would be deleted from the restricted list. Deletions are effected after a reasonable time if it appears that the issuer has ceased to exist and there appears to be no trading in the securities in the United States. Deletions may also be made upon compliance with the Federal securities laws by effective registration under the Securities Act of 1933, or qualification for an exemption under the Commission's regulations. Normally, a security will not be removed from the list until at least a year after the unlawful distribution is completed absent an appropriate filing under the Securities Act. In the originally revised restricted list, the names of 79 issuers no longer in existence were deleted and the names of 30 issuers were added, making a total of 135 issuers on the restricted list. In June 1956, the first supplement to the revised list was issued, adding the names of 14 Canadian issuers. It is the intention of the Commission to issue additional current supplements as the need appears in keeping with the primary function of the list to put brokers and dealers, as well as the investing public, in the United States on notice of the fact that securities of Canadian issuers named thereon appear to be the subject of illegal distributions.

The list even as supplemented does not purport to include all Canadian securities being illegally distributed in the United States. It does serve as notice with respect to the securities of the issuers named which have come to the attention of the Commission. Before executing transactions in such securities, brokers and dealers are expected to satisfy themselves that any such security purchased by them for resale or acquired in the execution as broker of a customers' order is not a part of the unlawful distribution, since otherwise the broker or dealer himself may be regarded as participating in an unlawful distribution. The list, among other things, discourages a particular technique of illegal distribution by which investors in the United States are solicited to place orders with their own brokers or dealers instead of directly with Canadian brokers, and the securities being distributed are used to fill the resulting orders from brokers and dealers in the United States. The current list is as follows:

CANADIAN RESTRICTED LIST

(In effect October 11, 1956)

Canadian issuers whose securities the Commission has reason to believe recently have been distributed or currently are being distributed in the United States in violation of the registration requirements of the Securities Act of 1933.

Alba Explorations Limited
Algro Uranium Mines Limited
Alminster Oils Limited
Amshaw Porcupine Mines Limited
Antimony Gold Mining and Smelting Corporation Limited
Apollo Mineral Developers Inc.
Ar-Can Limited (formerly Transvision-Television (Canada) Limited)
Armour Uranium and Copper Mines Limited (formerly Naneek Mines Ltd.)
August Porcupine Gold Mines Limited
Augdome Exploration Limited
Aunite Mining Corporation Limited
Barbary Gold Mines Limited
Bar-Fin Mining Corporation Limited
Bargis Mines Limited
Barvin Mines Limited
Basic Minerals Limited
B. C. Metal Mines Limited
Beaucoeur Yellowknife Mines Limited
Bibis Yukon Mines Limited
Bli-Riv Uranium and Copper Corporation Limited
Britco Oils Limited
Brunhurst Mines Limited (formerly Porcupine Peninsula Gold Mines Ltd.)
Caldina Oils Limited
Calumet Uranium Mines Limited
Cameron Copper Mines Limited
Camoose Mines Limited
Camrose Gold and Metals Limited
Canso Mining Corporation Limited
Casa Loma Uranium Mines Limited
Cavalcade Petroleums Limited
Central Sudbury Lead-Zinc Mines Ltd.
Chief Mountain Oils Limited
Clenor Mining Company Limited
Clix Athabasca Uranium Mines Ltd.
Cobalt Badger Silver Mines Limited
Cob-Sil-Ore Mines Limited
Colonial Asbestos Corporation Ltd.
Consolidated Cordasun Oils Ltd.
Consolidated Peak Oils Limited (formerly Peak Oils Limited)
Consolidated Quebec Yellowknife Mines Limited
Consolidated Thor Mines Limited
Continental Potash Corporation Ltd. (formerly Western Potash)
Continental Uranium Corporation Ltd.
Copper Island Mining Company Ltd.
Copper Prince Mines Limited
Cordan Cobalt Mines Limited
Cove Uranium Mines Limited
Crangold Mines Limited
Dalo Oil and Gas Limited
Cavalier Mining Corporation Limited
David Copperfield Explorations Limited
Dencroft Mines Limited
Derrick Oil and Gas Company Ltd.
Desmont Mining Corporation Ltd.
Detomac Mines Limited
De Ville Copper Mines Limited
Docana Oils and Mines Limited
Dolmac Mines Limited
Dougron Gold Mines Limited
Dubar Exploration Limited
Dupont Mining Company Limited
Eastwebb Mines Limited
Edson Oil Company Limited
Export Nickle Corporation of Canada Limited
Falgar Mining Corporation Limited
Famous Gus Uranium Mines Limited
Fission Mines Limited
Fleetwood Yellowknife Mines Ltd.
Forbes Lake Mining Corporation Ltd.
Gav River Lead Mines Limited
Genalta Petroleums Limited
Gold Uranium Exploration Company Ltd.
Gordona Mining Corporation Limited
Gothic Mines and Oils Limited
Greatlakes Copper Mines Limited
Great Valley Exploration and Mining Limited
Haitian Copper Corporation Limited
Halden Red Lake Mines Limited
Hamil Silver-Lead Mines Limited
Harvard Mines Limited
Head of the Lakes Iron Limited
Hercules Uranium Mines Limited
Holwood Mines Limited
Huddersfield Uranium and Minerals Ltd.
Huhill Yellowknife Mines Limited
Judella Uranium Mines Limited
Kabour Mines Limited
Kaiser Development Corporation Ltd.
Kamis Uranium Mines Limited
Kersley Oil and Gas Company Limited

Keylode Cobalt Silver Mines Limited
Keymore Gold Mines Limited
Key West Exploration Company Ltd.
Kidlhawk Mines Limited
Kirk-Hudson Mines Limited
Kirkland Larder Mines Limited
Kop Beverages Limited
Lake Superior Iron Limited
Leberta-Redwater Oil Company Ltd.
Lee Gordon Mines Limited
Lithium Corporation of Canada Ltd.
Lloydal Petroleums Limited
Loranda Uranium Mines Limited
Madison Mining Corporation Limited
Mag-Iron Mining and Milling Limited
Mallen Red Lake Gold Mines Limited
Marvel Uranium Mines Limited (formerly Marvel Rouyn Mines Ltd)
Marwood Mining Corporation Limited
Masters Oil and Gas Limited
Mensilva Mines Limited
Mercedes Exploration Company Ltd.
Mid-West Mining Corporation Limited
Mining Endeavor Company Limited
Min-Ore Mines Limited (formerly Ryan Lake Mines Limited)
Monogram Petroleums Limited
Monpre Uranium Exploration Ltd.
Montco Copper Corporation Limited
Nationwide Minerals Limited
New Bailey Mines Limited
New Concord Development Corporation Limited (formerly Concord Development Corporation Ltd)
New Goldvue Mines Limited
New Jack Lake Uranium Mines Ltd.
New Lafayette Asbestos Company Ltd.
New Metalore Mining Company Ltd.
New Telluride Gold Mines of Canada Limited
New Vinray Mines Limited
Ni-Ag-Co Mines Limited
Norlarctic Mines Limited
Normingo Mines Limited
Nu-Age Uranium Mines Limited
Nu-World Uranium Mines Limited
Oakridge Mining Corporation Limited
Obabika Mines Limited
Orbit Uranium Developments Limited
Ordala Mines Limited
Osage Oil and Exploration Limited
Packeno Yukon Mines Limited
Paramount Petroleum and Mineral Corporation Limited
Plateau Petroleums Limited
Prescott Porcupine Gold Mines Ltd
Pyramid Oils Limited
Trio Uranium Mines Limited
Quebank Uranium Copper Corporation
Quebec Developers and Smelters Ltd.
Rebair Gold Mines Limited
Resolute Oil and Gas Company Limited
Ribstone Valley Petroleums Limited
Richore Gold Mines Limited
Ridgefield Uranium Mining Corporation Limited
Rigby Kirkland Mines Limited
Roland Gold and Copper Mines Ltd
Rouandah Oils and Mines Limited
St -Pierre & Miquelon Explorations Inc.
Salmita Consolidated Mines Limited
Saratoga Exploration Company Limited
Sentry Petroleums Limited
Sioux Petroleums Limited
Skyline Uranium and Minerals Corporation Limited
Soo-Tomic Uranium Mines Limited
Spike Redwater Oil Company Limited
Strathmore Mines Limited
Surety Oils and Minerals Limited
Trans-Leduc Oils Limited
United Copper and Mining Limited
United Uranium corporation Limited (formerly Indore Gold Mines Ltd.)
Wainwright Producers and Refiners Limited
Wakefield Uranium Mines Limited
Westberta Oils Limited
West Plains Oil Resources Limited
Westville Mines Limited
Winston Mining Corporation Limited
Whitney Uranium Mines Limited
Yukeno Mines Limited
Yukore Mines Limited

To assist in the enforcement work of the Commission, brokers, dealers, and members of the public are requested to report to the Commission evidence of violations of the Securities Acts which may come to their attention.[4]

SECTION OF SECURITIES VIOLATIONS

A section of Securities Violations is operated by the Division of Trading and Exchanges of the Commission as a part of its enforcement program and to provide a further means of detecting and preventing fraud in securities transactions. The Securities Violations Section maintains files which provide a clearing house for information concerning persons who have been charged with violations of various Federal and State securities statutes. Considerable information is also available concerning violators who are resident in the provinces of Canada. The specialized information in these files is kept current through the cooperation of the United States Post Office Department, the Federal Bureau of Investigation, parole and probation officials, State securities authorities, Federal and State prosecuting attorneys, police officers, Better Business Bureaus, and chambers of commerce. At the end of the fiscal year these records contained information concerning 59,664 persons against whom Federal or State action had been taken in connection with securities violations. In keeping these records current there were added during 1956 information concerning 4,798 persons, including 1,695 concerning persons not previously identified therein.

The Securities Violation Section issued and distributed quarterly a Securities Violations Bulletin containing information received during the period concerning violators showing new charges and developments in pending cases. The bulletin includes a "wanted" section in which are listed the names and references to bulletins containing descriptive information as to persons wanted on securities violations charges. The bulletin is distributed to a limited number of cooperating law enforcement officials in the United States and Canada.

Extensive use is made of the information available in these records by regulatory and law enforcing officials. During the past year the Commission received 3,204 "securities violations" letters or reports and dispatched 1,823 communications to cooperating agencies.

ACTIVITIES OF THE COMMISSION IN ACCOUNTING AND AUDITING

The several acts administered by the Commission provide that dependable, informative financial statements, which disclose the financial status and earnings history and potentialities of a corporation or other commercial entity, shall be made a part of registration statements, applications for registration, and periodic reports required to

[4] Securities Act Release No. 3632.

be filed with the Commission. These financial statements are always a vital, often the most significant, element of the information the investor must have upon which to predicate investment decisions.

The Congress recognized the importance of these statements. It was aware also that they lend themselves readily to misleading inferences or even deception, whether or not intended. Consequently, the various statutes administered by the Commission deal extensively with financial statement presentation and the accounting concepts and principles on which they are based. The recognition by the Congress that accountants and accounting perform a vital role in achieving the statutory objectives of fair disclosure, prevention of fraud, inequitable and unfair practices, and control and regulation, makes the activities of the Commission in the field of accounting most significant from the standpoint of the investor.

Thus, for example, the Securities Act requires the inclusion in prospectuses of balance sheets and profit and loss data "in such form as the Commission shall prescribe," [5] and authorizes the Commission to prescribe "the items or details to be shown in the balance sheet and earnings statement, and the methods to be followed in the preparation of accounts * * *." [6] Similar authority is contained in the Securities Exchange Act,[7] and more comprehensive power is embodied in the Investment Company Act [8] and the Holding Company Act.[9]

The Securities Act provides that the financial statements required to be made available to the public through filing with the Commission shall be certified by "an independent public or certified accountant." [10] The other three statutes permit the Commission to require that such statements be accompanied by a certificate of an independent public accountant,[11] and the Commission's rules require, with minor exceptions, that they be so certified. The value of certification by qualified accountants has been conceded for many years, but the requirement as to independence, long recognized and adhered to by some individual accountants, was for the first time authoritatively and explicitly introduced into law in 1933. Out of this initial provision in the Securities Act and the rules promulgated by the Commission,[12] together with strict action taken by the Commission in certain cases,[13] there have grown concepts of accountant-client relationships that have strengthened the protection afforded investors.

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[5] Sec. 10 (a) (1) (schedule A, pars. 25, 26).
[6] Sec. 19 (a).
[7] Sec. 13 (b).
[8] Secs. 30, 31.
[9] Secs. 14, 15.
[10] Sec. 10 (a) (1) (schedule A, pars. 25, 26).
[11] Securities Exchange Act, sec. 13 (a) (2); Investment Co. Act, sec. 30 (e); Holding Company Act, sec. 14.
[12] See, for example, rule 2-01 of regulation S-X.
[13] See, for example, Securities Exchange Act Release No. 3073 (1941); 10 S. E. C. 982 (1942); and Accounting Series Release No. 68 (1949).

The Commission's standards of independence are stated in rules 2–01 (b) and (c) of regulation S–X which provide among other things that an accountant will not be considered independent with respect to any person, or any affiliate thereof, for any period during which he has any financial interest, direct or indirect, in such person, or with whom he is or as connected was a promoter, underwriter, voting trustee, director, officer or employee. In determining whether an accountant is in fact independent with respect to a particular registrant, the Commission will give appropriate consideration to all relevant circumstances, including evidence bearing on all relationships between the accountant and that registrant or any affiliate thereof.

Experience with these rules shows that many accountants, especially those certifying financial statements of companies coming within the Commission's jurisdiction for the first time by reason of a registration statement for a new issue or the listing of an outstanding issue on an exchange, find that they cannot certify financial statements of clients of long standing because during the period for which financial data is required to be furnished they have served clients of whom they have in fact not been independent. The most common (and often unwitting) cause of lack of independence is ownership of stock by a member of the accounting firm of the client company during any of the periods certified. This the Commission deems an absolute bar to independence, though exceptions where there would be particular hardship and investor protection can be achieved by other safeguards, have occasionally been permitted.

As shown above, the statutes administered by the Commission give it broad rule-making power with respect to the preparation and presentation of financial statements. Pursuant to the authority contained in the statutes the Commission has prescribed uniform systems of accounts for companies subject to the provisions of the Holding Company Act;[14] has adopted rules under the Securities Exchange Act governing accounting and auditing of securities brokers and dealers; and has promulgated rules contained in a single, comprehensive regulation, identified as Regulation S–X,[15] which govern the form and content of financial statements filed in compliance with the various acts. This regulation is implemented by the Commission's Accounting Series releases, of which 77 have so far been issued. These releases were inaugurated in 1937, and were designed as a program for making public, from time to time, opinions on accounting principles for the purpose of contributing to the development of uniform standards and practice in major accounting questions. The rules and

[14] *Uniform System of Accounts for Mutual Service Companies and Subsidiary Service Companies* (effective August 1, 1936); *Uniform System of Accounts for Public Utility Holding Companies* (effective January 1, 1937; amended effective January 1, 1943).

[15] Adopted February 21, 1940 (Accounting Series Release No. 12; revised December 20, 1950 (Accounting Series Release No. 70).

regulations thus established, except for the uniform systems of accounts, prescribe the accounting to be followed only in certain basic respects. In the large area not covered by such rules the Commission's principal reliance for the protection of investors is on the determination and application of accounting principles and standards which are recognized as sound and which have attained general acceptance.

Changes and new developments in financial and economic conditions affect the operations and financial status of the several thousand commercial and industrial companies required to file statements with the Commission. It is necessary for the Commission to be informed of the changes and new developments in these fields and to make certain that the effects thereof are properly reported to investors. The Commission's accounting staff, therefore, engages in study designed to establish and maintain appropriate accounting procedures and practices. The primary responsibility for this program rests with the chief accountant of the Commission who has general supervision with respect to accounting and auditing policies and their application.

Furtherance of these activities requires constant contact and cooperation between the staff and accountants both individually and through such representative groups as, among others, the American Accounting Association, the American Institute of Accountants, the American Petroleum Institute, the Controllers Institute of America, the National Association of Railroad and Utilities Commissioners, and National Federation of Financial Analysts Societies as well as other governmental agencies. Recognizing the importance of cooperation in the formulation of accounting principles and practices and proper auditing procedures which will best serve the interests of investors, the American Institute of Accountants and the Controllers Institute of America regularly appoint committees which maintain liaison with the Commission's staff.

For example, experience over the years has shown the need for an adequate guide for the auditing of broker-dealers who are required to file reports on Form X–17A–5 with the Commission, under rule X–17A–5. These reports include responses to a financial questionnaire and supplementary questions. Our rules now prescribe what are referred to as "Minimum Audit Requirements." Examination of the reports seems to indicate that many accountants consider these to be all of the requirements and fail to vary their procedures to fit changing conditions. Our chief accountant has been cooperating for some time with committees of the American Institute of Accountants in an effort to produce a comprehensive guide in this specialized field of auditing. This work resulted in the publication by the American Institute of Accountants, under date of October 24, 1956, of a booklet

entitled: "Audits of Brokers or Dealers in Securities." It is expected that Form X–17A–5 will be appropriately amended.

The many daily decisions of the Commission require the almost constant attention of some of the chief accountant's staff. These include questions raised by each of the operating divisions of the Commission, the regional offices and the Commission. This day-to-day activity of the Commission and the need to keep abreast of current accounting problems causes the chief accountant's staff to spend much time in the examination and reexamination of sound and generally accepted accounting and auditing principles and practices. From time to time members of this staff are called upon to assist in field investigations, to participate in hearings, and to review opinions insofar as they pertain to accounting matters.

Prefiling and other conferences, in person or by phone, with officials of corporations, practicing accountants and others occupy a considerable amount of the available time of the staff. This procedure, which has proved to be one of the most important functions of the office of the chief accountant, and of the chief account of the Division of Corporation Finance and his staff saves registrants and their representatives both time and expense.

Many specific accounting and auditing problems arise as a result of the examination of financial statements required to be filed with the Commission. Where examination reveals that the rules and regulations of the Commission have not been complied with or that applicable sound accounting principles have not been adhered to, the examining division usually notifies the registrant by an informal letter of comment. These letters of comment and the correspondence or conferences that follow continue, as in the past, to be a most convenient and satisfactory method of effecting corrections and improvements in financial statements, both to registrants and to the Commission's staff. Where particularly difficult or novel questions arise, which cannot be settled by the accounting staff of the divisions and by the chief accountant, they are referred to the Commission for consideration and decision. The Commission's treatment of accounting questions by these administrative means is extensive. A considerable portion of the time of the accounting staff is spent in the discussion of such cases by letter and telephone, and in conference with registrants and their accounting and legal advisers. There is also a large, and in recent years growing, volume of inquiries as to the propriety of particular accounting practices from accountants and from companies not presently subject to any of the acts administered by the Commission who wish to have the benefit of the Commission's views, and thus utilize and apply the Commission's experience to the facts of their own case.

During 1956 several accounting problems required the staff's consideration, some for the first time because of new economic developments and others due to changed viewpoints. The past year has seen an increasingly large number and variety of corporate mergers and acquisitions, and many more reportedly are in process. Since the transactions occurring in this area of business activity may have material effect upon the reported earnings of the corporations involved as well as serious tax consequences, it is essential that sound and workable criteria be established governing the accounting therefor. The Commission's staff has been cooperating closely with the accounting profession to bring about the establishment of uniform procedures in this area.

Novel accounting problems have been raised in connection with a public offering by a corporation organized under the laws of the District of Columbia pertaining to the incorporation of insurance companies, of contracts described as "variable annuity contracts." These contracts are discussed in greater detail on pages 190, 192 of this report. While proposals have also been made in other jurisdictions for the issuance of this type of contract, this case is the only one thus far presented to the Commission for its consideration. This form of contract differs from the conventional annuity contract usually available from insurance companies in that the issuer is not obligated to pay a fixed dollar amount but instead contracts to pay varying periodic sums depending upon the value of an underlying fund invested in common stocks and other equity securities. The appropriate accounting for these contracts is receiving the attention of the Commission's staff in cooperation with the accounting profession.

OPINIONS OF THE COMMISSION

Opinions are issued by the Commission in contested and other cases arising under the Securities Act of 1933, the Securities and Exchange Act of 1934, the Public Utility Holding Company Act of 1935, the Investment Company Act of 1940 and the Investment Advisers Act of 1940 where the nature of the matter to be decided, whether substantive or procedural, is of sufficient importance to warrant a formal expression of views. These opinions include detailed findings of fact and conclusions of law based on evidentiary records, taken before a hearing examiner, or, in an occasional case, before a single Commissioner or the entire Commission. In some cases formal hearings are waived by the parties and the findings and conclusions are based on stipulated facts or admissions.

The Commission is assisted in the preparation of findings, opinions and orders by its Office of Opinion Writing, an independent staff office directly responsible to the Commission. It receives all assign-

ments and instructions from, and makes recommendations and submits its work to, the Commission directly. While engaged in the preparation of opinions members of the Office of Opinion Writing are completely isolated from members of the operating division actively participating in the proceedings, and it is an invariable rule that those assigned to prepare such an opinion must not have had any prior participation in any phase of the proceedings with respect to which the opinion is to be prepared. Commission experts are from time to time consulted on technical problems arising in the course of the preparation of opinions and findings, but these experts are never individuals who have participated in the proceedings. This complete independence of staff members assisting in the preparation of opinions accords with the principle embodied in the Administrative Procedure Act requiring a separation between staff members performing prosecutory functions and those performing quasi-judicial functions.

Members of the Office of Opinion Writing who are assigned to work on a particular case attend the oral argument of the case before the Commission and frequently keep abreast of current hearings. Prior to the oral argument the office makes a preliminary review of the record and prepares and submits to the Commission a summary of the uncontested facts and the factual and legal issues raised in the hearings as well as in any proposed findings and supporting briefs, the hearing examiner's recommended decision and exceptions thereto taken by the parties. Following oral argument or, if no oral argument has been held, at such time as the case is ready for decision, the Office of Opinion Writing is instructed by the Commission respecting the nature and content of the opinion and order to be prepared.

In preparing the draft of the Commission's formal opinion, the entire record in the proceedings is carefully read and in some cases a narrative abstract of the record is prepared. Upon completion of a draft opinion and review and revision in the Office of Opinion Writing it is submitted to the Commission. The draft as submitted may be modified, amended, or completely rewritten in accordance with the Commission's final instructions.

When the opinion accurately expresses the views and conclusions of the Commission it is adopted and promulgated as the official decision of the Commission and constitutes a source of information for the bar, investors and other interested persons. Opinions are publicly released and distributed to representatives of the press and persons on the Commission's mailing list. In addition, the opinions are printed and published by the Government Printing Office in bound volumes entitled "Securities and Exchange Commission Decisions and Reports." [15a]

[15a] There are presently 33 published volumes, covering the period from July 2, 1934 to September 30, 1952. Volumes 34 to 36, covering the period from October 1, 1952 to January 31, 1956, are now at the Government Printing Office and are expected to be distributed by March 1957.

During the fiscal year 1956 the Commission issued findings, opinions and orders in 84 cases, exclusive of numerous uncontested matters disposed of without opinion.

APPLICATIONS FOR NON-DISCLOSURE OF CERTAIN INFORMATION

Under various of the acts administered by the Commission, public disclosure of certain limited types of information by persons filing documents with the Commission is not required. Thus, under item (30) of schedule A of the Securities Act of 1933, no disclosure is required of any portion of a material contract if the Commission determines that disclosure of such portion would impair the value of the contract and would not be necessary for the protection of investors. Under section 24 (a) of the Securities Exchange Act of 1934, trade secrets or processes need not be disclosed in any material filed with the Commission and, under section 24 (b) of that act, written objection to public disclosure of information contained in any such material may be made to the Commission which is then authorized to make public disclosure of such information only if in its judgment such disclosure is in the public interest. Somewhat similar provisions are contained in section 22 of the Public Utility Holding Company Act of 1935 and in section 45 of the Investment Company Act of 1940.

The Commission has implemented these sections of the acts by rules outlining the procedure to be followed by persons applying to the Commission for a determination that public disclosure of certain information is not necessary. The Commission has exercised sparingly its authority to grant applications for nondisclosure of information that would otherwise be public. The Commission has required a showing of a real detriment to the issuer of the securities with no real detriment to investors if such information is not disclosed. For example, the Commission has not granted applications for nondisclosure of sales and cost of sales except in one case where it appeared that the foreign operations of a company would have been seriously damaged.

Certain applications for nondisclosure, particularly under the Securities Exchange Act of 1934, are of a recurring nature because of the requirements of that act that reports be filed periodically. It is the policy of the Commission to reexamine such applications for the purpose of determining whether in the light of current conditions the applications should be denied in whole or in part even though such applications may have been granted in the past. This critical attitude of the Commission is known to the industry and has resulted in a small number of applications in the past fiscal year.

The number of applications granted, denied or otherwise accounted for during the year are shown in the following table.

Applications for nondisclosure of certain information 1956 fiscal year

	Number pending July 1, 1955	Number received	Number granted	Number denied or withdrawn	Number pending June 30, 1956
Securities Act of 1933 *a*	3	23	16	7	3
Securities Exchange Act of 1934 *b*	3	12	8	4	3
Investment Company Act of 1940 *c*	0	5	5	0	0
Total	6	40	29	11	6

a Filed under rule 485.
b Filed under rule X-24B-2.
c Filed under rule N-45A-1.

STATISTICS AND SPECIAL STUDIES

The statistical work of the Commission is divided into two broad groups, the first covering statistics necessary to the Commission as the agency of the Government concerned with the operation, according to statutory standards, of the capital markets of the country. The second group of statistics pertain to general economic data connected with the overall government statistical program under the direction of the Office of Statistical Standards of the Bureau of the Budget. These general data are for the most part related to capital formation and other financial aspects of registered companies, and thus are also important to the Commission in carrying out its regulatory functions.

The statistical series which are prepared include data on securities effectively registered under the Securities Act of 1933, offerings of securities by all corporations in the United States (including issues not registered with the Commission, such as privately placed issues and railroad securities), retirements of corporate securities, net change in corporate securities outstanding, stock prices and trading. The research and statistical activity carried out under the direction of the Bureau of the Budget includes individuals' savings in the United States, income flow and investments of private pension funds of United States corporations, current liquid position of United States corporations, anticipated expenditures for plant and equipment by United States businesses, and a quarterly financial report for all United States manufacturing concerns.

Special studies are made from time to time on certain phases of the statistical data, and special reports are also prepared at the request of the Congress, the Council of Economic Advisers and other Government agencies. During 1956 studies and surveys concerned with stock market activity and practices were prepared for internal use and for the use of the Senate Committee on Banking and Currency

in its study of the stock market. Statistical data on the cost of flotation for registered and unregistered issues covering the years 1951, 1953, and 1955 were compiled, a report being planned for publication in 1957. Another special report, covering self-insured pension plans developed from the Commission's annual survey of corporate pension funds was published in November 1956.

The statistical series are published in the Commission's Statistical Bulletin and in addition, except for data on registered issues, current figures and analyses of the data are published in quarterly press releases. The Commission's stock price index is released weekly, together with data on round-lot and odd-lot trading on the two New York exchanges.

The various statistical series are as follows:

Issues Registered under the Securities Act of 1933

Monthly and quarterly statistics are compiled on the number and volume of registered securities, classified by industry of issuer, type of security, and use of proceeds. Data for the 1956 fiscal year appear at page 52 and in appendix tables 1 and 2.

New Securities Offerings

This is a monthly and quarterly series covering all new corporate and noncorporate issues offered for cash sale in the United States. The series includes not only issues publicly offered but also issues privately placed, as well as other issues exempt from registration under the Securities Act such as intrastate offerings and railroad securities. The offerings series includes only securities actually offered for cash sale, and only issues offered for account of issuers. Annual statistics on new offerings since 1951, as well as monthly figures from January 1955 through June 1956, are given in appendix tables 3 and 4. A summary of the data is shown annually from 1934 through June 1956 in appendix table 5.

Corporate Securities Outstanding

Estimates of the net cash flow through securities transactions are prepared quarterly and are derived by deducting from the amount of estimated gross proceeds received by corporations through the sale of securities the amount of estimated gross payments by corporations to investors for securities retired. Data on gross issues, retirements and net change in securities outstanding are presented for all corporations and for the principal industry groups.

Stock Market Data

Statistics are regularly compiled on the market value and volume of sales on registered and exempted securities exchanges, round-lot stock transactions on the New York exchanges for accounts of members and nonmembers, odd-lot stock transactions on the New York

exchanges, special offerings and secondary distributions. Indexes of stock market prices are compiled, based upon the weekly closing market prices of 265 common stocks listed on the New York Stock Exchange. The indexes are composed of 7 major industry groups, 29 subordinate groups, and a composite group.

Saving Study

The Commission compiles quarterly estimates of the volume and composition of individuals' saving in the United States. The series represents net increases in individuals' financial assets less net increases in mortgage and consumer debt. The study shows the aggregate value of saving and the form in which the saving occurred, such as investment in securities, expansion of bank deposits, increase in insurance and pension reserves, etc. The saving series was initiated by the Commission in the Thirties and in recent years has been considerably refined and improved. During 1956, the Office of Statistical Standards discussed with the Commission its proposal to transfer central responsibility for savings statistics to the Federal Reserve Board. The Commission is cooperating with the Board in developing a new program of savings statistics along the lines suggested by the Task Force on Saving Statistics of the Joint Committee on the Economic Report.[15b] Some of these improvements, already under way by the Commission, were incorporated in the Commission's 1955 annual release on saving, published in May 1956. A reconciliation of the Commission's estimates with the personal saving estimates of the Department of Commerce, derived in connection with its national income series, is published annually in the National Income Number of the Survey of Current Business.

Financial Position of Corporations

The series on working capital position of all United States corporations, excluding banks and insurance companies, shows the principal components of current assets and liabilities, and also contains an abbreviated analysis of the source and use of corporate funds.

The Commission, jointly with the Federal Trade Commission, compiles a quarterly financial report for all United States manufacturing concerns. This report, an outgrowth of the working capital series, gives complete balance sheet data and an abbreviated income account, data being classified by industry and size of company.

Plant and Equipment Expenditures

The Commission, together with the Department of Commerce, conducts quarterly and annual surveys of actual and anticipated plant and equipment expenditures of all United States businesses, exclusive of agriculture. Shortly after the close of each quarter, data are

[15b] See "Reports of Federal Reserve Consultant Committees on Economic Statistics". *Hearings before Statistics of the Joint Committee on the Economic Report.* 84th Cong., 1st Session (1955) and Senate Report No. 1309 84th Cong., 2d Session (1956), 15

released on actual capital expenditures of that quarter and anticipated expenditures for the next two quarters. In addition, a survey is made at the beginning of each year of the plans for business expansion during that year.

PUBLIC DISTRIBUTION OF INFORMATION

Among the basic purposes included in the statutes administered by the Commission are to provide information to the public about corporations and others selling new issues of securities to the public in interstate commerce or having securities listed on national securities exchanges, and detection, prevention and punishment of fraud, manipulation and other illegal activities in the securities markets, where Federal jurisdiction is involved.

As a result of the activities of the Commission in administering the "full disclosure" principles of the Federal securities laws, a vast amount of business and financial information has become available to the investing public. The availability of this information has been of particular importance in recent years because of the expanding and developing economy and the concomitant requirements for large amounts of new investment capital. Virtually all of the data obtained by the Commission under statutes administered by it is available to the public. In terms of volume, in excess of 90 percent of the Commission's files and records are freely available for public use and inspection.

Only a limited amount of information is not generally available to the public and this covers primarily the internal operating files of the Commission and the Commission's investigation files, the disclosure of which would be detrimental to the public interest. As the Attorney General pointed out: [16]

> * * * The great mass of material relating to the internal operation of an agency is not a matter of official record. For example, intra-agency memoranda and reports prepared by agency employees for use within the agency are not official records since they merely reflect the research and analysis preliminary to official agency action. Intra-agency reports of investigations are, in general, not matters of official record; in addition, they usually involve matters of internal management and, in view of their nature, must commonly be kept confidential * * *

Members of the Commission as well as top staff officials frequently make themselves available for speeches and discussions before civic, professional and industry groups interested in the work of the Commission.

While the Commission has no formal public relations office, the Chairman, the other Commissioners, the Secretary and staff members of the home office as well as the regional offices, are always available for press interviews regarding the Commission's day to day operations. This is true, not only in the main office in Washington, but through-

[16] Attorney General's Manual on the Administrative Procedure Act (1947) p. 25.

out the country generally, the practice being for Commissioners and Commission representatives to meet with the press whenever Commission business requires their presence in other sections of the country.[17] During the 1956 fiscal year, over 30 press conferences were held by Commissioners and staff members in Washington and throughout the country.

Most Commission actions take the form of orders for hearing (or orders giving notice of opportunity to request a hearing), interim or final decisions and orders, and rules and regulations. So that the investing public may keep currently informed of these actions, copies thereof are distributed in "release" form to the Commission's mailing lists, comprising the names of persons who have specifically requested certain types of releases. During the year, a total of 736 such releases were distributed to these lists. An additional 73 releases were issued announcing court actions involving the Commission's law enforcement activities, such as injunction actions and criminal prosecutions. Another 73 releases were issued in the Statistical Series announcing the results of the Commission's regular statistical studies including New Security Offerings, Expenditures on New Plant and Equipment, Working Capital of Corporations, Saving of Individuals, the Financial Reports of Manufacturing Companies, and Surveys of Pension Plans.

Furthermore, to facilitate widespread press coverage of financial and other proposals filed with, and actions by, the Commission, and thus contribute to a greater public knowledge and understanding of the Commission's activities, a daily digest or summary of all such developments is prepared and distributed to the press. In addition to summarizing the Commission's orders, decisions and rules, including such administrative actions as the suspension of registration statements or regulation A notifications with respect to public offerings of securities or the revocation of broker-dealer registrations, a brief description of all new financing proposals included in registration statements filed with the Commission, including the terms of the offering, expected use of the proceeds, and similar information, is reflected in the daily summary.

This program of information distribution is supplemented by many responses each day to individual inquiries of press representatives and others with respect to the Commission's activities and the financial proposals and other matters pending before the Commission.

Information Available for Public Inspection

The Commission maintains public reference rooms at the headquarters office in Washington, D. C., and at its regional offices in New York City and Chicago, Ill.

[17] For an additional discussion of Commission informational policies, see discussion of House Special Subcommittee on Government Information of the Committee on Government Operations, Pt II, p. 21.

Copies of all public information on file with the Commission contained in registration statements, applications, declarations and other public documents are available for inspection in the public reference room in Washington. During the fiscal year 3,348 persons made personal visits to the public reference room seeking public information and an additional 24,908 requests for registered public information and copies of forms, releases and other material of a public nature were received. Through the facilities provided for the sale of reproductions of public information, 1,845 orders involving a total of 102,739 pages were filled and 325 certificates attesting to the authenticity of copies of Commission records were prepared. The Commission also mailed 445,588 copies of publications to persons requesting them.

There are available in the New York Regional Office copies of recent filings made by companies which have securities listed on exchanges other than the New York exchanges and copies of current periodical reports of many other companies which have filed registration statements under the Securities Act of 1933. During the fiscal year 11,670 persons visited this public reference room and more than 10,006 telephone calls were received from persons seeking public information and copies of forms, releases, and other material. In the Chicago Regional Office there are available copies of recent filings made by companies which have securities listed on the New York exchanges.

Copies of recent prospectuses used in the public offering of securities registered under the Securities Acts are available in all regional offices, as are copies of active broker-dealer and investment adviser registration applications and Regulation A Letters of Notification filed by persons or companies in the respective regions.

Copies of certain reports filed with the Commission are also available at the respective national securities exchanges upon which the securities of the issuer are registered.

PUBLICATIONS

Publications issued during the fiscal year include:

Statistical Bulletin. Monthly.

Official Summary of Securities Transactions and Holdings of Officers, Directors and Principal Stockholders. Monthly.

Twenty-first Annual Report of the Commission.

Securities Traded on Exchanges under the Securities Exchange Act of 1934, as of December 31, 1955.

Companies Registered under the Investment Company Act of 1940, as of December 31, 1955.

Financial Report, United States Manufacturing Corporations. (Jointly with Federal Trade Commission) Quarterly, 1955.

Compilation of Accounting Series Releases Nos. 1–77 as of March 10, 1956.

Compilation of Amendments to 1935 Rules and Regulations as of March 15, 1956.

Volumes Nos. 28, 29, and 30 of the Commission's Decisions and Reports.
Working Capital of United States Corporations. Quarterly.
Volume and Composition of Saving. Quarterly.
New Securities Offered for Cash. Quarterly.
Plant and Equipment Expenditures of United States Corporations (Jointly with Department of Commerce) Quarterly.
Fulbright Committee Report as of May 25, 1956—S. 2054, 84th Congress, a bill to amend the Securities Exchange Act of 1934.

ORGANIZATION

The Securities and Exchange Commission is an independent regulatory agency exercising quasi-judicial, quasi-legislative, and administrative functions. Its staff is composed of attorneys, accountants, engineers, securities analysts, and clerical employees. The staff is divided into divisions and offices, including nine regional offices, as indicated in the organization chart on the following page.

The executive director is the chief operating official of the Commission. He acts under the direction of the Commission in the coordination of, and the performance of functions by, the operating divisions and offices of the agency, but under the direction of the Chairman with respect to administrative matters. He serves as head of the Division of Administrative Management, which includes the branches of Personnel, Budget and Finance, and Records and Service.

Reorganization Plan 10 of 1950, pursuant to the Reorganization Act of 1949,[18] providing for reorganization of the Securities and Exchange Commission, became effective on May 24, 1950.

Plan 10 does not affect the substantive statutory responsibilities or the general policy-making functions of the Commission. Registrations,

[18] Prepared by the President and transmitted to the Senate and the House of Representatives in Congress assembled, March 13, 1950, pursuant to the provisions of the Reorganization Act of 1949, approved June 20, 1949.

"SECTION 1. Transfer of functions to the Chairman.—(a) Subject to the provisions of subsection (b) of this section there are hereby transferred from the Securities and Exchange Commission, hereinafter referred to as the Commission, to the Chairman of the Commission, hereinafter referred to as the Chairman, the executive and administrative functions of the Commission, including functions of the Commission with respect to (1) the appointment and supervision of personnel employed under the Commission, (2) the distribution of business among such personnel and among administrative units of the Commission, and (3) the use and expenditure of funds.

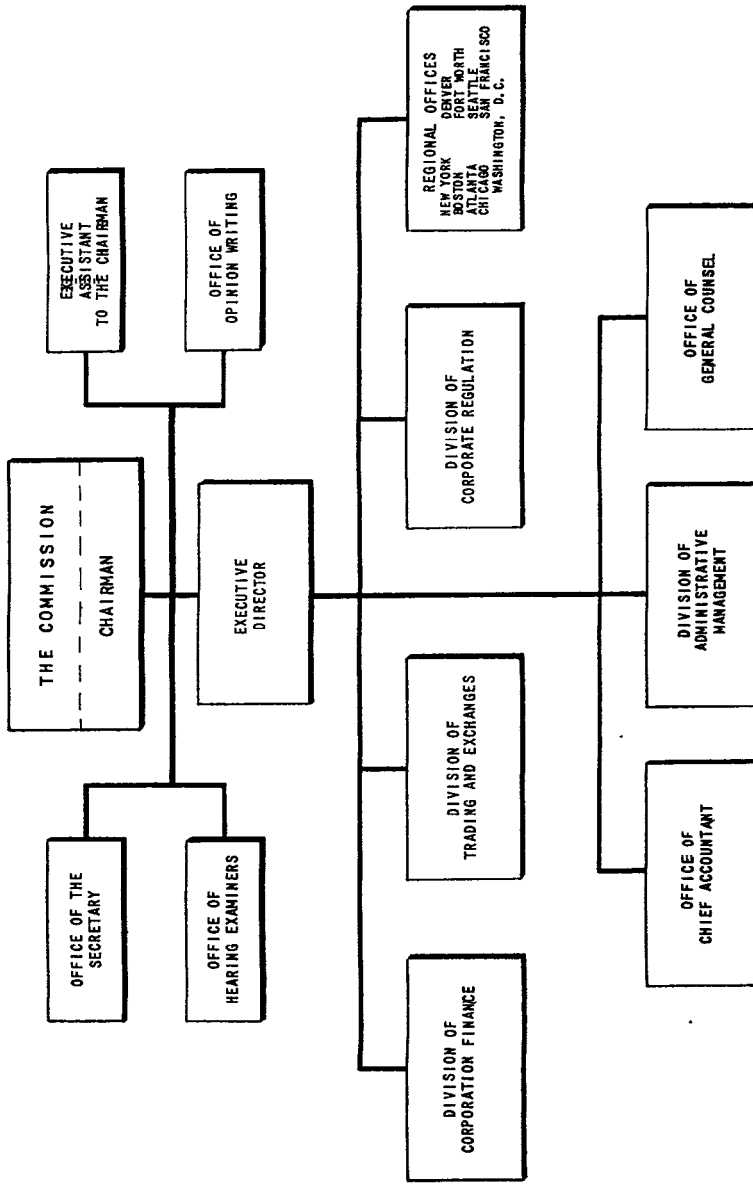
(b) (1) In carrying out any of his functions under the provisions of this section the Chairman shall be governed by general policies of the Commission and by such regulatory decisions, findings, and determinations, as the Commission may by law be authorized to make. (2) The appointment by the Chairman of the heads of major administrative units under the Commission shall be subject to the approval of the Commission. (3) Personnel employed regularly and full time in the immediate offices of Commissioners other than the Chairman shall not be affected by the provisions of this reorganization plan.

(4) There are hereby reserved to the Commission its functions with respect to revising budget estimates and with respect to determining upon the distribution of appropriated funds according to major programs and purposes.

SEC. 2. Performance of transferred functions.—The Chairman may from time to time make such provisions as he shall deem appropriate authorizing the performance by any officer, employee, or administrative unit under his jurisdiction of any function transferred to the Chairman by the provisions of section 1 of this reorganization plan.

SEC. 3. Designation of Chairman.—The function of the Commission with respect to choosing a Chairman from among the Commissioners composing the Commission are hereby transferred to the President."

SECURITIES AND EXCHANGE COMMISSION



applications and other matters arising under the statutes flow from the operating divisions and offices directly to the Commission. Plan 10 specifically provides that the appointment of the heads of major administrative units shall be made by the Commission on recommendation of the Chairman, and that personnel employed in the immediate offices of the Commissioners shall not be affected by provisions of the plan. The Plan also reserves to the Commission its functions as to revising budget estimates and with respect to determining the distribution of appropriated funds according to major programs and purposes. Although certain executive and administrative responsibilities are vested in the Chairman by Plan 10, the Commission is regularly consulted with respect to important executive and administrative matters. In addition, personnel actions affecting professional, technical and administrative employees are reported regularly to the Commission.

The Commission operates under a continuing policy of review of its organization and functions in order that its responsibilities may be discharged as efficiently and economically as possible. Under this policy, management studies were made of all of the Commission's major divisions in Washington, and the New York Regional Office during the fiscal year 1956. The principal realignments of functions and personnel approved by the Commission pursuant to this self-evaluation program were as follows:

The Division of Corporate Regulation formerly had three operating units, two of which handled the Division's work under the Public Utility Holding Company Act of 1935. The work is now concentrated in one Branch of Public Utility Regulation. The other operating unit, the Branch of Investment Companies, will continue to handle the Division's work under the Investment Company Act of 1940. An office of Special Studies and Administration was created to replace the Branch of Special Studies, thus concentrating in one branch the general analytical, financial, economic, and administrative functions of the Division. The newly created Office of Chief Counsel will be responsible for legal advice to the Division as well as for the Division's work under Chapter X of the Bankruptcy Act. This realignment of functions and personnel became effective June 1, 1956.

The Division of Administrative Management formerly consisted of the Branches of Personnel, Budget and Finance, Records, and Service. Effective June 1, 1956, the two latter branches were combined into one Branch of Records and Service.

Effective June 25, 1956, the functions and personnel of the Division of Trading and Exchanges were realigned to a minor extent. The Section of Enforcement was reconstituted and given immediate supervision over three component units each performing related functions. Similarly, the Section of Economic Research was reconstituted to provide for three units each responsible for a broad area

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of the Commission's statistical program. These changes were designed to improve the flow of work within the Division.

The table of organization of the Office of the General Counsel formerly provided for a General Counsel, an Associate General Counsel and an Assistant General Counsel. Effective June 27, 1956, two additional Assistant General Counsel positions were created. The Associate General Counsel position, which had been vacant, was filled by promotion, as were the resulting three Assistant General Counsel positions. These changes gave recognition to the duties and responsibilities theretofore discharged by members of the General Counsel's staff and provide for an Assistant General Counsel with primary responsibility over each of the following major areas of work: contested trial court litigation, appellate court litigation, and legislative matters.

The functions and personnel of the Division of Corporation Finance were realigned to provide for three Assistant Directors in charge of the examination of registration statements under the Securities Act of 1933 and related matters, each having under his supervision two Branches of Corporate Examination and Analysis; an Assistant Director in charge of a Branch of Small Issues and a Branch of Administrative Proceedings and Investigation; a Chief Counsel of the Division in charge of a Branch of Interpretations and Review and a Branch of Forms, Rules, Regulations and Legislative Matters; a chief accountant of the Division; an Office of Engineering; and an Office of Filings and Reports. These changes, as modified August 15, 1956, were effective July 2, 1956.

PERSONNEL AND FISCAL

The personnel of the Commission as of June 30, 1956, compared with June 30, 1955, consisted of the following:

	June 30, 1956		June 30, 1955	
Commissioners		5		4
Staff:				
Headquarters office	458		411	
Regional offices	271	729	251	662
Total		734		666

The table on the following page shows the Budget Estimates of the Commission, the recommendations of the President, the appropriations actions of the House of Representatives, the Senate and the House-Senate Conferees and the appropriations (including supplementary appropriations for statutory pay increases) made for the Commission by the Congress for the fiscal years 1949–1956.

Action taken on budget estimates and appropriation from fiscal 1949 through fiscal 1956

Action	Fiscal 1949		Fiscal 1950		Fiscal 1951		Fiscal 1952		Fiscal 1953		Fiscal 1954		Fiscal 1955		Fiscal 1956		Fiscal 1957	
	Average employment	Money	Average employment	Money	Average employment	Money	Average employment	Money	Average employment	Money	Average employment	Money	Average employment	Money	Average employment	Money	Average employment	Money
Commission's estimate to the Bureau of the Budget	1,400	$6,684,800	1,307	$6,789,400	1,175	$6,675,000	1,127	$6,605,000	1,092	$6,360,000	1,080	$6,810,000	780	$5,124,760	734	$4,997,000	794	$5,749,000
Excess over President's Budget	−155	−684,800	−177	−819,400	−40	−250,000	−77	−681,000	−157	−410,000	−142	−810,000	−63	−299,760				
Amount recommended in President's Budget	1,245	6,000,000	1,130	5,970,000	1,135	6,425,000	1,050	5,924,000	935	5,950,000	938	6,000,000	717	4,825,000	734	4,997,000	794	5,749,000
Action by the House of Representatives	−89	−173,860	−70	−220,000	−95	−295,000	−50	−225,000	−125	−704,920	−152	−754,920	−26	−125,000	−9	−122,000	−8	−49,000
Subtotal	1,156	5,826,140	1,060	5,750,000	1,040	6,130,000	1,000	5,699,000	810	5,245,080	786	5,245,080	691	4,700,000	725	4,875,000	786	5,700,000
Action by the Senate					+44	+200,000	−93	−320,520			−42	−245,080	+14	+75,000	+9	+122,000	+8	+49,000
Subtotal	1,156	5,826,140	1,060	5,750,000	1,084	6,330,000	907	5,378,480	810	5,245,080	744	5,000,000	705	4,775,000	734	4,997,000	794	5,749,000
Action by conferees					−22	−100,000							−6	−25,000	−4	−42,000		
Annual appropriation	1,156	5,826,140	1,060	5,750,000	1,062	6,230,000	907	5,378,480	810	5,245,080	744	5,000,000	699	4,750,000	730	4,955,000	794	5,749,000
Supplemental appropriation for statutory pay increases		295,000		128,250				435,000						93,180		323,000		
Total appropriation	1,156	6,121,140	1,060	5,878,250	1,062	6,230,000	907	5,813,480	810	5,245,080	744	5,000,000	699	4,843,180	730	5,278,000	794	5,749,000
Mandatory reserve required in 1951					−32	−150,000												
					1,030	6,080,000												

Fees

The Commission is required by law to collect fees for registration of securities issued; qualification of trust indentures; registration of exchanges; and sale of copies of documents filed with the Commission.[18a]

The following table shows the Commission's appropriations, total fees collected, percentage of fees collected to total appropriation, and the net cost to the taxpayers of Commission operations for fiscal years 1954, 1955, and 1956:

	Appropriation	Fees collected	Percentage of fees collected to total appropriation (percent)	Net cost of Commission operations *
1954	$5,000,000	$1,215,749	24	$3,784,251
1955	4,843,180	1,703,290	35	3,139,890
1956	5,278,000	2,074,211	39	3,203,789

* Fees are deposited to the General Fund of the Treasury and are not available for expenditure by the Commission.

Personnel Program

During fiscal 1956 there were significant developments in employment. As a result of a series of budget cuts, during the period 1949 to 1954 the Commission's staff was reduced from 1,149 on June 30, 1948, to 666, as of June 30, 1955. The figure of 666 represents an all-time low since the formative days of the Commission. As a result of favorable action on the Commission's budgets for fiscal years 1956 and 1957, this downward trend has been reversed. An aggregate of 140 appointments were made to fill the new positions in the Commission provided for by these appropriations and to replace retirements and resignations. In addition, 22 temporary clerical employees were appointed. During the summer months of 1956, 10 law school and business college students were hired under the Commission's newly established student assistant program. During the same period, it was also possible to make 172 promotions for members of the staff who were assigned increased duties and responsibilities which made possible their upgrading. The policy of recognition of hard, devoted, and productive work by the staff, which has resulted in these increased responsibilities at higher grades, is basic in providing incentive and enthusiasm, and the Commission believes contributes to the very high professional standing of the agency.

The Commission's appropriation for 1957 will permit an average employment of 794.[18b] The Commission believes that an adequate

[18a] Principal rates are (1) 1/100 of 1% of the maximum aggregate price of securities proposed to be offered, but not less than $25; (2) 1/500 of 1% of the aggregate dollar amount of stock exchange transactions. Fees for other services are only nominal.

[18b] At December 1, 1956, there were 785 employees in service.

staff is essential to insure that the basic policies of the Congress enacted in the securities laws for the protection of the investing public shall continue to be effectively discharged by the Commission.

During fiscal 1956, the Commission administratively extended to certain employees in positions excepted from the competitive civil service career tenure similar to that given to employees in the competitive service by law and regulation. In January 1956, the Commission adopted a program making possible the conversion of the indefinite appointment of attorneys who joined the staff after December 1, 1950, to a permanent or career basis. In addition, the Commission took administrative action converting to a permanent basis the indefinite promotions of employees in excepted positions.

During fiscal 1956, there have been significant accomplishments under the Commission's Incentive Awards Plan. In September 1955, the Commission recognized the long service of its career employees by presenting 10- and 20-year service pins and certificates to a total of 453 employees (63 percent of the entire staff) for service with the Commission.[19] In addition 6 employees were awarded $175 for adopted suggestions and cash awards totaling $3,500 and certificates of merit were presented to 33 employees.

Fiscal 1956 was also a notable year for the recognition of the achievements of members of the Commission's staff by other organizations. In December 1955, the National Civil Service League presented 1 of its 10 career service awards to the chief accountant of the Division of Corporation Finance, Andrew Barr, and certificates of merit were awarded to 4 other Commission employees, Arden L. Andresen, William E. Becker, Orval L. DuBois, and Karl C. Smeltzer. In March of 1956, 2 of 16 Rockefeller Public Service Awards made throughout the Federal service were granted to the chief counsel of the Division of Corporation Finance, Manuel F. Cohen, and to an attorney-adviser in the Division of Trading and Exchanges, Edward C. Jaegerman. In June 1956, an attorney-adviser in the Office of the General Counsel, Elizabeth B. A. Rogers, was awarded a certificate of merit by the William A. Jump Memorial Foundation.[20]

The Commission is justifiably proud of this record of distinction earned by its employees, and they are richly deserved by an able and conscientious staff that has contributed much to furthering the objectives for which the Commission was created.

[19] In September 1956, 10- and 20-year service pins and certificates were awarded to an additional 62 employees.

[20] In addition, in August 1956, the National Civil Service League awarded its Merit Citation to 5 Commission employees in recognition of their outstanding careers in the public service. Also in August 1956, 3 employees were selected for participation in the Civil Service Commission's Eighth Junior Management Intern Program, out of a total of only 19 government employees admitted to the program.

PART XII

APPENDIX
STATISTICAL TABLES

TABLE 1.—*A 22-year record of registrations fully effective under the Securities Act of 1933*

1935–1956

[Amounts in millions of dollars]

Fiscal year ended June 30	Number of statements	All registrations	For cash sale for account of issuers			
			Total	Bonds, debentures and notes	Preferred	Common
1935 [1]	284	$913	$686	$490	$28	$168
1936	689	4,835	3,936	3,153	252	531
1937	840	4,851	3,635	2,426	406	802
1938	412	2,101	1,349	666	209	474
1939	344	2,579	2,020	1,593	109	318
1940	306	1,787	1,433	1,112	110	210
1941	313	2,611	2,081	1,721	164	196
1942	193	2,003	1,465	1,041	162	263
1943	123	659	486	316	32	137
1944	221	1,760	1,347	732	343	272
1945	340	3,225	2,715	1,851	407	456
1946	661	7,073	5,424	3,102	991	1,331
1947	493	6,732	4,874	2,937	787	1,150
1948	435	6,405	5,032	2,817	537	1,678
1949	429	5,333	4,204	2,795	326	1,083
1950	487	5,307	4,381	2,127	468	1,786
1951	487	6,459	5,169	2,838	427	1,904
1952	635	9,500	7,529	3,346	851	3,332
1953	593	7,507	6,326	3,093	424	2,808
1954	631	9,174	7,381	4,240	531	2,610
1955	[2] 779	10,960	8,277	3,951	462	3,864
1956	[3] 833	13,096	9,206	4,123	539	4,544

[1] For 10 months ended June 30, 1935.

[2] Includes 75 registrations of additional securities of investment companies by amendment of earlier registrations as provided by Section 24 (e) (1) of the Investment Company Act of 1940.

[3] Includes 127 registrations of additional securities of investment companies by amendment of earlier registrations. There have been excluded the 73 statements registering American Depositary Receipts against outstanding foreign securities on Form S-12.

TABLE 2.—*Registrations fully effective under the Securities Act of 1933*

PART 1.—DISTRIBUTION BY MONTHS, FISCAL YEAR ENDED JUNE 30, 1956

[Amounts in thousands of dollars [1]]

Year and month	All registrations			Proposed for sale for account of issuers		
	Number of statements	Number of issues	Amount	Number of statements	Number of issues	Amount
1955						
July	69	89	642,715	61	73	522,118
August	54	77	2,664,816	49	66	1,438,940
September	41	53	601,154	35	45	564,544
October	62	83	707,281	53	67	530,039
November	80	106	915,017	74	90	727,767
December	51	82	411,316	47	71	321,219
1956						
January	63	76	1,617,939	54	61	551,122
February	58	75	609,005	53	65	470,143
March	87	115	1,385,162	82	100	1,175,770
April	95	139	1,540,234	85	117	1,199,986
May	83	105	1,233,235	79	90	1,092,885
June	90	117	767,636	81	92	611,081
Total, fiscal year 1956	[2] 833	1,117	13,095,508	753	937	9,205,613

PART 2.—PURPOSE OF REGISTRATION AND TYPE OF SECURITY, FISCAL YEAR ENDED JUNE 30, 1956

[Amounts in thousands of dollars [1]]

Purpose of registration	Type of security			
	All types	Bonds, debentures, and notes [3]	Preferred stock	Common stock [4]
All registrations	13,095,508	4,145,421	653,191	8,296,895
For account of issuers for cash sale	9,205,613	4,122,801	539,220	4,543,592
Corporate	[5] 9,005,981	3,923,169	539,220	4,543,592
Offered to:				
General public	6,616,725	2,911,682	492,876	3,212,166
Security holders	1,901,422	1,001,321	42,827	857,273
Other special groups	487,835	10,166	3,517	474,152
Foreign governments	199,632	199,632	----------	----------
For account of issuers for other than cash sale	2,819,117	11,331	111,550	2,696,236
For account of others than issuers	1,070,778	11,290	2,421	1,057,067

See footnotes at end of table.

TABLE 2.—*Registrations fully effective under the Securities Act of 1933*—Continued

PART 3.—PURPOSES OF REGISTRATION AND INDUSTRY OF REGISTRANT, FISCAL YEAR ENDED JUNE 30, 1956

[Amounts in thousands of dollars [1]]

Purpose of registration	Industry									
	All registrants	Manufacturing	Mining	Electric, gas and water	Transportation other than railroad	Communication	Investment companies	Other financial and real estate	Commercial and other	Foreign governments
Number of statements	833	245	60	131	19	37	175	108	50	8
Number of issues	1,117	339	84	151	27	40	264	128	71	13
All registrations (estimated value)	13,095,508	3,790,319	242,512	1,916,330	171,927	2,507,185	3,123,236	917,714	221,264	205,022
For account of issuers	12,024,731	2,811,642	235,077	1,898,090	170,307	2,506,966	3,123,236	878,197	201,583	199,632
For cash sale	9,205,613	1,787,724	148,486	1,801,861	118,093	1,294,275	2,890,084	852,169	113,289	199,632
Corporate	[5] 9,005,981	1,787,724	148,486	1,801,861	118,093	1,294,275	2,890,084	852,169	113,289	----
Noncorporate	199,632	----	----	----	----	----	----	----	----	199,632
For other than cash sale	2,819,117	1,023,918	86,592	96,229	52,214	1,212,691	233,152	26,028	88,294	----
For exchange for other securities [6]	479,623	217,630	35,037	36,044	----	18,637	106,623	16,467	49,135	----
Reserved for conversion	1,835,729	488,862	32,954	41,862	48,356	1,194,054	----	4,210	25,429	----
For other purposes	503,761	317,425	18,550	18,323	3,859	----	126,524	5,351	13,729	----
For account of others than issuers	1,070,778	978,676	7,434	18,240	1,620	219	----	39,517	19,681	5,390

See footnotes at end of table.

TABLE 2.—*Registrations fully effective under the Securities Act of 1933*—Continued

PART 4.—USE OF PROCEEDS AND INDUSTRY OF REGISTRANT, FISCAL YEAR ENDED JUNE 30, 1956

[Amounts in thousands of dollars [1]]

Use of proceeds	Industry								
	All corporate	Manufacturing	Mining	Electric, gas and water	Transportation other than railroad	Communication	Investment companies	Other financial and real estate	Commercial and other
Corporate issues for cash sale for account of issuers (estimated gross proceeds)	9,005,981	1,787,724	148,486	1,801,861	118,093	1,294,275	2,890,084	852,169	113,289
Cost of flotation	365,113	49,954	12,382	32,311	4,490	10,945	232,611	16,197	6,222
Commissions and discounts	318,416	38,698	9,783	20,779	3,483	5,010	222,702	13,328	4,633
Expenses	46,696	11,256	2,599	11,532	1,007	5,935	9,909	2,870	1,589
Expected net proceeds	8,640,869	1,737,770	136,104	1,769,550	113,603	1,283,330	2,657,474	835,972	107,067
New money purposes	5,375,193	1,508,498	121,828	1,706,704	94,171	1,282,776		501,639	99,576
Plant and equipment	4,246,001	986,959	61,739	1,762,784	83,137	1,282,657		21,554	47,222
Working capital	1,129,192	521,539	60,089	8,971	11,034	120		480,085	52,354
Retirement of securities	126,749	115,670	112	2,640	7,428			816	83
Other purposes [7]	3,138,927	113,601	14,164	206	12,004	554	2,657,474	333,516	7,408

[1] Dollar amounts are rounded and will not necessarily add to totals shown.

[2] The registrations shown in this table as fully effective include 127 effective registrations of additional securities of investment companies by amendment of earlier registrations. The 833 registrations differ from the 906 registrations shown in the table on page 230 by reason of (a) the exclusion of 73 registrations of American Depositary Receipts, (b) the exclusion of 3 statements effective subject to amendments which were not filed by the end of the fiscal year and the inclusion of 3 statements which were later withdrawn.

[3] Includes face amount certificates.

[4] Includes certificates of participation.

[5] This total differs from the sum of the monthly figures ($5,465,315,000) for offerings shown in table 3, part 1, under the heading "Registered under 1933 Act," as follows:

Excluded from this table but included in offerings:	
Offerings of issues effectively registered prior to July 1, 1955	$32,957,000
Portion of exchange issues sold for cash	4,093,000
Included in this table but excluded from offerings:	
Issues offered continuously:	
Investment companies	2,840,729,000
Employee purchase plans and other	461,822,000
Effectively registered issues not yet offered for sale	78,290,000
Issues sold outside the United States, intercorporate offerings, etc.	196,875,000

[6] Includes voting trust certificates registered for issuance in exchange for original securities deposited.

[7] Principally the purchase of securities.

TABLE 3.—*New securities offered for cash sale in the United States* [1]

PART I.—TYPE OF OFFERING

[Estimated gross proceeds in thousands of dollars [2]]

Calendar year or month	All offerings (corporate and non-corporate)	CORPORATE								Non-corporate
		Total corporate	Classified by type of offering							
			Public offerings [3]						Private placements [6]	
			Total public offerings	Registered under 1933 Act	Not registered under 1933 Act [4]					
					Total	Railroad issues	Issues exempt because of size [4]	Other exempt offerings [5]		
1951	21,264,507	7,741,099	4,326,407	3,684,286	642,121	331,097	133,278	177,751	3,414,692	13,523,408
1952	27,209,159	9,534,162	5,532,619	4,807,929	724,690	472,227	169,484	82,979	4,001,543	17,674,998
1953	28,824,485	8,897,996	5,580,424	5,004,782	575,642	295,913	159,846	119,883	3,317,572	19,926,489
1954	29,764,843	9,516,168	5,847,743	4,959,641	888,102	440,152	194,550	253,400	3,668,425	20,248,675
1955	26,772,349	10,240,155	6,763,161	5,752,604	1,010,557	532,049	269,059	209,450	3,476,994	16,532,195
1955										
January	2,709,708	675,749	430,007	334,609	95,398	61,247	19,188	14,963	245,743	2,033,959
February	1,390,079	459,712	247,484	202,232	45,252	0	17,112	28,140	212,228	930,367
March	2,559,937	1,394,753	1,061,349	1,002,294	59,056	22,783	25,742	10,531	333,404	1,165,184
April	1,642,822	663,841	468,422	352,148	116,274	91,199	22,019	3,056	195,419	978,981
May	4,382,348	981,041	764,964	689,396	75,568	12,118	24,674	38,776	216,078	3,401,307
June	1,919,221	768,091	438,894	361,043	72,851	18,086	29,850	24,915	334,196	1,151,130
July	2,504,472	752,968	278,160	236,999	37,161	3,588	24,164	9,410	478,808	1,751,504
August	1,638,073	869,635	695,763	484,896	208,867	169,507	30,268	9,092	175,871	768,439
September	1,627,138	735,573	459,150	395,624	63,526	28,983	23,404	11,139	276,424	891,565
October	2,645,872	1,250,248	1,044,972	923,385	121,587	63,380	22,175	36,032	205,276	1,395,624
November	1,839,842	708,183	407,324	371,241	36,083	9,770	14,896	11,417	300,859	1,131,659
December	1,912,836	980,361	477,673	398,737	78,936	51,388	15,568	11,980	502,688	932,474
1956										
January	1,710,172	621,036	227,955	178,905	49,050	18,543	14,949	15,558	393,081	1,089,136
February	1,997,864	744,455	411,622	303,923	107,699	30,769	12,925	64,005	332,833	1,253,408
March	1,787,412	860,559	564,083	478,996	85,686	38,022	20,842	26,822	295,877	926,853
April	1,876,453	914,936	579,543	481,356	98,187	13,112	17,201	67,873	335,392	961,518
May	2,127,626	1,184,729	868,953	788,300	80,654	37,241	20,409	23,004	315,776	942,896
June	2,123,227	889,233	485,464	422,952	62,512	33,347	13,645	15,520	403,769	1,233,994

See footnotes at end of table.

TABLE 3.—*New securities offered for cash sale in the United States* [1]—Continued

PART 2.—TYPE OF SECURITY

[Estimated gross proceeds in thousands of dollars [2]]

Calendar year or month	All types of securities			Bonds, debentures, and notes			Preferred stock	Common stock
	All issuers	Corporate	Noncorporate	All issuers	Corporate	Noncorporate		
1951	21,264,507	7,741,099	13,523,408	19,214,357	5,690,949	13,523,408	837,656	1,212,494
1952	27,209,159	9,534,162	17,674,998	25,276,111	7,601,113	17,674,998	564,498	1,368,551
1953	28,824,485	8,897,996	19,926,489	27,009,908	7,083,419	19,926,489	488,564	1,326,013
1954	29,764,843	9,516,168	20,248,675	27,736,258	7,487,583	20,248,675	815,908	1,212,677
1955	26,772,349	10,240,155	16,532,195	23,952,064	7,419,869	16,532,195	635,058	2,185,228
1955								
January	2,709,708	675,749	2,033,959	2,520,409	486,450	2,033,959	53,051	136,249
February	1,390,079	459,712	930,367	1,257,151	326,784	930,367	23,006	109,922
March	2,559,037	1,394,753	1,165,184	2,013,503	848,319	1,165,184	34,916	511,518
April	1,642,822	663,841	978,981	1,442,042	463,061	978,981	53,950	146,830
May	4,382,348	981,041	3,401,307	4,076,802	675,495	3,401,307	95,996	209,550
June	1,919,221	768,091	1,151,130	1,655,378	504,248	1,151,130	57,747	206,096
July	2,504,472	752,968	1,751,504	2,340,756	589,252	1,751,504	52,847	110,869
August	1,638,073	869,635	768,439	1,423,206	654,767	768,439	14,855	200,013
September	1,627,138	735,573	891,565	1,451,149	559,584	891,565	82,084	93,905
October	2,645,872	1,250,248	1,395,624	2,441,985	1,046,361	1,395,624	43,323	160,564
November	1,839,842	708,183	1,131,659	1,562,327	430,668	1,131,659	84,661	192,854
December	1,912,836	980,361	932,474	1,767,355	834,881	932,474	38,622	106,858
1956								
January	1,710,172	621,036	1,089,136	1,618,567	529,431	1,089,136	19,019	72,586
February	1,997,864	744,455	1,253,408	1,731,151	477,743	1,253,408	127,573	139,139
March	1,787,412	860,559	926,853	1,602,025	675,172	926,853	42,328	143,059
April	1,876,453	914,936	961,518	1,634,089	672,572	961,518	31,918	210,446
May	2,127,626	1,184,729	942,896	1,925,621	982,724	942,896	65,316	136,689
June	2,123,227	889,233	1,233,994	1,894,519	660,526	1,233,994	50,023	178,685

See footnotes at end of table.

TABLE 3.—*New securities offered for cash sale in the United States* [1]—Continued

PART 3.—TYPE OF ISSUER

[Estimated gross proceeds in thousands of dollars [2]]

Calendar year or month	Corporate									Noncorporate					
	Total corporate	Manufacturing	Mining [3]	Electric, gas and water	Railroad	Other transportation	Communication	Financial and real estate [4]	Commercial and other	Total noncorporate	U. S. Government (including issues guaranteed)	Federal agency (issues not guaranteed)	State and municipal	Foreign government and international	Nonprofit institutions
1951	7,741,099	3,121,853	(7)	2,454,853	335,087	159,227	612,080	524,616	533,383	13,523,408	9,778,151	110,000	3,188,777	418,567	27,914
1952	9,534,162	4,038,794	(7)	2,674,694	525,205	467,094	760,239	515,178	552,958	17,674,998	12,577,446	459,058	4,401,317	222,743	14,434
1953	8,897,996	2,253,531	235,368	3,029,122	302,397	293,036	881,853	1,576,048	326,640	19,926,489	13,956,613	105,557	5,557,887	282,807	23,625
1954	9,516,168	2,268,040	538,597	3,713,311	479,322	299,432	720,102	1,075,818	421,547	20,248,675	12,532,250	458,304	6,968,642	244,721	44,758
1955	10,240,155	2,993,658	415,289	2,463,729	547,777	345,280	1,132,271	1,898,677	443,473	16,532,195	9,628,326	745,558	5,976,504	149,960	31,848
1955															
January	675,749	188,272	21,065	238,608	63,575	27,863	7,086	97,926	31,353	2,033,959	742,264	715,558	541,449	34,688	0
February	459,712	84,433	12,942	106,823	1,400	6,730	45,148	150,755	51,480	930,367	602,040	0	327,527	0	800
March	1,394,753	636,525	48,952	225,622	24,783	11,751	27,134	366,984	53,003	1,165,184	613,732	0	539,767	7,410	4,275
April	663,841	158,003	30,602	218,348	93,299	15,495	19,006	117,456	11,631	978,981	534,652	0	429,030	15,000	300
May	981,041	413,281	15,108	249,336	12,718	42,083	24,989	185,980	36,645	3,401,307	3,019,682	30,000	349,648	1,577	400
June	768,091	168,263	80,233	275,410	18,286	39,689	64,903	78,541	42,766	1,151,130	495,900	0	650,780	0	4,450
July	752,968	358,969	32,395	105,019	3,588	27,148	46,180	145,107	34,563	1,751,504	1,264,835	0	470,161	13,450	3,258
August	869,635	174,114	29,270	91,037	169,507	19,261	92,361	278,537	15,548	768,439	509,432	0	258,707	0	300
September	735,573	189,456	52,209	224,062	28,983	25,487	28,665	164,413	22,299	891,565	480,861	0	407,314	2,940	450
October	1,250,248	88,905	26,203	169,946	65,980	41,927	697,822	113,095	46,369	1,395,624	461,306	0	925,818	400	8,100
November	708,183	186,862	13,947	284,858	13,770	7,243	40,378	97,032	64,093	1,131,659	437,897	0	661,017	24,745	8,000
December	980,361	346,575	52,363	274,659	51,888	79,702	38,600	102,851	33,724	932,474	465,925	0	415,285	49,750	1,515
1956															
January	621,036	209,953	13,428	65,576	18,543	8,246	3,063	266,758	35,470	1,089,186	644,836	0	406,800	37,000	500
February	744,455	225,519	22,748	199,756	30,769	10,401	37,385	196,163	21,715	1,253,408	543,964	0	709,444	0	0
March	860,559	277,582	21,691	190,239	47,269	35,108	121,567	135,825	31,280	926,853	517,561	0	400,650	7,942	700
April	914,936	342,422	9,854	299,162	13,892	38,895	15,275	174,836	20,600	961,548	452,552	60,000	390,541	49,800	8,625
May	1,184,729	486,818	35,386	339,395	38,865	50,424	82,055	112,354	39,434	942,896	451,271	0	490,526	0	1,100
June	889,233	306,635	59,087	239,058	33,347	27,272	11,570	190,779	21,485	1,233,994	436,931	0	698,426	95,972	2,665

See footnotes at end of table.

TABLE 3.—*New securities offered for cash sale in the United States*[1]—Continued

PART 4.—PRIVATE PLACEMENT OF CORPORATE SECURITIES[2]

[Estimated gross proceeds in thousands of dollars [3]]

Calendar year or month	All private placements	Type of security		Industry of issuer							
		Bonds, debentures, and notes	Stocks	Manufacturing	Mining [4]	Electric, gas and water	Railroad	Other transportation	Communication	Financial and real estate	Commercial and other
1951	3,414,691	3,326,457	88,234	1,975,318	(5)	637,137	3,990	154,326	55,327	223,314	365,280
1952	4,001,543	3,956,525	45,018	2,240,788	(5)	665,115	52,978	305,322	71,494	311,880	353,966
1953	3,317,572	3,227,514	90,059	1,070,888	106,716	731,349	6,484	234,242	63,182	886,967	217,744
1954	3,668,425	3,484,246	184,179	1,299,882	340,237	870,157	39,170	290,139	91,430	534,341	203,069
1955	3,476,994	3,300,973	176,021	1,197,273	201,826	596,041	15,728	315,061	107,540	807,053	236,473
1956											
January	245,743	234,088	11,655	91,499	10,193	40,601	2,328	27,863	6,680	47,751	18,826
February	212,228	202,414	9,814	61,437	4,307	23,248	1,400	6,480	1,752	102,215	11,389
March	333,404	331,446	1,958	125,999	30,174	79,964	2,000	10,493	11,212	57,539	16,023
April	195,419	166,433	28,985	34,552	7,500	37,742	2,100	13,895	4,200	89,758	5,672
May	216,078	210,224	5,854	35,794	400	27,970	600	37,225	2,450	84,097	27,542
June	334,196	318,615	15,581	94,277	59,655	49,467	200	39,089	41,994	39,696	9,818
July	478,808	453,416	25,391	275,466	9,267	42,299	0	18,478	8,055	108,106	17,138
August	175,871	163,339	12,532	66,615	3,904	28,183	0	16,122	600	53,440	7,008
September	276,424	258,585	17,839	100,911	36,425	41,402	0	24,443	14,730	42,408	16,104
October	205,276	188,274	17,002	32,007	2,700	35,090	2,600	39,152	4,150	47,387	42,189
November	300,859	275,455	25,404	73,662	0	104,512	4,000	2,118	1,042	71,852	43,674
December	502,688	498,683	4,005	205,054	37,302	85,563	500	79,702	10,675	62,803	21,090
1956											
January	393,081	388,450	4,631	146,623	3,381	54,952	0	6,116	2,350	162,395	17,264
February	332,833	329,144	3,689	105,161	4,225	56,622	0	9,809	8,969	131,141	16,907
March	295,877	282,250	13,626	78,324	6,866	40,102	9,246	27,746	18,030	104,490	11,072
April	335,392	332,292	3,100	167,765	1,232	62,975	780	10,200	2,324	75,042	15,075
May	315,776	297,049	18,728	76,789	15,655	83,144	1,624	25,672	4,450	80,332	28,110
June	403,769	390,973	12,796	204,943	10,950	77,742	0	4,417	1,500	93,895	10,322

[1] The data in these tables cover substantially all new issues of securities offered for cash sale in the United States in amounts over $100,000 and with terms to maturity of more than one year. Included in the compilation are issues privately placed as well as issues publicly offered, and unregistered issues as well as those registered under the Securities Act of 1933. The figures on publicly offered issues include a small amount of unsold securities, chiefly nonunderwritten issues of small companies. The figures on privately placed issues include securities actually issued but exclude securities which institutions have contracted to purchase but which had not been taken down during the period covered by the statistics. Also excluded are: intercorporate transactions; United States Government "Special Series" issues, and other sales directly to Federal agencies and trust accounts; notes issued exclusively to commercial banks; and corporate issues sold through continuous offering, such as issues of open-end investment companies. The chief sources of data are the financial press and documents filed with the Commission. Data for offerings of state and municipal securities are from totals published by the *Commercial and Financial Chronicle* and the *Bond Buyer*; these represent principal amounts instead of gross proceeds. All figures are subject to revision as new data are received. For data for the years 1934-50, see 18th Annual Report.

[2] Gross proceeds are derived by multiplying principal amounts or numbers of units by offering prices, except for state and municipal issues where principal amount is used. Slight discrepancies between the sum of figures in the tables and the totals shown are due to rounding.

[3] Issues sold by competitive bidding directly to ultimate investors are classified as publicly offered issues.

[4] Issues in this group include those between $100,000 and $300,000 in size which are exempt under Regulations A and D of the Securities Act of 1933.

[5] Chiefly bank stock issues.

[6] The bulk of the securities included in this category are exempt from registration under Section 4 (1) of the Securities Act of 1933.

[7] Prior to 1953 issues of mining companies are included in the category "Commercial and other."

[8] Excluding issues of investment companies.

[9] Excluding issues sold by competitive bidding directly to ultimate investors.

TABLE 4.—*Proposed uses of net proceeds from the sale of new corporate securities offered for cash in the United States*

PART 1.—ALL CORPORATE

[Amounts in thousands of dollars [1]]

Calendar year or month [2]	Proceeds		New money			Retirement of securities	Other purposes
	Total gross proceeds [3]	Total net proceeds [3]	Total new money	Plant and equipment	Working capital		
1951	7,741,099	7,606,520	6,531,403	5,110,105	1,421,298	486,413	588,703
1952	9,534,162	9,380,302	8,179,548	6,311,802	1,867,746	664,056	536,698
1953	8,897,996	8,754,721	7,959,966	5,646,840	2,313,126	260,023	534,733
1954	9,516,168	9,365,090	6,780,196	5,110,389	1,669,806	1,875,398	709,496
1955	10,240,155	10,048,855	7,957,394	5,333,328	2,624,066	1,227,494	863,967
1955							
January	675,749	662,751	467,919	328,316	139,603	127,862	66,971
February	459,712	451,016	344,929	164,773	180,156	44,412	61,675
March	1,394,753	1,371,331	1,174,878	764,644	410,234	148,224	48,229
April	663,841	647,516	428,729	249,037	179,693	169,192	49,595
May	981,041	959,857	773,923	559,243	214,679	73,582	112,352
June	768,091	751,169	611,215	421,795	189,420	64,172	75,783
July	752,968	739,125	526,211	244,458	281,753	142,586	70,328
August	869,635	852,581	613,769	280,216	333,554	208,377	30,434
September	735,573	721,963	558,562	372,840	185,722	52,175	111,226
October	1,250,248	1,233,662	1,074,188	949,858	124,329	71,336	88,138
November	708,183	694,167	590,465	454,570	135,895	62,149	41,553
December	980,361	963,717	792,606	543,578	249,028	63,428	107,683
1956							
January	621,036	610,555	495,534	178,343	317,191	31,874	83,147
February	744,455	730,386	663,584	387,599	275,984	26,449	40,353
March	860,559	845,630	761,679	525,382	236,298	55,681	28,270
April	914,936	897,887	702,100	481,703	220,397	82,128	113,658
May	1,184,729	1,164,679	1,115,832	948,460	167,373	21,022	27,824
June	889,233	872,764	768,402	445,945	322,456	43,084	61,278

PART 2.—MANUFACTURING

1951	3,121,853	3,066,352	2,617,233	1,832,777	784,456	220,828	228,291
1952	4,038,794	3,973,363	3,421,892	2,179,563	1,242,329	260,850	290,621
1953	2,253,531	2,217,721	1,914,853	1,324,675	590,178	90,115	212,753
1954	2,268,040	2,234,016	1,838,907	1,009,495	829,413	189,537	205,571
1955	2,993,658	2,929,734	2,020,952	1,265,272	755,680	532,571	376,210
1955							
January	188,272	184,046	101,007	64,224	36,783	37,415	45,825
February	84,433	82,944	45,294	10,465	34,829	16,441	21,209
March	636,525	625,033	514,106	446,108	67,998	85,688	25,238
April	158,003	153,950	108,656	37,486	71,171	30,815	14,479
May	413,281	402,376	312,563	237,193	75,370	51,825	37,989
June	168,263	162,662	133,804	59,663	74,142	7,972	20,886
July	358,969	354,798	172,941	63,901	109,040	140,462	41,395
August	174,114	170,511	112,971	47,511	65,460	55,493	2,047
September	189,456	185,079	77,739	55,532	22,207	18,979	88,361
October	88,905	86,136	36,644	22,897	13,747	1,498	47,993
November	186,862	181,755	140,267	110,744	29,522	32,390	9,099
December	346,575	340,445	264,961	109,550	155,411	53,593	21,890
1956							
January	209,953	205,625	119,072	69,972	49,100	26,046	60,507
February	225,519	220,097	167,575	105,984	61,591	22,737	29,785
March	277,582	271,222	231,834	146,105	85,729	21,962	17,425
April	342,422	336,365	171,582	113,124	58,457	78,236	86,547
May	486,818	478,512	454,779	412,072	42,706	13,514	10,220
June	306,635	301,599	252,630	125,993	126,637	25,574	23,395

See footnotes at end of table.

TABLE 4.—*Proposed uses of net proceeds from the sale of new corporate securities offered for cash in the United States*—Continued

PART 3.—MINING

[Amounts in thousands of dollars [1]]

Calendar year or month [2]	Proceeds		New money			Retirement of securities	Other purposes
	Total gross proceeds [3]	Total net proceeds [3]	Total new money	Plant and equipment	Working capital		
1951	(4)	(4)	(4)	(4)	(4)	(4)	(4)
1952							
1953	235,368	222,051	199,151	113,104	86,048	1,912	20,988
1954	538,597	513,596	334,704	215,758	118,946	45,624	133,268
1955	415,289	390,758	325,490	197,394	128,096	3,921	61,347
1955							
January	21,065	19,685	16,565	11,570	4,994	139	2,981
February	12,942	11,885	10,760	3,671	7,088	65	1,061
March	48,952	46,346	44,742	36,619	8,124	0	1,603
April	30,602	27,998	25,313	11,195	14,118	474	2,211
May	15,108	13,419	11,594	4,289	7,306	20	1,805
June	80,233	77,812	51,664	36,376	15,288	643	25,504
July	32,395	29,528	27,496	7,612	19,884	17	2,015
August	29,270	26,580	20,359	7,657	12,702	2,562	3,659
September	52,209	50,143	38,702	28,257	10,445	0	11,441
October	26,203	23,953	22,763	10,800	11,962	0	1,190
November	13,947	12,677	7,959	3,394	4,565	0	4,717
December	52,363	50,732	47,573	35,952	11,620	0	3,159
1956							
January	13,428	12,505	10,195	4,134	6,061	607	1,703
February	22,748	20,790	17,247	8,920	8,327	422	3,121
March	21,691	20,455	17,083	9,471	7,612	602	2,770
April	9,854	8,874	7,171	2,165	5,006	111	1,592
May	35,386	33,203	26,708	15,996	10,713	1,496	4,998
June	59,087	56,748	55,027	32,056	22,971	599	1,122

PART 4.—ELECTRIC, GAS AND WATER

1951	2,454,853	2,411,714	2,186,248	2,158,823	27,425	85,439	140,027
1952	2,674,694	2,626,377	2,457,823	2,441,862	15,961	87,726	80,827
1953	3,029,122	2,971,911	2,755,852	2,737,082	18,770	67,034	149,025
1954	3,713,311	3,664,922	2,597,651	2,582,366	15,285	989,799	77,473
1955	2,463,729	2,428,158	2,218,094	2,205,655	12,439	174,015	36,049
1955							
January	238,608	235,791	192,628	192,628	0	41,226	1,937
February	106,823	104,602	97,229	96,960	269	7,338	35
March	225,622	222,950	194,842	193,902	940	27,942	167
April	218,348	214,231	175,897	173,778	2,119	36,198	2,137
May	249,336	246,705	226,706	223,474	3,232	16,122	3,877
June	275,410	271,209	241,772	238,132	3,640	10,733	18,704
July	105,019	103,035	101,823	101,006	817	402	810
August	91,037	90,063	83,230	82,944	286	6,297	535
September	224,062	220,643	207,646	207,058	588	12,540	457
October	169,946	166,946	166,226	165,818	409	619	100
November	284,858	280,690	263,057	263,019	38	12,360	5,274
December	274,659	271,293	267,039	266,937	101	2,237	2,017
1956							
January	65,576	64,688	61,270	60,748	522	1,517	1,901
February	199,756	195,998	195,364	192,569	2,795	349	285
March	190,239	187,666	185,160	185,026	134	919	1,587
April	299,162	294,709	288,321	287,271	1,050	593	5,796
May	339,395	334,883	333,909	333,760	149	0	974
June	239,058	235,508	220,820	220,720	100	4,700	9,988

See footnotes at end of table.

TABLE 4.—*Proposed uses of net proceeds from the sale of new corporate securities offered for cash in the United States*—Continued

PART 5.—RAILROAD

[Amounts in thousands of dollars [1]]

Calendar year or month [2]	Proceeds		New money			Retirement of securities	Other purposes
	Total gross proceeds [3]	Total net proceeds [3]	Total new money	Plant and equipment	Working capital		
1951	335,087	331,864	296,917	291,886	5,030	34,214	733
1952	525,205	520,817	286,526	286,476	50	223,532	10,758
1953	302,397	298,904	267,024	244,254	22,770	31,879	0
1954	479,322	474,180	209,585	202,441	7,144	261,345	3,250
1955	547,777	540,345	215,702	214,411	1,291	318,965	5,679
1955							
January	63,575	62,814	26,846	25,611	1,235	35,967	0
February	1,400	1,395	1,395	1,395	0	0	0
March	24,783	24,550	24,550	24,532	18	0	0
April	93,299	91,545	4,414	4,414	0	87,131	0
May	12,718	12,644	12,644	12,644	0	0	0
June	18,286	18,143	18,143	18,143	0	0	0
July	3,588	3,561	3,561	3,561	0	0	0
August	169,507	166,989	27,052	27,052	0	139,937	0
September	28,983	28,758	28,758	28,758	0	0	0
October	65,980	64,920	12,914	12,914	0	52,006	0
November	13,770	13,594	9,671	9,633	38	3,924	0
December	51,888	51,432	45,753	45,753	0	0	5,679
1956							
January	18,543	18,409	18,409	18,409	0	0	0
February	30,769	30,335	29,175	29,175	0	1,160	0
March	47,269	46,876	37,718	37,718	0	9,158	0
April	13,892	13,729	12,958	12,958	0	772	0
May	38,865	38,481	36,858	36,858	0	1,623	0
June	33,347	33,046	33,046	33,046	0	0	0

PART 6.—OTHER TRANSPORTATION

1951	159,227	158,240	131,009	123,217	7,792	18,478	8,753
1952	467,094	462,006	410,778	377,064	33,713	1,119	50,109
1953	293,036	289,859	264,880	260,568	4,312	3,949	21,031
1954	299,432	296,907	270,342	267,042	3,300	9,073	17,493
1955	345,280	341,717	237,366	220,971	16,395	18,769	85,582
1955							
January	27,863	27,631	20,819	20,753	67	6,812	0
February	6,730	6,696	6,409	6,091	318	100	187
March	11,751	11,643	11,056	5,714	5,342	0	587
April	15,495	15,187	4,730	2,972	1,759	1,790	8,666
May	42,933	42,683	42,683	40,202	2,482	0	0
June	39,689	39,393	36,398	32,441	3,957	2,995	0
July	27,148	26,250	6,540	6,442	97	1,000	18,711
August	19,261	18,925	18,137	17,972	165	788	0
September	25,487	25,320	21,115	20,988	128	4,204	0
October	41,927	41,450	22,524	21,856	668	308	18,617
November	7,243	7,019	6,514	6,514	0	168	337
December	79,702	79,520	40,439	39,026	1,413	604	38,478
1956							
January	8,246	7,989	6,633	6,633	0	841	515
February	10,401	10,354	9,787	4,834	4,953	189	378
March	35,108	34,403	30,440	29,454	985	640	3,323
April	38,895	38,208	37,796	35,868	1,929	137	274
May	50,424	49,788	49,137	47,004	2,133	217	434
June	27,272	26,210	21,153	15,192	5,961	5,057	0

See footnotes at end of table.

TABLE 4.—*Proposed uses of net proceeds from the sale of new corporate securities offered for cash in the United States*—Continued

PART 7.—COMMUNICATION

[Amounts in thousands of dollars [1]]

Calendar year or month [2]	Proceeds		New money			Retirement of securities	Other purposes
	Total gross proceeds [3]	Total net proceeds [3]	Total new money	Plant and equipment	Working capital		
1951	612,080	605,095	594,324	574,417	19,907	5,231	5,540
1952	760,239	753,169	738,924	736,996	1,928	6,095	8,151
1953	881,853	873,726	860,967	841,600	19,367	3,164	9,596
1954	720,102	710,819	641,487	639,376	2,111	60,089	9,243
1955	1,132,271	1,121,408	1,039,611	1,038,092	1,520	76,567	5,230
1955							
January	7,086	6,917	4,532	4,471	61	1,532	853
February	45,148	44,503	26,335	26,290	45	18,168	0
March	27,134	26,976	20,432	20,401	31	5,966	578
April	19,006	18,158	11,670	11,635	34	5,895	594
May	24,989	24,190	23,644	23,567	76	337	209
June	64,903	64,185	31,906	31,883	23	32,258	21
July	46,180	45,285	44,691	44,691	0	257	337
August	92,361	90,810	90,281	90,236	45	0	529
September	28,665	28,457	18,214	17,772	441	9,519	725
October	697,822	694,030	693,380	693,244	136	0	650
November	40,378	39,810	39,810	39,749	61	0	0
December	38,600	38,087	34,718	34,152	566	2,636	734
1956							
January	3,063	3,004	2,771	2,664	107	233	0
February	37,385	36,958	36,665	36,665	0	293	0
March	121,567	120,128	103,044	103,044	0	17,083	0
April	15,275	14,862	14,862	14,235	627	0	0
May	82,055	80,652	80,454	80,409	45	198	0
June	11,570	10,959	10,405	10,286	120	0	554

PART 8.—FINANCIAL AND REAL ESTATE

1951	524,616	515,267	368,485	15,686	352,800	66,030	80,751
1952	515,178	508,184	409,630	14,243	395,387	60,498	38,056
1953	1,576,048	1,560,672	1,452,279	32,116	1,420,162	24,225	84,168
1954	1,075,818	1,061,015	619,155	29,547	589,608	273,043	168,817
1955	1,898,677	1,867,887	1,606,145	33,472	1,572,672	56,010	205,731
1955							
January	97,926	96,434	90,919	138	90,781	0	5,516
February	150,755	149,455	126,729	110	126,618	2,000	20,726
March	366,984	362,362	319,865	189	319,676	25,773	16,723
April	117,456	115,666	89,147	2,187	86,960	6,138	20,382
May	185,980	181,944	118,724	3,110	115,614	4,492	58,727
June	78,541	76,970	71,924	1,177	70,747	874	4,172
July	145,107	143,424	137,192	368	136,824	448	5,784
August	278,537	273,927	249,789	1,056	248,733	1,800	22,338
September	164,413	161,667	149,788	9,385	140,404	3,320	8,559
October	113,095	110,572	96,150	14,455	81,696	3,343	11,079
November	97,032	95,375	80,712	1,122	79,590	7,524	7,138
December	102,851	100,093	75,205	175	75,030	300	24,588
1956							
January	266,758	264,327	247,707	1,890	245,817	1,723	14,897
February	196,163	194,908	193,545	1,758	191,787	719	643
March	135,825	134,489	130,161	2,213	127,948	2,628	1,700
April	174,836	171,137	153,309	10,625	142,684	973	16,854
May	112,354	111,015	102,992	2,594	100,399	1,614	6,408
June	190,779	188,047	160,051	70	159,981	5,898	22,098

See footnotes at end of table.

TABLE 4.—*Proposed uses of net proceeds from the sale of new corporate securities offered for cash in the United States*—Continued

PART 9.—COMMERCIAL AND OTHER

[Amounts in thousands of dollars [1]]

Calendar year and month [2]	Proceeds		New money			Retirement of securities	Other purposes
	Total gross proceeds [3]	Total net proceeds [3]	Total new money	Plant and equipment	Working capital		
1951	533,383	517,988	337,187	113,299	223,888	56,194	124,607
1952	552,958	536,386	453,975	275,598	178,377	24,235	58,176
1953	326,640	319,877	244,960	93,441	151,519	37,745	37,172
1954	421,547	409,635	268,364	164,365	104,000	46,889	94,382
1955	443,473	428,848	294,035	158,061	135,974	46,676	88,138
1955							
January	31,353	29,433	14,603	8,921	5,682	4,771	10,059
February	51,480	49,536	30,780	19,791	10,989	299	18,457
March	53,003	51,471	45,284	37,179	8,105	2,856	3,331
April	11,631	10,781	8,904	5,371	3,532	751	1,126
May	36,645	35,896	25,363	14,764	10,599	787	9,746
June	42,766	40,796	25,604	3,980	21,624	8,696	6,496
July	34,563	33,244	31,967	16,876	15,091	0	1,276
August	15,548	14,777	11,950	5,787	6,164	1,500	1,326
September	22,299	21,896	16,600	5,090	11,510	3,613	1,684
October	46,369	45,657	23,586	7,875	15,712	13,561	8,509
November	64,093	63,246	42,475	20,394	22,081	5,783	14,989
December	33,724	32,115	16,919	12,034	4,886	4,058	11,138
1956							
January	35,470	34,008	29,477	13,893	15,584	907	3,624
February	21,715	20,947	14,226	7,694	6,532	580	6,141
March	31,280	30,391	26,241	12,351	13,890	2,687	1,464
April	20,600	20,003	16,102	5,458	10,644	1,306	2,595
May	39,434	38,145	30,995	19,767	11,228	2,360	4,790
June	21,485	20,647	15,269	8,583	6,686	1,257	4,121

[1] Slight discrepancies between the sum of figures in the tables and the totals shown are due to rounding.
[2] For earlier data see 18th annual report.
[3] Total estimated gross proceeds represent the amount paid for the securities by investors, while total estimated net proceeds represent the amount received by the issuer after payment of compensation to distributors and other costs of flotation.
[4] Included with "Commercial and other."

TABLE 5.—*A summary of corporate securities publicly offered and privately placed in each year from 1934 through June 1956*

[Amounts in millions of dollars]

Calendar year	Total			Public offerings			Private placements			Private placements as percent of total	
	All issues	Debt issues	Equity issues	All issues	Debt issues	Equity issues	All issues	Debt issues	Equity issues	All issues	Debt issues
1934	397	372	25	305	280	25	92	92	0	23 2	24.7
1935	2, 332	2, 225	108	1, 945	1, 840	106	387	385	2	16 6	17.3
1936	4, 572	4, 029	543	4, 199	3, 660	539	373	369	4	8.2	9 2
1937	2, 309	1, 618	691	1, 979	1, 291	688	330	327	3	14 3	20 2
1938	2, 155	2, 044	111	1, 463	1, 353	110	692	691	1	32 1	33.8
1939	2, 164	1, 979	185	1, 458	1, 276	181	706	703	4	32 6	35 5
1940	2, 677	2. 386	291	1, 912	1,, 628	284	765	758	7	28 6	31. 8
1941	2, 667	2, 389	277	1, 854	1, 578	276	813	811	2	30 5	33. 9
1942	1, 062	917	146	642	506	136	420	411	9	39 5	44 8
1943	1, 170	990	180	798	621	178	372	369	3	31 8	37 3
1944	3, 202	2, 670	532	2, 415	1, 892	524	787	778	9	24 6	29 1
1945	6, 011	4, 855	1, 155	4, 989	3, 851	1, 138	1, 022	1, 004	18	17 0	20 7
1946	6, 900	4, 882	2, 018	4, 983	3, 019	1, 963	1, 917	1, 863	54	27 8	38 2
1947	6. 577	5, 036	1, 541	4, 342	2, 889	1, 452	2, 235	2, 147	88	34 0	42 6
1948	7, 078	5, 973	1, 106	3, 991	2, 965	1, 028	3, 087	3, 008	79	43 6	50 4
1949	6, 052	4, 890	1, 161	3, 550	2, 437	1, 112	2, 502	2, 453	49	41 3	50 2
1950	6, 362	4, 920	1, 442	3, 681	2, 360	1, 321	2, 680	2, 560	120	42 1	52 0
1951	7, 741	5, 691	2, 050	4, 326	2, 364	1, 962	3, 415	3, 326	88	44 1	58. 4
1952	9, 534	7, 601	1, 933	5, 533	3. 645	1, 888	4, 002	3, 957	45	42 0	52 1
1953	8, 898	7, 083	1, 815	5, 580	3, 856	1, 725	3. 318	3, 228	90	37 3	45 6
1954	9, 516	7, 488	2, 029	5. 848	4, 003	1, 844	3, 668	3, 484	184	38 5	46. 5
1955	10 240	7, 420	2, 820	6, 763	4, 119	2, 644	3, 477	3, 301	176	34 0	44. 5
1956 (January–June)	5, 215	3, 998	1, 217	3, 138	1, 978	1, 160	2, 077	2, 020	57	39 8	50. 5

TABLE 6.—*Brokers and dealers registered under the Securities Exchange Act of 1934* [1]*—effective registrations as of June 30, 1956, classified by type of organization and by location of principal office*

Location of principal office	Number of registrants				Number of proprietors, partners, officers, etc. [2] [3]			
	Total	Sole proprietorships	Partnerships	Corporations [4]	Total	Sole proprietorships	Partnerships	Corporations [4]
Alabama	30	9	8	13	88	9	25	54
Arizona	27	9	9	9	89	9	23	57
Arkansas	21	10	4	7	42	10	8	24
California	293	123	84	86	1,079	123	430	526
Colorado	123	53	12	58	364	53	40	271
Connecticut	42	16	12	14	174	16	62	96
Delaware	8	1	2	5	48	1	16	31
District of Columbia	85	29	21	35	325	29	86	210
Florida	71	36	11	24	167	36	25	106
Georgia	35	13	5	17	128	13	23	92
Idaho	16	10	3	3	29	10	8	11
Illinois	193	48	64	81	863	48	288	527
Indiana	53	23	7	23	157	23	13	121
Iowa	34	13	5	16	86	13	10	63
Kansas	35	14	5	16	129	14	16	99
Kentucky	17	5	5	7	60	5	18	37
Louisiana	62	34	19	9	134	34	64	36
Maine	30	11	2	17	88	11	8	69
Maryland	35	14	16	5	122	14	86	22
Massachusetts	202	86	37	79	843	86	237	520
Michigan	53	10	17	26	248	10	89	149
Minnesota	52	8	10	34	262	8	35	219
Mississippi	17	9	5	3	31	9	12	10
Missouri	94	23	23	48	443	23	138	282
Montana	7	3	1	3	20	3	2	15
Nebraska	28	9	1	18	113	9	2	102
Nevada	10	7	0	3	18	7	0	11
New Hampshire	10	7	0	3	26	7	0	19
New Jersey	183	110	35	38	396	110	92	194
New Mexico	14	8	2	4	28	8	5	15
New York State (excluding New York City)	282	189	37	56	529	189	108	232
North Carolina	34	16	6	12	121	16	14	91
North Dakota	4	3	0	1	8	3	0	5
Ohio	134	30	41	63	524	30	189	305
Oklahoma	45	27	7	11	83	27	14	42
Oregon	23	6	7	10	66	6	16	44
Pennsylvania	204	62	82	60	795	62	365	368
Rhode Island	25	11	11	3	51	11	32	8
South Carolina	30	14	5	11	78	14	11	53
South Dakota	6	3	0	3	14	3	0	11
Tennessee	41	13	8	20	153	13	24	116
Texas	244	130	29	85	642	130	82	430
Utah	71	15	19	37	242	15	67	160
Vermont	3	2	0	1	11	2	0	9
Virginia	42	19	13	10	125	19	55	51
Washington	83	43	8	32	236	43	19	174
West Virginia	13	8	3	2	27	8	9	10
Wisconsin	49	13	5	31	197	13	24	160
Wyoming	10	8	0	2	17	8	0	9
Total (excluding New York City)	3,223	1,863	706	1,154	10,519	1,863	2,890	6,266
New York City	1,274	357	600	317	5,449	357	3,436	1,656
	4,497	1,720	1,306	1,471	15,968	1,720	6,326	7,922

[1] Domestic registrants only, excludes 94 outside continental limits of the United States.
[2] Includes directors, officers, trustees, and all other persons occupying similar status or performing similar functions.
[3] Allocations made among States on the basis of location of principal offices of registrants, not actual location of persons Information taken from latest reports filed prior to June 30, 1956.
[4] Includes all forms of organizations other than sole proprietorships and partnerships.

TABLE 7.—*Market value and volume of sales effected on securities exchanges in the 12-month period ended December 31, 1955, and the 6-month period ended June 30, 1956*

[Amounts in thousands]

PART 1.—12 MONTHS ENDED DEC. 31, 1955

	Total market value (dollars)	Stocks [1]		Bonds [2]		Rights and warrants	
		Market value (dollars)	Number of shares	Market value (dollars)	Principal amount (dollars)	Market value (dollars)	Number of units
Registered exchanges	39,260,611	37,868,054	1,212,369	1,231,372	1,261,489	161,185	108,017
American	2,680,149	2,593,456	243,932	23,134	34,219	63,560	9,599
Boston	297,495	295,259	5,577	33	25	2,203	756
Chicago Board							
Cincinnati	33,444	33,145	662	199	346	101	53
Detroit	149,809	149,597	4,978			212	227
Los Angeles	347,123	345,455	18,142	38	32	1,630	1,185
Midwest	928,370	924,718	25,175	89	71	3,564	2,397
New Orleans	6,704	6,493	127	211	200	[3]	4
New York	34,037,892	32,745,423	820,456	1,207,054	1,226,030	85,415	89,329
Philadelphia-Baltimore	341,391	338,722	7,930	246	281	2,423	1,990
Pittsburgh	47,907	47,901	1,359			6	28
Salt Lake	8,563	8,556	39,293			6	14
San Francisco Mining	5,498	5,498	23,811				
San Francisco Stock	375,497	373,064	18,995	368	285	2,064	2,435
Spokane	769	769	1,931				
Exempted exchanges	9,897	9,858	1,013	30	30	9	1
Colorado Springs	57	57	143				
Honolulu	8,674	8,635	827	30	30	9	1
Richmond	769	769	22				
Wheeling	397	397	20				

PART 2—6 MONTHS ENDED JUNE 30, 1956

Registered exchanges	19,232,189	18,566,683	584,449	631,363	637,997	34,143	40,772
American	1,498,908	1,471,401	129,579	8,782	12,668	18,725	3,040
Boston	148,764	148,762	2,797			2	39
Chicago Board							
Cincinnati	15,809	15,605	301	204	364		
Detroit	79,285	79,282	2,727			3	14
Los Angeles	185,491	185,261	10,224	4	4	226	380
Midwest	503,901	503,431	13,982	6	8	464	782
New Orleans	1,277	1,277	48	[3]	[3]		
New York	16,386,935	15,751,257	375,388	622,148	624,740	13,530	34,984
Philadelphia-Baltimore	181,392	180,623	3,979	128	148	640	629
Pittsburgh	20,425	20,425	623				
Salt Lake	2,623	2,622	16,617			1	3
San Francisco Mining	4,740	4,740	15,224				
San Francisco Stock	202,316	201,672	12,165	91	66	553	901
Spokane	325	325	794				
Exempted exchanges	6,004	5,895	488	23	24	86	26
Colorado Springs	32	32	107				
Honolulu	5,318	5,209	363	23	24	86	26
Richmond	478	478	11				
Wheeling	176	176	7				

[1] "Stocks" include voting trust certificates, American depositary receipts, and certificates of deposit.
[2] "Bonds" include mortgage certificates and certificates of deposit for bonds. Since Mar. 18, 1944, United States Government bonds have not been included in these data.
[3] Less than $500.

NOTE.—Value and volume of sales effected on registered securities exchanges are reported in connection with fees paid under section 31 of the Securities Exchange Act of 1934. For most exchanges the figures represent transactions cleared during the calendar month. Figures may differ from comparable data in the Statistical Bulletin due to revisions of data by exchanges. Figures have been rounded and will not necessarily add to totals shown.

TABLE 8.—*Unlisted stocks on securities exchanges* [1]

PART 1.—NUMBER OF STOCKS ON THE EXCHANGES IN THE VARIOUS UNLISTED CATEGORIES [2] AS OF JUNE 30, 1956

Exchanges	Unlisted only [3]		Listed and registered on another exchange		
	Clause 1	Clause 3	Clause 1	Clause 2	Clause 3 [4]
American	225	2	45	3	1
Boston	1	0	154	190	0
Chicago Board of Trade	3	0	2	0	0
Cincinnati	0	0	0	85	0
Detroit	0	0	14	103	0
Honolulu	21	0	0	0	0
Los Angeles	1	0	37	198	0
Midwest	0	0	0	102	0
New Orleans	9	0	4	2	0
Philadelphia-Baltimore	4	0	247	152	0
Pittsburgh	0	0	16	59	0
Salt Lake	3	0	0	0	1
San Francisco Stock	30	0	62	127	0
Spokane	5	0	1	1	0
Wheeling	0	0	0	3	0
Total [5]	302	2	582	1,025	2

PART 2.—UNLISTED SHARE VOLUME ON THE EXCHANGES—CALENDAR YEAR 1955

Exchanges	Unlisted only		Listed and registered on another exchange		
	Clause 1	Clause 3	Clause 1	Clause 2	Clause 3
American	34,958,913	11,880	7,175,300	1,848,700	12,860
Boston	8,058	0	2,267,686	1,642,346	0
Chicago Board of Trade	0	0	0	0	0
Cincinnati	0	0	0	372,548	0
Detroit	0	0	164,780	1,715,336	0
Honolulu	52,760	0	0	0	0
Los Angeles	3,346	0	1,057,141	2,889,043	0
Midwest	0	0	0	5,868,323	0
New Orleans	118,009	0	1,848	555	0
Philadelphia-Baltimore	7,000	0	2,924,014	1,943,203	0
Pittsburgh	0	0	312,057	259,782	0
Salt Lake	60	0	0	0	138
San Francisco Stock	2,713,957	0	1,416,655	2,001,890	0
Spokane	40,313	0	1,500	0	0
Wheeling	0	0	0	808	0
Total	37,902,416	11,880	15,320,981	18,542,534	12,998

[1] Refer to text under heading "Unlisted Trading Privileges on Exchanges." Volumes are as reported by the stock exchanges or other reporting agencies and are exclusive of those in short-term rights.

[2] The categories are according to clauses 1, 2, and 3 of Section 12 (f) of the Securities Exchange Act.

[3] None of these issues has any listed status on any domestic exchange, except that 9 of the 30 San Francisco Stock Exchange issues are also listed on an exempted exchange.

[4] These issues became listed and registered on other exchanges subsequent to their admission to unlisted trading on the exchanges as shown.

[5] Duplication of issues among exchanges brings the figures to more than the actual number of issues involved.

TABLE 9.—*Issues and issuers on exchanges*

PART 1.—UNDUPLICATED NUMBER OF STOCK AND BOND ISSUES ON ALL EXCHANGES, AND THE NUMBER OF ISSUERS INVOLVED, AS OF JUNE 30, 1956

Status under the act	Stocks	Bonds	Total stocks and bonds	Issuers involved
Registered	2,659	1,027	3,686	2,253
Temporarily exempted from registration	16	13	29	12
Admitted to unlisted trading privileges on registered exchanges	271	49	320	252
Listed on exempted exchanges	72	7	79	59
Admitted to unlisted trading privileges on exempted exchanges	20		20	18
Unduplicated totals	3,038	1,096	4,134	2,594

PART 2.—NUMBER OF ISSUES AND ISSUERS ON EACH EXCHANGE AS OF JUNE 30, 1956

Exchanges	Issuers	Stocks						Bonds				
		R	X	U	XL	XU	Total	R	X	U	XL	Total
American	810	578	1	276			855	20		51		71
Boston	410	79	1	345			425	16				16
Chicago Board of Trade	12	7		5			12					
Cincinnati	126	48	1	85			134	5	1			6
Colorado Springs	12				13		13					
Detroit	222	113		117			230					
Honolulu	61				52	21	73				7	7
Los Angeles	385	193	5	236			434	5				5
Midwest	435	392	1	102			495	15				15
New Orleans	15	4		15			19	1		1		2
New York Stock	1,276	1,513	5				1,518	985	13			998
Philadelphia-Baltimore	499	151	9	403			563	46				46
Pittsburgh	119	51		75			126					
Richmond	19				28		28					
Salt Lake	96	95		4			99					
San Francisco Mining	54	56					56					
San Francisco Stock	375	205	3	219			427	20				20
Spokane	28	24		7			31					
Wheeling	16				15	3	18					

Symbols: R—registered; X—temporarily exempted from registration; U—admitted to unlisted trading privileges on a registered exchange; XL—listed on an exempted exchange; and XU—admitted to unlisted trading privileges on an exempted exchange.

NOTE.—Issues exempted under Section 3 (a) (12) of the Act, such as obligations of the United States Government, the States and political subdivisions, are not included in this table.

TABLE 10.—*Changes in the composition of active registered public utility holding company systems—fiscal year ended June 30, 1956*

	Solely registered holding companies	Registered holding-operating companies	Electric and gas utility subsidiaries	Nonutility subsidiaries	Total companies and changes in active systems
Companies in active registered holding company systems—June 30, 1955.	23	7	168	136	334
Companies added:					
American Gas and Electric Co.:					
Captina Operating Co				New incorporation	1
Electric Bond and Share Co.:					
Ebasco Corporation				do	1
Chemical Construction Corp				Acquired	1
New England Electric System:					
Yankee Atomic Electric Co			New incorporation		1
The Southern Co.:					
Southern Electric Generating Co				New incorporation	1
Totals—companies added			1	4	5
Companies removed:					
Cities Service Co.:					
Various companies				Merged [1]	[1]20
General Public Utilities Corp.:					
Associated Electric Co	Dissolved				1
Northern Pennsylvania Power Co			Merged		1
International Hydro-Electric System:					
Gatineau Bus Co., Ltd				Divested	1
Interstate Power Co		Deregistered			1
East Dubuque Electric Co			Merged		1
National Fuel Gas Co.:					
Provincial Gas Co., Ltd			Divested		1
New England Electric System:					
Blackstone Gas Co			do		1
Union Electric Co.:					
Hevi Duty Electric Co				Divested	1
Anchor Manufacturing Co				do	1
St. Louis & Belleville Electric Rwy. Co				do	1
West Penn Electric Co.:					
Blue Ridge Lines Inc				Dissolved	1
Blue Ridge Transportation				Divested	1
Penn Bus Co				do	1
West Penn Railways				Deregistered	1
White Star Lines				Divested	1
Wisconsin Southern Gas Co., Inc	Deregistered				1
Wisconsin Southern Gas Co			Merged		1
Totals—companies removed	2	1	5	29	37
Companies in active registered holding company systems—June 30, 1956.	21	6	164	111	302

[1] The Annual Report on Form U5S filed by Cities Service Co., a registered holding company, for the year ending Dec. 31, 1955, reported that there were 20 less nonutility subsidiaries in this holding company system than the number of such companies reported in the Annual Report for the previous year. Since the normal operations of the industrial subsidiaries of Cities Service are exempt from the provisions of the Holding Company Act pursuant to Rule U-3D-15, the Commission has not received notification as to the manner of elimination or disposition of these 20 companies. Published reports concerning the Cities Service system reveal no record of sales of any of these 20 companies to other persons. Accordingly it has been assumed that they were eliminated through merger or consolidation.

TABLE 11.—*Reorganization proceedings in which the Commission participated during the fiscal year 1956*

Debtor	District court	Petition		Securities and Exchange Commission notice of appearance filed
		Filed	Approved	
Alaska Telephone Corp	W. D. Wash	Nov. 2, 1955	Nov 21, 1955	Nov. 7, 1955
American Fuel & Power Co	E. D. Ky	Dec. 6, 1935	Dec. 20, 1935	May 5, 1940
Buckeye Fuel Co	do	Nov. 28, 1939	Nov. 28, 1939	Do.
Buckeye Gas Service Co	do	do	do	Do.
Carbreath Gas Co	do	do	do	Do.
Inland Gas Distributing Co	do	do	do	Do.
Associated Plastic Companies, Inc	E. D. Mich	Dec. 3, 1954	Feb. 15, 1955	July 8, 1955
Central States Electric Corp	E. D. Va	Feb. 26, 1942	Feb. 27, 1942	Mar. 11, 1942
Chicago & West Towns Railways, Inc	N. D. Ill	June 30, 1947	July 1, 1947	July 24, 1947
Coastal Finance Corp	D. Md	Feb. 15, 1956	Feb. 18, 1956	Apr. 16, 1956
Columbus Venetian Stevens Buildings, Inc.	N. D. Ill	Aug. 30, 1955	Aug. 31, 1955	Oct. 3, 1955
Dallas Parcel Post Station, Inc	do	Sept. 22, 1950	Sept. 22, 1950	Oct. 26, 1950
Federal Facilities Realty Trust	do	Dec. 26, 1934	Apr. 25, 1935	Oct. 29, 1940
Ferry Station Post Office, Inc	do	June 18, 1953	Dec. 2, 1953	Jan. 29, 1954
General Stores Corp	S. D. N. Y	Apr. 30, 1956	May 14, 1956	May 23, 1956
Adolf Gobel, Inc	D. N. J	July 23, 1953	Dec. 28, 1953	Sept. 8, 1953
Eastern Edible Refinery Corp	do	June 23, 1954	June 28, 1954	Oct. 14, 1954
Gobel's Q. F. Distributors	do	do	do	Do.
Gobel Pharmaceuticals, Inc	do	do	do	Do.
Metropolitan Shortening Corp	do	do	do	Do.
Horsting Oil Co	D. N. Dak	Mar. 17, 1952	Mar. 17, 1952	Sept. 30, 1955
Hudson & Manhattan Railroad Co	S. D. N. Y	Aug. 11, 1954	Dec. 14, 1954	Jan. 7, 1955
Inland Gas Corp	E. D. Ky	Oct. 14, 1935	Nov. 1, 1935	Mar. 28, 1939
International Power Securities Corp	D. N. J	Feb. 24, 1941	Feb. 24, 1941	Mar. 3, 1941
International Railway Co	W. D. N. Y	July 28, 1947	July 28, 1947	Aug. 4, 1947
Keeshin Freight Lines, Inc	N. D. Ill	Jan. 31, 1946	Jan. 31, 1946	Apr. 25, 1949
Keeshin Motor Express Co., Inc	do	do	do	Do.
Seaboard Freight Lines, Inc	do	do	do	Do.
National Freight Lines, Inc	do	do	do	Do.
Kentucky Fuel Gas Corp	E. D. Ky	Oct. 25, 1935	Nov. 1, 1935	Mar. 28, 1939
Muntz TV, Inc	N. D. Ill	Mar. 2, 1954	Mar. 3, 1954	Mar. 4, 1954
Tele-Vogue, Inc	do	do	do	Do.
Muntz Industries, Inc	do	do	do	Do.
National Realty Trust	do	Dec. 26, 1934	Apr. 25, 1935	Oct. 29, 1940
Norwalk Tire & Rubber Co., The	D. Conn	May 20, 1949	May 20, 1949	June 8, 1949
Pittsburgh Railways Co	W. D. Pa	May 10, 1938	May 10, 1938	Jan. 4, 1939
Pittsburgh Motor Coach Co	do	do	do	Do.
Pittsburgh Terminal Coal Corp	do	Dec. 4, 1939	Jan. 2, 1940	Jan. 6, 1940
Sierra Nevada Oil Co	D. Nev	June 22, 1951	June 22, 1951	July 25, 1951
Silesian American Corp	S. D. N. Y	July 29, 1941	July 29, 1941	Aug. 1, 1941
Solar Manufacturing Corp	D. N. J	Dec. 14, 1948	Dec. 14, 1948	Dec. 27, 1948
South Bay Consolidated Water Co., Inc	S. D. N. Y	Apr. 26, 1949	Apr. 26, 1949	May 23, 1949
Texas Gas Utilities Co	W. D. Tex	Sept. 4, 1951	Sept. 21, 1951	Sept. 11, 1951
Third Avenue Transit Corp	S. D. N. Y	Oct. 25, 1948	June 21, 1949	Jan. 3, 1949
Surface Transportation Corp	do	June 21, 1949	do	July 7, 1949
Westchester St. Transportation Co., Inc.	do	do	do	Do.
Westchester Electric Railroad Co	do	do	do	Do.
Warontas Press, Inc	do	Sept. 8, 1949	Sept. 8, 1949	Sept. 8, 1949
Yonkers Railroad Co	do	June 21, 1949	June 21, 1949	July 7, 1949
Trinity Buildings Corp. of New York	do	Jan. 18, 1945	Jan. 18, 1945	Feb. 19, 1945
U. S. Realty & Improvement Co	do	Feb. 1, 1944	Feb. 1, 1944	Feb. 8, 1944
Willoughby Tower Building Corp	N. D. Ill	Jan. 10, 1955	Mar. 3, 1955	June 24, 1955

TABLE 12.—*Summary of cases instituted in the courts by the Commission under the Securities Act of 1933, the Securities Exchange Act of 1934, the Public Utility Holding Company Act of 1935, the Investment Company Act of 1940, and the Investment Advisers Act of 1940*

Types of cases	Total cases instituted up to end of 1956 fiscal year	Total cases closed up to end of 1956 fiscal year	Cases pending at end of 1956 fiscal year	Cases pending at end of 1955 fiscal year	Cases instituted during 1956 fiscal year	Total cases pending during 1956 fiscal year	Cases closed during 1956 fiscal year
Actions to enjoin violations of the above acts	712	692	20	12	33	45	25
Actions to enforce subpenas under the Securities Act and the Securities Exchange Act	63	62	1	2	1	3	2
Actions to carry out voluntary plans to comply with section 11 (b) of the Holding Company Act	119	115	4	3	4	7	3
Miscellaneous actions	23	22	1	3	2	5	4
Total	917	891	26	20	40	60	34

TABLE 13.—*Summary of cases instituted against the Commission, cases in which the Commission participated as intervenor or amicus curiae, and reorganization cases on appeal under ch. X in which the Commission participated*

Types of cases	Total cases instituted up to end of 1956 fiscal year	Total cases closed up to end of 1956 fiscal year	Cases pending at end of 1956 fiscal year	Cases pending at end of 1955 fiscal year	Cases instituted during 1956 fiscal year	Total cases pending during 1956 fiscal year	Cases closed during 1956 fiscal year
Actions to enjoin enforcement of Securities Act, Securities Exchange Act and Public Utility Holding Company Act with the exception of subpenas issued by the Commission	64	64	0	0	0	0	0
Actions to enjoin enforcement of or compliance with subpenas issued by the Commission	8	8	0	0	0	0	0
Petitions for review of Commission's orders by courts of appeals under the various acts administered by the Commission	187	181	6	5	7	12	6
Miscellaneous actions against the Commission or officers of the Commission and cases in which the Commission participated as intervenor or amicus curiae	181	179	2	4	4	8	6
Appeal cases under ch. X in which the Commission participated	145	142	3	2	5	7	4
Total	585	574	11	11	16	27	16

TABLE 14.—*Injunctive proceedings brought by the Commission under the Securities Act of 1933, the Securities Exchange Act of 1934, the Public Utility Holding Company Act of 1935, the Investment Advisers Act of 1940, and the Investment Company Act of 1940, which were pending during the fiscal year ended June 30, 1956*

Name of principal defendant	Number of defendants	United States District Court	Initiating papers filed	Alleged violations	Status of case
Alaska Chrome Corp	2	Alaska	Oct. 14, 1955	Sec. 5 (a) and (c), 1933 Act	Injunction by consent as to both defendants Oct 14, 1955.
Alesker, Samuel A	1	Eastern District of Pennsylvania.	Apr. 3, 1956	Sec. 16 (a), 1934 Act	Complaint filed Apr. 3, 1956. Answer of defendant served May 4, 1956
Americol Petroleum, Inc	5	Southern District of California.	Nov. 4, 1955	Sec 5 (a) and (c), 1933 Act	Complaint filed Nov. 4, 1955. Preliminary injunction entered Mar 14, 1956. Final injunction by consent as to all defendants, May 2, 1956.
Billings Holding Corp	3	Montana	Dec. 4, 1954	Sec. 17 (a) (2) and (3), 1933 Act	Preliminary injunction, Feb. 17, 1955 Order June 17, 1955, denying defendants' motion to dismiss. Defendants' answer to complaint filed July 25, 1955.
Camoose Mines, Ltd	4	Southern District of New York.	Apr. 5, 1956	Sec. 5 (a) and (c), 1933 Act	Injunction by consent as to 2 defendants, Apr. 17, 1956, and notice of dismissal as to remaining defendants. Closed.
Canadian Resources Corp	4	Southern District of New York.	June 15, 1956	Sec. 203 (a), IA Act of 1940	Complaint filed June 15, 1956.
Central Finance Service, Inc	4	Eastern District of Texas.	Mar. 27, 1956	Secs 5 (a) and (c) and 17 (a), 1933 Act.	Injunction by consent as to all defendants, Apr. 5, 1956.
Colotex Uranium and Oil, Inc	4	Colorado	May 16, 1956	Secs. 5 (a) and (c) and 17 (a), 1933 Act.	Complaint filed May 16, 1956. Temporary restraining order entered May 16, 1956. Preliminary injunction by consent as to all defendants, May 25, 1956.
Currie, Trevor	1	Colorado	Jan. 19, 1956	Secs. 5 (a) and (c) and 17 (a), 1933 Act; secs. 10 (b), 15 (c) (1) and 17 (a) and rules X-10B-5, X-15C1-2 and X-17A-3, 1934 Act	Injunction by consent, Jan. 19, 1956.
Dawn Uranium & Oil Co	7	Eastern District of Washington.	June 1, 1956	Sec. 5, 1933 Act	Complaint filed June 1, 1956. Order June 14, 1956, restraining defendants until case is heard.
Doxey-Merkley & Co	3	Utah	Nov. 22, 1955	Sec. 15 (c) (3) and rule X-15C3-1, 1934 Act.	Injunction by consent as to all defendants, Jan, 13, 1956.
Fish, John Robert	2	Southern District of Florida.	Apr. 2, 1956	Secs 5 (a) and (c) and 17 (a), 1933 Act.	Complaint filed Apr. 2, 1956. Preliminary injunction by consent of both defendants Apr. 11, 1956, as to Secs. 5 (a) and (c) and 17 (a) (2), 1933 Act.
Greenman, Clifford A	2	Utah	May 7, 1956	Secs. 5 (a) and (c) and 17 (a), 1933 Act; secs. 10 (b) and 15 (c) (1), 1934 Act; sec. 206 (1), (2) and (3), IA Act of 1940.	Complaint filed May 7, 1956 Temporary restraining order entered May 7, 1956, appointing receiver. Injunction by consent as to both defendants, May 15, 1956. Receivership continued.
Grimmett, J. Tom	1	Southern District of New York.	June 14, 1956	Sec. 5 (a), 1933 Act	Complaint filed June 14, 1956.
Helser, J. Henry, & Co	2	Northern District of California.	Nov. 19, 1954	Sec 17 (a) (2) and (3), 1933 Act; sec. 10 (b) and rule X-10B-5 (2) and (3), 1934 Act; sec. 206 (2), IA Act of 1940.	Interlocutory order Apr. 29, 1955, staying further proceedings for 12 months and retaining jurisdiction. Amendment to Interlocutory Order entered Nov. 22, 1955, extending term from 12 to 15 months within which Commission may apply for injunction.

Insurance Corp. of America	4	Southern District of Indiana.	June 22, 1956	Sec. 17 (a) (2) and (3), 1933 Act	Complaint filed June 22, 1956. Answer of two defendants to plaintiff's motion for a temporary restraining order filed June 29, 1956. Order of June 29, 1956, withholding issuance of temporary restraining order and overruling defendants motions to dismiss complaint.
Jewett, Eldon L	2	Western District of Washington.	Feb. 16, 1956	Secs. 5 (a) and (c) and 17 (a), 1933 Act.	Complaint filed Feb. 16, 1956. Preliminary injunction by consent of corporate defendant, Mar. 10, 1956. Answer of defendants filed Mar. 26, 1956.
Kolb, Glenn Galen	1	Colorado	Dec. 8, 1955	Sec. 15 (c) (3) and rule X-15C3-1, 1934 Act.	Injunction by consent, Dec. 16, 1955.
Langlois, Robert Dean	1	Utah	Oct. 3, 1955	Sec. 15 (c) (3), 1934 Act	Complaint filed Oct. 3, 1955. Temporary restraining order entered Oct. 3, 1955. Preliminary injunction entered Oct. 21, 1955. Injunction by consent Dec. 6, 1955.
Martin, Edward H	1	New Mexico	Jan. 27, 1953	Sec. 17 (a), 1934 Act	Temporary restraining order Jan. 27, 1953, and receiver appointed. Preliminary injunction Feb. 5, 1953. Injunction by consent May 22, 1953. Pending on receivership.
May, Mitchell, Jr	4	Southern District of New York.	Aug. 3, 1955	Sec. 14 (a) and Regulation X-14, 1934 Act.	Complaint filed Aug. 3, 1955. Preliminary injunction entered Aug. 16, 1955. Answer of defendants filed Aug. 19 and 23, 1955. Order Sept. 1, 1955, denying individual defendants' motions for further adjournment of stockholders meeting. Notice of appeal from preliminary injunction to CA-2, Sept. 1, 1955. Opinion Jan. 11, 1956, affirming preliminary injunction order. Final injunction by consent of individual defendants, Mar. 14, 1956.
McBride, J. Lawrence	6	Middle District of Tennessee.	Mar. 10, 1954	Sec. 5 (a), 1933 Act	Injunction by consent as to 3 defendants Mar. 10, 1954. Answers of 3 defendants who did not consent filed Mar. 29, 1954. Oral memorandum of court Apr. 5, 1954, denying preliminary injunction. Order Mar. 8, 1956, dismissing action as to one defendant, who is deceased. Order May 3, 1956, directing another defendant to produce records. Memorandum filed by Commission on May 16, 1956.
Mitchell Securities, Inc	3	Maryland	May 8, 1956	Sec. 17 (a) (2), 1933 Act	Injunction by consent, May 16, 1956, as to all defendants.
National Securities, Inc	2	Utah	Sept. 26, 1955	Secs 10 (b), 1934 Act.	Injunction by consent Nov. 10, 1955, as to both defendants.
Nev-Tah Oil & Mining Co	4	Nevada	Nov. 17, 1955	Sec. 5 (a) and (c), 1933 Act	Injunction by consent as to all defendants, Dec. 20, 1955.
Nielsen, Harold L	1	Idaho	Oct. 20, 1955	Secs. 5 (a) and 17 (a), 1933 Act; secs. 10 (b), 15 (c) (1) and (3) and 17 (a) and rules X-10B-5, X-15C1-2, X-15C3-1 and X-17A-3, 1934 Act.	Complaint filed Oct. 20, 1955. Temporary restraining order entered Oct. 20, 1955. Preliminary injunction entered Nov. 10, 1955.
North, Thomas L	1	Northern District of California.	Feb. 10, 1956	Sec. 17 (b), 1933 Act	Injunction by consent, Mar. 15, 1956.
Pandora Metals, Inc	2	Colorado	Aug. 18, 1955	Sec. 5 (a) and (c), 1933 Act	Injunction by consent as to both defendants, Aug. 31, 1955.
Pierce, John	1	Nevada	Oct. 7, 1954	Sec. 15 (a), 1934 Act	Answer filed Nov. 12, 1954. Order Sept. 19, 1955, denying defendant's motion for continuance of hearing on preliminary injunction. Stipulation Sept. 23, 1955, providing for a period of nine months within which motion for preliminary injunction may be restored if defendant violates sec. 15 (a), 1934 Act.

TABLE 14.—*Injunctive proceedings brought by the Commission under the Securities Act of 1933, the Securities Exchange Act of 1934, the Public Utility Holding Company Act of 1935, the Investment Advisers Act of 1940, and the Investment Company Act of 1940 which were pending during the fiscal year ended June 30, 1956*—Continued

Name of principal defendant	Number of defendants	United States District Court	Initiating papers filed	Alleged violations	Status of case
Redfield, LaVere	1	Massachusetts	Jan. 31, 1955	Sec. 10 (b) and rule X-10B-5, 1934 Act.	Complaint filed Jan 31, 1955. Stipulation in lieu of final judgment entered Feb. 16, 1955, with jurisdiction reserved to enforce defendant's agreement to refrain from further violation and to offer rescission of defendant's stock purchase.
Reuhard, Bertil T	1	Western District of Washington.	Jan. 24, 1956	Sec. 17 (a), 1933 Act	Injunction by consent, Jan. 24, 1956.
Seaboard Securities Corp	2	District of Columbia	June 6, 1956	Sec. 17 (a), 1933 Act; sec. 15 (c) (1) and (3) and rules X-15C1-2 and X-15C3-1, 1934 Act.	Complaint filed June 6, 1956. Temporary restraining order entered June 6, 1956.
Seipel, Ralph H	1	District of Columbia	July 27, 1953	Sec. 206 (1) (2), IA Act of 1940	Final judgment Oct. 11, 1954. Seipel notice of appeal filed Nov. 29, 1954. Judgment of district court affirmed by CA DC, Nov. 3, 1955. Petition for rehearing denied Feb. 29, 1956. Applications for extension of time to file petition for writ of certiorari denied June 5, 1956. Closed.
Shapiro, A. J	1	Western District of Washington.	Sept. 1, 1955	Secs. 5 (a) and (c) and 17 (a) (3), 1933 Act; sec. 15 (a) and 15 (c) (1) and rule X-15C1-2, 1934 Act.	Injunction by consent on Sept. 21, 1955 as to sec. 5 (a) and (c), 1933 Act and sec. 15 (a), 1934 Act.
Sheehan, Daniel M., Jr	1	Massachusetts	Oct. 31, 1955	Secs. 10 (b), 15 (c) (1) and 17 (a) and rules X-10B-5, X-15C1-2 and X-17A-3, 1934 Act.	Injunction by consent, Oct. 31, 1955.
Tri-State Metals, Inc	4	Nevada	Sept. 6, 1955	Sec. 5 (a) and (c), 1933 Act	Complaint filed Sept. 6, 1955. Temporary restraining order entered Sept. 7, 1955. Preliminary injunction entered Sept. 19, 1955. Injunction by default Oct. 11, 1955, as to all defendants.
Uranium, Oil & Trading Co	4	Utah	Sept. 7, 1954	Sec. 5 (a), 1933 Act	Preliminary injunction entered against successor corporation (into which the two defendant corporations were merged) and against the individual defendant, Oct. 8, 1954. Injunction by consent as to corporate and individual defendant, Oct. 28, 1955.
Van Loo, William H	1	Western District of Michigan.	Nov. 9, 1955	Sec. 10 (b) and rule X-10B-5, 1934 Act.	Injunction by consent, Dec. 8, 1955.
The Variable Annuity Life Insurance Company of America, Inc.	1	District of Columbia	June 19, 1956	Sec. 5 (a) (1) and (c), 1933 Act; sec. 7 (a) and (b), IC Act of 1940.	Complaint filed June 19, 1956.
Vogel, William D	1	Eastern District of Wisconsin.	June 11, 1956	Sec. 16 (a), 1934 Act	Complaint filed June 11, 1956.
Warner, J. Arthur, & Co., Inc	12	Massachusetts	Oct 31, 1951	Secs. 5 (b) (2) and 17 (a) (3), 1933 Act; secs. 7 (c) (1) and (2), 9 (a) (4), 10 (b) and 15 (c) (1) and rules X-10B-5 (3) and X-15C1-2 and Regulation T, 1934 Act.	Injunction by consent May 25, 1955, as to all defendants except one who is a fugitive and another who is deceased. Order, Nov. 8, 1955, directing that court retain jurisdiction over capital assets for additional period of 1 year and subject to further order.

Wimer, Nye A	1	Western District of Pennsylvania.	Oct. 29, 1947	Secs. 5 (a) (1) and (2) and 17 (a) (2), 1933 Act.	Temporary restraining order entered Oct. 29, 1947. Preliminary injunction entered Nov. 18, 1947. Defendant's motion to dismiss complaint denied Mar. 3, 1948. Trial date postponed indefinitely due to illness of defendant.
Winburn, Roland	1	Colorado	Sept. 15, 1954	Sec. 5 (a), 1933 Act	Injunction by default, June 30, 1955.
Wyco Development Corp	4	Connecticut	Apr. 26, 1956	Sec. 5 (a) (1) and (2) and 5 (c), 1933 Act.	Injunction by consent, May 28, 1956, as to all defendants.
Zippin & Co	1	Northern District of Illinois	Jan. 13, 1953	Sec. 15 (c) (1), 1934 Act	Temporary restraining order Jan. 13, 1953, and receiver appointed. Preliminary injunction Jan. 22, 1953. Injunction by consent Feb. 5, 1953. Final account and report of Receiver filed. Final order approving the Final Account and Reports of Receiver, discharging Receiver and cancelling his bond, July 25, 1955.

TABLE 15.—*Indictments returned for violation of the acts administered by the Commission, the Mail Fraud Statute (sec. 1341, formerly sec. 338, title 18, U. S. C.), and other related Federal statutes (where the Commission took part in the investigation and development of the case) which were pending during the 1956 fiscal year*

Name of principal defendant	Number of defendants	United States District Court	Indictment returned	Charges	Status of case
Bowler, Richard William	1	Eastern District of Washington.	Sept. 12, 1955	Sec. 17, 1933 Act; sec. 1341, title 18, U. S. C.	Defendant found guilty on 2 sec. 17 counts of indictment; sentenced on May 16, 1956, to 8 months and $1,000 fine and 3 years probation. Appeal pending.
Broadley, Albert E. (Hudson Securities).	5	Western District of New York	July 17, 1947	Secs 5 (a) (1), (2) and 17 (a) (1), 1933 Act, secs. 338 (now sec. 1341) and 88 (now sec. 371), title 18, U. S C	One defendant deceased, other defendants not apprehended.
DePalma, Albert Edward (A. E. DePalma & Co).	1	Northern District of Ohio.	June 11, 1947	Secs 5 (a) (1), (2) and 17 (a) (1), 1933 Act; sec. 338 (now sec. 1341), title 18, U. S. C.	DePalma forfeited $40,000 appearance bond and is presently a fugitive.
Donaldson, Arthur V	2	District of Montana	June 16, 1954	Sec. 17, 1933 Act; secs 1341 and 371, title 18, U. S. C.	One defendant deceased; other defendant found guilty on 4 mail fraud counts and 4 sec. 17 counts, sentenced to 5 years imprisonment and fined $3,000. Motion for new trial denied Dec. 5, 1955. Notice of appeal filed, bail set at $15,000. Defendant did not make bail and elected to start serving sentence.
Elliott, N. James	1	Southern District of New York.	Sept. 29, 1948	Sec. 17 (a) (1) and (2), 1933 Act; sec. 338 (now sec. 1341), title 18, U. S. C.	Defendant pleaded guilty in USDC ND Ill. to indictment returned in USDC SD NY on Nov. 8, 1955; sentenced to one year imprisonment (to be served consecutively to sentence in another case).
Ernstrom, George R	1	Eastern District of New York.	Dec. 22, 1955	Sec. 17 (a), 1933 Act; sec. 15 (a), 1934 Act.	Defendant pleaded guilty to 2 sec. 15 (a) counts of indictment; imposition of sentence suspended and placed on probation for 3 years.
Estep, William (Atomotor Mfg. Co., Inc.).	1	Northern District of Texas.	Jan. 21, 1954	Secs. 5 (a) and 17 (a), 1933 Act; sec. 1341, title 18, U. S. C.	Conviction affirmed by CA-5 June 8, 1955. Petition for certiorari filed Aug. 12, 1955; denied Oct 17, 1955 Motion filed pursuant to 28 U S. C 2255 to set aside sentence.
Frank, Ben H. (Sungold Oil Co. of Colorado).	1	Western District of Oklahoma.	Oct. 8, 1952	Sec. 17 (a), 1933 Act; sec. 1341, title 18, U. S. C.	Conviction reversed for trial errors Mar. 16, 1955, and new trial ordered. On retrial, defendant changed plea to nolo contendere; imposition of sentence deferred and defendant placed on probation for 1 year.
Geller, George B	1	Southern District of New York.	Oct. 30, 1953	Sec. 1621, title 18, U. S. C	Defendant pleaded not guilty. Bail set at $1,500.
Gould, Oscar U	1	Southern District of New York.	June 25, 1954	Sec. 1621, title 18, U. S. C	Defendant arraigned and released on $5,000 bail.
Hallock, Dan (Chinchilla, Inc., et al).	1	Northern District of Illinois.	May 27, 1954	Sec. 17 (a) 1933 Act; sec. 1341, title 18, U. S C.	Defendant acquitted by court.
Hawley, Edwin	1	District of Arizona	Nov. 10, 1949	Sec. 17 (a) (3), 1933 Act; sec. 32 (a), 1934 Act.	Defendant apprehended Apr. 6, 1956, pleaded guilty to 1 sec. 17 (a) (3) count and 1 sec. 32 (a) count of indictment; placed on 5 years probation and fined $5,000 on June 11, 1956.

Herck, John	6	Eastern District of Michigan.	July 30, 1942	Sec. 17 (a), (1), 1933 Act; secs. 338 (now sec. 1341) and 88 (now sec 371), title 18, U. S. C.	Herck pleaded not guilty. Remaining defendants are fugitives. Pending as to all defendants.
Do	1	----do	-----do	Sec 15 (a), 1934 Act	
Do	5	----do	-----do	Sec. 5 (a) (1) and (2), 1933 Act; sec. 88 (now sec. 371), title 18, U. S. C.	
Holsman, William T	2	Northern District of Illinois.	Feb. 8, 1955	Sec. 17 (a), 1933 Act; sec. 1341, title 18, U. S. C.	Both defendants found guilty on 7 sec. 17 (a) counts and 6 mail fraud counts on Jan. 19, 1956, and 1 defendant sentenced to 4 years. Motions for new trial and reduction of sentence denied. Other defendant sentenced to 1 hour in custody on Feb. 20, 1956, and served sentence immediately.
Horsting, William F., Sr	2	Eastern District of Wisconsin.	Aug. 9, 1954	Sec. 17 (a), 1933 Act; sec. 1341, title 18, U. S. C.	During trial, one defendant changed plea to nolo contendere and found guilty thereon. Sentences deferred. Case dismissed as to remaining defendant.
Horton, William E	3	Southern District of California.	Dec. 7, 1955	Sec. 17 (a) (1), 1933 Act; secs. 1341 and 371, title 18, U. S. C.	Defendants arraigned and pleaded not guilty to all counts.
Hu, Seng-Chiu	3	Southern District of New York	Dec. 20, 1954	Sec 17 (a), 1933 Act, secs 371 and 1341, title 18, U. S C.	Defendants pleaded not guilty and two individual defendants released on bonds of $500 each.
Jensen, James O	4	Eastern District of Washington.	Apr. 12, 1956	Sec 17 (a), 1933 Act, secs. 1341 and 371, title 18, U. S. C.	All defendants apprehended and released on bond of $1,000 each
Lightfoot, Melton E	1	Southern District of Florida.	Apr. 23, 1953	Sec 17 (a) (1), 1933 Act; sec 1341, title 18, U S. C.	Defendant posted bond of $1,000. Motion for continuance granted.
Low, Harry (Trenton Valley Distillers Corp.).	2	Eastern District of Michigan.	Feb. 3, 1939	Sec. 17 (a) (1), 1933 Act; sec. 338 (now sec. 1341), title 18, U S C.	Indictment previously dismissed as to defendant Low, now deceased, after plea of guilty to income tax evasion indictment. Pending as to Hardie, who is a fugitive.
Mallen, George E	6	Eastern District of Michigan.	June 2, 1944	Secs. 5 (a) (2) and 17 (a) (1), 1933 Act, secs 338 (now sec. 1341) and 88 (now sec. 371) title 18, U. S. C.	Two defendants deceased, pending as to remaining defendants, who are fugitives.
E. M McLean & Co. (Devon Gold Mines, Ltd)	2	-----do	Oct. 21, 1941	Sec. 15 (a), 1934 Act	Case pending as to first indictment, 3 defendants previously convicted and sentenced on second and third indictments. Pending as to remaining 9 defendants on the second and third indictments.
Do	7	-----do	-----do	Sec. 5 (a) (1) and (2), 1933 Act; sec. 88 (now sec. 371), title 18, U. S. C.	
Do	12	-----do	-----do	Sec 17 (a) (1) and (2), 1933 Act; secs 338 (now sec. 1341) and 88 (now sec. 371), title 18, U. S. C.	
Monarch Radio and Television Corp.	9	Southern District of New York.	June 4, 1954	Sec 17, 1933 Act, secs. 371 and 1341, title 18, U. S C.	All defendants arraigned and released on bail or own recognizance.
Palmer, James Robert (Ace Finance, Inc.)	2	District of Colorado	Mar 24, 1954	Sec. 17 (a) (1), 1933 Act, sec. 1341, title 18, U. S. C.	CA-10 affirmed convictions of both defendants Dec. 14, 1955, certiorari denied Mar. 26, 1956; rehearing denied May 28, 1956.

TABLE 15.—*Indictments returned for violation of the acts administered by the Commission, the Mail Fraud Statute (sec. 1341, formerly sec. 338, title 18, U. S. C.), and other related Federal statutes (where the Commission took part in the investigation and development of the case) which were pending during the 1956 fiscal year*—Continued

Name of principal defendant	Number of defendants	United States District Court	Indictment returned	Charges	Status of case
Parker, T. M., Inc.	16	Eastern District of Michigan.	Apr. 27, 1954	Sec. 371, title 18, U. S. C.	Nine defendants arraigned and pleaded not guilty to all indictments and posted bond. Extradition of defendants, Link and Green, from Canada denied Dec. 17, 1954. Leave to appeal denied by Canadian Supreme Court because of lack of jurisdiction, Mar. 7, 1955. Remaining defendants not apprehended. Motion for consolidation of four indictments granted and case set for trial in fall.
Do	15	do	do	Sec. 1341, title 18, U. S. C.	
Do	15	do	do	Sec. 17 (a), 1933 Act	
Do	15	do	do	Sec. 15 (a), 1934 Act	
Price, Eldridge Solomon	2	Northern District of Georgia.	Mar. 27, 1956	Secs. 5 (a) (2) and 17 (a) (1), 1933 Act; sec. 1341, title 18, U. S. C.	Defendants surrendered and were released on bonds of $20,000 and $5,000 each.
Saunders, Malcolm L.	2	District of Massachusetts.	Dec. 17, 1954	Sec. 17 (a), 1933 Act; sec. 15 (c), 1934 Act; secs. 371 and 1341, title 18, U. S. C.	Defendant Saunders pleaded not guilty and released on $1,000 bail. Remaining defendant, previously a fugitive, apprehended, arraigned, pleaded not guilty and released on $2,500 bail.
Schluter, Frederic E.	5	Southern District of New York.	Apr. 13, 1956	Sec. 32 (a), 1934 Act; sec. 371, title 18, U. S. C.	Four individual defendants pleaded not guilty and were released on $3,000 bail each. Corporate defendant entered not guilty plea.
Shaver, Stanley C., Sr.	1	Southern District of Florida.	Mar. 30, 1955	Sec. 17 (a) (3), 1933 Act; sec 15 (c) (1) and rule X-15C1-2, 1934 Act; secs. 1001 and 1341, title 18, U. S. C.	Defendant pleaded guilty to 1 sec. 17 (a) (3) count; imposition of sentence suspended and placed on probation for 5 years and directed to make restitution.
Snowden, Homer W.	2	Eastern District of Illinois.	Jan. 18, 1956	Secs. 5 (a) and 17 (a), 1933 Act; secs. 1341 and 371, title 18, U. S. C.	Defendants pleaded not guilty on March 22, 1956.
Tellier, Walter F. (Alaska Telephone Corp.)	4	Eastern District of New York.	Dec. 1, 1955	Sec. 17 (a), 1933 Act; secs. 1341 and 371, title 18, U. S. C.	Individual defendants pleaded not guilty; motion for transfer of trial denied. No plea entered for Corporation.
Tellier, Walter F. (Consolidated Uranium Mines, Inc.).	1	do	Apr. 26, 1956	Sec. 17 (a), 1933 Act; sec. 1341, title 18, U. S. C.	Defendant pleaded not guilty.
Thomas, Richard (Thomascolor, Inc.)	2	District of Arizona	Oct. 29, 1951	Sec. 17 (a) (2), 1933 Act; sec. 371, title 18, U. S. C.	Thomas' conviction affirmed by CA—9, May 18, 1955; petition for rehearing denied Aug. 29, 1955; certiorari denied Dec. 5, 1955.
Vasen, George F.	1	Northern District of Illinois.	May 27, 1953	Secs. 5 (a) and 17 (a), 1933 Act; sec. 1341, title 18, U. S. C.	Conviction affirmed Apr. 15, 1955 by CA—7; certiorari denied Oct. 10, 1955. Motion for stay of execution of sentence denied, sentence reduced from 5 to 3 years, Dec. 8, 1955. Motion pursuant to 28 U. S. C. 2255 to set aside sentence, denied Dec. 16, 1955, appeal pending.

Walters, J., Jr. (Cedar Talisman Cons. Mines Co.)	1	District of Nevada	Dec 18, 1953	Sec. 17 (a), 1933 Act; sec. 1841, title 18, U. S. C.	Case transferred to USDC D Arizona. Defendant released on $2,500 bond; arraignment postponed because of illness of defendant.
Warner, J. Arthur & Co., Inc	11	District of Massachusetts.	July 7, 1953	Sec. 17 (a) (3), 1933 Act; secs. 1841 and 371, title 18, U. S. C.	Six defendants, including corporate defendant, pleaded guilty to indictment and received sentences ranging from 1 year probation and $1,000 fine to 2 years probation and $5,000 fine, a $5,000 fine being imposed on the company. Indictment dismissed as to 3 defendants, severed as to 1 defendant, Thayer, who is a fugitive, and abated as to 1 defendant who is deceased.
Weber, Charles M	1	Southern District of New York.	June 6, 1955	Sec. 1621, title 18, U. S. C	Defendant arraigned, pleaded not guilty and released on $2,000 bail.
Young, Ben E	1	Eastern District of Washington.	Sept. 7, 1955	Sec. 17, 1933 Act; sec. 1841, title 18, U. S. C.	Defendant pleaded not guilty on Nov. 22, 1955.

TABLE 16.—*Petitions for review of orders of Commission under the Securities Act of 1933, the Securities Exchange Act of 1934, the Public Utility Holding Company Act of 1935, and the Investment Company Act of 1940, pending in courts of appeals during the fiscal year ended June 30, 1956*

Petitioner	United States Court of Appeals	Initiating papers filed	Commission action appealed from and status of case
Johnson, R. H., & Co., et al	District of Columbia	Nov. 18, 1955	Order of Nov. 16, 1955, revoking the broker-dealer registrations and finding that Rupert H. Johnson was the cause of such revocation. Decision of CA DC, Apr. 5, 1956, affirming the Commission's order. Order by CA DC, June 15, 1956, continuing stay order to June 24, 1956, and denying petitioners' request for rehearing. Petition for certiorari filed June 18, 1956. Commission order stayed until fall by Justice Black, June 22, 1956
Kaye, Real & Co., Inc	3d Circuit	Nov. 7, 1955	Order of Sept. 9, 1955, revoking the broker-dealer registration and not permitting withdrawal of registration to become effective. Stipulation for dismissal, May 1956, order by CA-3, May 18, 1956, dismissing appeal
Klein, Rudolph V	2d Circuit	Jan. 21, 1955	Order of Dec. 28, 1954, dismissing the proceeding for review of action of the National Association of Securities Dealers, Inc expelling Klein from membership. Opinion of CA-2, June 16, 1955, reversing the order of the Commission and remanding the case for further proceedings. Petition by Commission for rehearing, denied by order of July 13, 1955, correcting opinion. Judgment of CA-2, Aug. 22, 1955, reversing the order of the Commission and remanding the case for further proceedings.
Leighton, William	District of Columbia	Sept. 3, 1954	Alleged order of July 8, 1954, declining to acceed to petitioner's request that Commission institute an investigation and seek an injunction against American Express Company for alleged violations of 1933 Act registration requirements. Respondent's motion to dismiss for lack of jurisdiction, Sept. 22, 1954. Opinion, Feb 10, 1955, dismissing petition for review. Petition for certiorari, May 28, 1955; denied Oct. 10, 1955. Petition for rehearing Nov. 3, 1955, denied Nov 21, 1955.
Louisiana Public Service Commission	5th Circuit	Oct. 12, 1955	Order of Sept. 13, 1955, denying the petition of Louisiana Public Service Commission insofar as it requested the reopening of the proceeding in which the Commission's order of Mar. 20, 1953, was entered. Opinion by CA-5, June 30, 1956, granting relief petitioner requested and remanding proceeding to Commission for further consideration, such consideration restricted to the appropriateness of the retention by the Middle South System of the gas properties of Louisiana Power & Light Co. and not to any other features of the Mar. 20, 1953 order.
Mitchell Securities, Inc	4th Circuit	June 8, 1956	Order of June 6, 1956, affirming the expulsion of Mitchell Securities, Inc. from membership in National Association of Securities Dealers, Inc. Order by CA-4, June 20, 1956, staying Commission order pending review.
Phillips, Randolph	2d Circuit	Mar. 15, 1956	Order of Jan 16, 1956, declaring The United Corp not to be a holding company. Motion to adduce additional evidence denied by court on May 21, 1956.
Pierce, John	9th Circuit	Oct. 14, 1955	Order of Aug. 16, 1955, denying application for registration as a broker and dealer. Briefs filed.
Reynolds Metal Co	District of Columbia	Jan. 6, 1955	Order of Dec 14, 1954, approving proposed sale by Holding Company of interest in public utility subsidiary and related transactions; exempting such sale from requirements of Rule U-50; exempting purchasers as Holding Company from Act; and approving indirect acquisition of such interest by affiliate of such purchaser. Motions by Cities Service Co., W R Stephens Investment Co, and W. R Stephens to intervene, granted Mar. 4, 1955. Briefs for the parties filed. Order by CA DC, Jan. 11, 1956, dismissing the petition for review as moot.

State of Tennessee, et al	District of Columbia	Mar. 14, 1955	Orders of Feb. 9 and 18, 1955 granting a joint application filed pursuant to secs 6 (b), 9 (a) and 10 of the Public Utility Holding Company Act of 1935 by Mississippi Valley Generating Company and Middle South Utilities, Inc. and The Southern Company. Motions of Mississippi Valley Generating Company, Middle South Utilities, Inc. and The Southern Company for intervention granted Apr. 8, 1955. Motions of intervenors to dismiss, Apr. 13, 1955. Response of Commission to motion to dismiss, Apr. 19, 1955. Brief of U. S. as amicus curiae filed May 17, 1955. Brief of Commission filed May 24, 1955. Reply briefs for petitioners and intervenors filed May 23, 1955. Argued June 6, 1955. Petitioners' motion to file additional memorandum filed July 6, allowed July 25, and motion to file additional memorandum filed Aug. 18, 1955. Response of Commission and motion of Commission to remand in light of changed circumstances filed Aug. 26; petitioners' answer filed Aug. 30; remand ordered Sept. 12, 1955.
Treves, Peter G., et al	2d Circuit	June 14, 1956	Order of Apr. 18, 1956, which exempted certain transactions between affiliates under sec. 17 (b) of the Investment Company Act. Pending.
Weber, Charles M	2d Circuit	Nov. 12, 1954	Order of Sept. 14, 1954, revoking the broker-dealer registration of Charles M. Weber and expelling him from membership in the National Association of Securities Dealers, Inc. Briefs for petitioner and respondent filed. Order of CA—2, Aug. 26, 1955, affirming the Commission's order. Petition for certiorari filed Nov. 25, 1955, denied Jan. 16, 1956.

TABLE 17.—*Contempt proceedings pending during the fiscal year ended June 30, 1956*

PART 1.—CIVIL CONTEMPT PROCEEDINGS

Principal defendants	Number of defendants	United States District Court	Initiating papers filed	Status of case
East Boston Co	1	Massachusetts	Nov. 4, 1955	Petition for rule to show cause why East Boston Co. should not be held guilty of civil contempt for failure to comply with final judgment entered July 13, 1955. Order, Nov. 18, 1955, adjudging East Boston Co guilty of civil contempt and ordering it to pay fine of $20,000 unless it complied within thirty days. Motion to collect fine filed Feb. 6, 1956, on ground reports filed were defective. Order, Mar. 27, 1956, vacating order of Nov 18, 1955. Order, Apr. 5, 1956, upon stipulation, directing that East Boston Co. pay $3,000 to Clerk of Court in civil contempt and directing filing of corrected reports by not later than July 5, 1956. Fine paid April 17, 1956. Reports in purported compliance filed June 18, 1956.

PART 2—CRIMINAL CONTEMPT PROCEEDINGS

East Boston Co	1	Massachusetts	Apr. 2, 1956	Order to show cause issued Apr. 2, 1956, returnable Apr 5, 1956, why East Boston Co. should not be held in criminal contempt. Order Apr. 5, 1956, directing that proceeding be dismissed without prejudice.
Homer C. Mills	1	District of Nevada	June 4, 1954	Mills was found guilty of criminal contempt on Oct. 7, 1954, for four violations of injunctive decree entered June 30, 1953, and placed on probation for 3 years. Conviction affirmed by CA-9, Dec. 9, 1955.

TABLE 18.—*Cases in which the Commission participated as intervenor or as amicus curiae pending during the fiscal year ended June 30, 1956*

Name of case	United States District Court, Court of Appeals, or U. S. Supreme Court	Date of entry	Nature and status of case
Breswick & Phillips *v.* U. S , I. C. C. & Alleghany Corp.	U. S. Supreme Court	Aug. 1, 1955	Appeal by Alleghany Corp. for supersedeas on appeal and a stay of mandate of the three-judge court granting plaintiffs a preliminary injunction enjoining orders of ICC and exchange of 5½% series A preferred stock of Alleghany for new 6% convertible preferred stock. Memorandum for plaintiffs in opposition, Aug. 1, 1955. Memorandum of Commission as amicus curiae, Aug. 1, 1955. Order Aug. 9, 1955, staying orders below, which enjoined Alleghany Corp. from converting certain common stock delivered prior to restraining order and otherwise denying application, upon filing of surety bond pending final determination.
Forker *v.* Wyoming-Gulf Sulphur Corp. et al.	District of New Jersey	Oct. 25, 1954; Nov. 22, 1954; Jan. 5, 1955.	Action seeking damages and a mandatory order requiring transfer of stock to purchasers. Commission intervened, Oct. 25, 1954, to protect injunctive decree. Commission memorandum filed Nov. 22, 1954 and answer filed Jan. 5, 1955. Order Sept. 15, 1955, dismissing the proceeding, on motion of plaintiff.
Nash, et al. *v.* Warner, et al	District of Massachusetts	Sept. 23, 1955	Action seeking damages for alleged "churning" of securities by securities firm in violation of sections 10 (b) and 15 (c) (1) of 1934 Act and rules thereunder, and section 17 (a) of 1933 Act. Memorandum of Commission as amicus curiae filed at request of Court, Sept. 23, 1955. Findings and opinion dismissing action, Dec. 30, 1955.
Speed, et al. *v.* Transamerica Corp	District of Delaware; 3d Circuit.	Feb. 19, 1947; Oct 14, 1948; Jan. 14, 1949; May 2, 1956.	Action for violation of rule X-10B-5 under sec. 10 (b) of Securities Exchange Act. Motion to dismiss denied May 9, 1947. Rehearing denied June 25, 1947. Case tried on merits. Reargument on questions of law June 22–23, 1950. Opinion in favor of plaintiffs Aug. 8, 1951. Special master appointed Oct. 18, 1951, to recommend amount of damages. Special master died before final report on damages. District Judge reassumed jurisdiction. Opinion on damages, Sept 21, 1955, and final decree Nov. 2, 1955. Defendant's appeal to CA-3 filed Nov. 23, 1955; plaintiffs' cross-appeal filed Dec. 1, 1955. Memorandum of law by Commission, as amicus curiae, filed May 2, 1956.
Whittaker, et al. *v.* Wall, et al	8th Circuit	Sept. 13, 1955	Action under sec. 12 (1) of 1933 Act to recover the consideration paid for securities allegedly sold in violation of the registration provisions of that Act. Memorandum of law by Commission, as amicus curiae, on proper construction of venue provisions of section 22 (a) of Act, filed Sept. 13, 1955. Opinion of CA-8, Nov. 8, 1955, affirming the District Court judgment in favor of plaintiffs.

TABLE 19.—*Proceedings by the Commission to enforce subpenas under the Securities Act of 1933 and the Securities Exchange Act of 1934 pending during the fiscal year ended June 30, 1956*

Principal defendants	Number of defendants	United States District Court	Initiating papers filed	Section of act involved	Status of case
Goddard, Charles E.	3	District of Oregon	Apr. 13, 1955	Sec. 22 (b), 1933 Act	Order Apr. 13, 1955, directing respondents to show cause why an order should not be issued requiring respondents to comply with subpenas. Order May 23, 1955, enforcing subpenas and requiring appearance of respondents.
Platt, F. F.	1	Western District of Washington.	Jan. 13, 1956	Sec. 22 (b), 1933 Act	Order Jan. 13, 1956, directing respondent to show cause why an order should not issue requiring respondent to comply with subpena. Supplemental order to show cause Jan. 27, 1956, appointing persons to serve process.
Stardust, Inc.	2	Southern District of California.	June 24, 1955	Sec. 22 (b), 1933 Act	Order June 24, 1955, directing respondents to show cause why an order should not be issued requiring respondents to comply with subpenas duces tecum. Order by CA-9, July 15, 1955, granting petition of respondents for stay of Commission's investigation and of subpena pending hearing. Response of Commission and motion for dismissal of petition and dissolution of stay order filed. Order by CA-9, July 29, 1955, dismissing the petition and dissolving the stay order. Order by District Court, Aug. 1, 1955, directing Stardust, Inc. to comply with subpenas duces tecum and dismissing proceeding as to other respondent, now deceased.

TABLE 20.—*Miscellaneous actions involving the Commission or employees of the Commission pending during the fiscal year ended June 30, 1956*

Plaintiff	Court	Initiating papers filed	Status of case
Alleghany Corp., In re	Before Interstate Commerce Commission.	Sept. 20, 1954	Petitions of SEC Sept. 20 and 24, 1954, to intervene for purpose of requesting that ICC limit its jurisdiction over Alleghany Corp., as a carrier, intervention granted but SEC request denied. SEC supplemental memorandum filed Dec. 14, 1954. reply of Alleghany, Dec. 31, 1954. Petition for reconsideration filed Apr. 1, 1955, petition granted and prior determination was affirmed May 24, 1955.
Kinsey, John P.	Eastern District of Michigan.	Feb. 2, 1954	Complaint filed Feb 2, 1954 seeking to void voting trust established by existing management of Monroe Paper Products Co., to oust management, and to obtain damages for alleged breaches of fiduciary duties. Complaint alleged, *inter alia*, violation of Sec. 5 of 1933 Act in establishment of voting trust. Trial commenced Oct. 12, 1954. Subpoena for testimony and Commission files served on SEC attorney in Detroit Dec. 23, 1954. Brief of Commission on privileged nature of documents and testimony sought, filed Feb. 4, 1955. Expanded subpoena served Feb. 7, 1955 Motion to quash filed Feb. 8, 1955, and denied Feb. 11, 1955. Formal claim of privilege filed Feb. 10, 1955. While representing SEC employees called as witnesses, General Counsel Timbers ordered to take witness stand himself on Mar 1, 1955 Oral order holding Timbers in contempt for refusing to produce internal report of investigation, Mar. 2, 1955 Notice of appeal filed by Timbers Mar. 2, 1955. Stay of oral contempt order granted by CA-6, Mar. 2, 1955. Written order adjudicating Timbers in contempt filed Mar 2, 1955. Appeal from written contempt order filed by Timbers Mar. 5, 1955. Appeals from both contempt orders filed by Commission Mar 5, 1955. CA-6 stay order amended to stay written contempt order also, Mar 5, 1955 Appeals given calendar preference. Appellant record, briefs, reply briefs, and appendices filed. Oral argument heard by CA-6, Apr. 12, 1955. Supplementary briefs filed by parties. Contempt orders reversed and completely set aside by CA-6, Oct. 19, 1955. Mandate to District Court, Nov. 16, 1955.
Levinson, Herman D.	U. S. Court of Claims	July 30, 1954	Petition for judgment alleging improper separation in reduction in force and seeking recovery of lost pay, filed July 30, 1954. Defendant's answer and motion for summary judgment filed. Plaintiff's time to answer extended to Aug. 1, 1955 Plaintiff's opposition to motion for summary judgment, motion to strike and cross-motion for summary judgment filed Oct. 11, 1955. Defendant's response, Dec. 12, 1955 Order, Feb. 10, 1956, denying motions for summary judgment and remanding case to Commissioner of court for trial on merits.
Universal Service Corp., Inc.	District of Columbia	Aug. 25, 1955	Complaint filed Aug. 25, 1955, requesting that Commission be enjoined from proceeding with hearing. Statement of points and authorities by Commission Sept 2, 1955, in opposition to application for preliminary injunction and in support of Commission motion to dismiss complaint. Subpoena served on Harvey Thorson, Sept. 5, 1955. Reply memorandum by plaintiff Sept 6, 1955. Order Sept 20, 1955, dismissing action for failure to state a claim. Order denying plaintiff's motion to reconsider, Sept. 30, 1955.

TABLE 21.—*Actions pending during fiscal year ended June 30, 1956, to enforce voluntary plans under section 11 (e) to comply with section 11 (b) of the Public Utility Holding Company Act of 1935*

Name of case	United States District Court	Initiating papers filed	Status of case
Arkansas Natural Gas Corp.	Delaware	Reopened June 25, 1956.	Petition filed June 25, 1956, by Cities Service Co. for an order requiring Elias Auerback to show cause why he should not be adjudged in contempt of order entered Jan. 29, 1953. Order entered June 25, 1956, pursuant to petition
Electric Power & Light Corp.	Southern District of New York.	Reopened June 20, 1952.	Supplemental application on fees filed June 20. 1952. Order Feb 18, 1953, overruling objections and approving and enforcing plan. Notice of appeals filed by Drexel & Co. and Christian A Johnson and Cameron Blewend on Apr 10, 1953 Judgment by CA-2 Feb. 25. 1954, affirming the order of the District Court, except as to fee of Drexel & Co., which was reversed. Order Mar. 23, 1954, denying petition of Christian A Johnson and Cameron Blewend for rehearing Petitions for writ of certiorari filed by Commission and Christian A Johnson, et al , June 21, 1954 Commission's petition for certiorari granted and petition of Johnson, et al. denied, Oct 14, 1954 Opinion of Supreme Court Feb 28, 1955, reversing the order of CA-2 Opinion Apr. 18. 1955, denying petition for rehearing Remanded by CA-2, June 9, 1955, pursuant to stipulation of June 3, 1955. Supplemental application for an order directing final distribution of assets filed Mar 29, 1956. Order Apr. 6, 1956, directing fina distribution of assets and discharging applicants from duties upon completion of distribution.
Market Street Railway Co.	Northern District of California.	May 3, 1950	Order July 11, 1950, approving principal provisions of the plan for disapproving plan insofar as it failed to provide an allowance of fees for attorney for the Van Kirk Committee for prior preference stockholders and remanding case to Commission. Appeal taken by Commission from those portions of order which disapproved Commission's determination with respect to fee Appeals taken by William J Cogan and Charles T. Jones from provisions of the order which approved the plan in substantially all other respects. Cogan and Jones also appealed from order of Nov. 21, 1950, which both approved and directed enforcement of Step One of an amended plan, consisting of those provisions of earlier plan approved by July 11, 1950, order, and which Commission, after remand, had severed from fee provisions constituting Step Two Appeals from both orders consolidated Mar 7, 1951. District Court order of Nov. 21, 1950, approving Step One, affirmed Dec. 27, 1951; portion of order of July 11, 1950, relating to Cogan's fee reversed. Petition filed by Cogan for rehearing as to his fee granted Feb. 13, 1952. Opinion by CA-9, Dec 22, 1952 (201 F. 2d 78), affirming all orders of the District Court Supplemental application II filed May 16, 1953 Order July 3, 1953, overruling objections and approving and enforcing plan
Northern States Power Co.	Minnesota	Reopened Dec. 8, 1955	Supplemental application II filed Dec 8, 1955. Plan approved and enforced Feb. 13, 1956.
Standard Gas and Electric Co.	Delaware	Reopened Feb. 27, 1956.	Supplemental application IV on fees filed Feb. 27, 1956 Answer of James P. McGranery to application of Commission re his fee, filed Mar. 9, 1956 Order Apr. 30, 1956, denying approval of application and remanding matter to Commission for further proceedings.
Standard Power and Light Corp.	Delaware	Feb. 27, 1956	Application filed Feb. 27, 1956 Plan approved and enforced Mar. 13, 1956.
The United Corp.	Delaware	Oct. 11, 1954	Application filed Oct. 11, 1954. Objections of Alfred A Biddle and the Protective Committee for Holders of Option Warrants, Oct. 28, 1954. Objections by Downing and Phillips, et al., Nov. 8, 1954. Objections by Herbert Diamond, et al., Nov. 9, 1954. Opinion Jan. 17, 1955, approving plan. Enforcement order entered Mar. 7, 1955 Notices of appeal by Protective Committee, Biddle and Diamond filed May 3 and 5, 1955. Appeals by Protective Committee, Biddle and Diamond consolidated by order of CA-3. Sept. 12, 1955. Judgment of CA-3, Apr. 16, 1956, affirming the district court order. Petition for writ of certiorari by Protective Committee and Biddle filed July 13, 1956.

TABLE 22.—*Actions under section 11 (d) of the Public Utility Holding Company Act of 1935 pending during the fiscal year ended June 30, 1956, to enforce compliance with the Commission's order issued under section 11(b) of that Act*

Name of case	United States District Court	Initiating papers filed	Nature and history of case
International Hydro-Electric System	Massachusetts	Dec. 1, 1955	Dissolution of this holding company was ordered by the Commission on July 21, 1942, pursuant to sec. 11 (b) (2) of the Act. 11 S.E.C. 888, affirmed 137 F. 2d 475, modification denied, HCA Release No. 9535, affirmed 184 F. 2d 646. In 1943 proceedings were instituted under sec. 11 (d) in the U. S. District Court (Mass.). In 1944 a trustee was appointed. Supplemental application on fees filed Dec. 1, 1955. Order Dec. 21, 1955, approving and allowing compensation and disbursement of expenses. Order Jan. 9, 1956 approving Trustee's petition for additional compensation to certain employees. Supplemental application of Commission Jan. 16, 1956, for approval of Interim Board Plan for transformation of IHES into an investment company as approved by Commission Jan. 13, 1956 Objections of The Equity Corporation and Central Illinois and C. A. Johnson filed Feb. 17, 1956. Briefs and reply briefs filed by the parties. Supplemental memorandum by the Commission Mar. 15, 1956, in response to reply briefs of objectors. Order of court Apr. 23, 1956, approving the Plan of Reorganization. Notice of appeals by Central-Illinois and C. A. Johnson and The Equity Corporation, May 2, 1956. Petitions for stay pending appeal filed by appellants, May 2, 1956 Memoranda in opposition to stay filed. Order May 29, 1956, staying the order of Apr 23, 1956, pending appeal.

TABLE 23.—*Reorganization cases under ch. X of the Bankruptcy Act pending during the fiscal year ended June 30, 1956, in which the Commission participated when appeals were taken from district court orders*

Name of case and United States Court of Appeals	Nature and status of case
General Stores Corporation, debtor; Securities and Exchange Commission and Max Shlensky, stockholder, appellants (2d Circuit).	Appeal from order of Feb. 4, 1955, granting motions of Commission and Max Shlensky, a stockholder, for dismissal of debtor's Chapter XI petition. Opinion of CA–2, Apr. 14, 1955, holding that relief should be sought under Chapter X. Petition for writ of certiorari filed by debtor granted Oct. 10, 1955. Opinion of Supreme Court Mar. 26, 1956, affirming the decision of the two lower courts.
Hudson & Manhattan Railroad Co, debtor-appellant (2d Circuit).	Appeal from order of Feb. 23, 1955, denying the debtor's petition to employ experts to testify to debtor's solvency and appeal from order of Apr. 7, 1955, denying the debtor's petition for leave to withdraw its answer consenting to reorganization and for leave to answer de novo Commission filed brief Nov. 4, 1955 urging affirmance of both orders. Decision of CA–2, Feb. 9, 1956, affirming the orders of the district court. Petition for writ of certiorari filed by debtor, May 4, 1956 Certiorari denied June 11, 1956.
Inland Gas Corp, et al., debtors; Ben Williamson, Jr., Paul E. Kern, Green Committee, Clinton M. Harbison, Allen Committee, Vanston Committee, and Gregory Committee, appellants (6th Circuit).	Appeals from order of Mar. 14, 1956, *inter alia* denying confirmation of Trustees' Amended Plan of Reorganization, refusing to find worthy of consideration a plan submitted by a security holder and refusing to confirm a plan of reorganization because it provided for post-bankruptcy interest and since it was not accepted by the requisite majority of creditors affected by the plan.
Liberty Baking Corp., debtor; Securities and Exchange Commission, appellant (2d Circuit).	Appeal from order of Dec. 19, 1955, denying the Commission's motions for leave to intervene and for dismissal of Debtor's petition under Chapter XI on ground proceeding should be under Chapter X
Silesian-American Corp., debtor, Francis X. Conway, Trustee, et al., appellants (2d Circuit).	Appeals from order of June 17, 1952, dismissing petition of Trustee for an accounting and other relief against the Swiss Banks. Commission filed briefs supporting appeals and contending court had jurisdiction over claims against the banks Opinion Apr. 13, 1953, affirming the order of the district court Petition for rehearing denied June 8, 1953. Petitions for writ of certiorari supported by Commission filed in Nov. 1953. Petitions for writs of certiorari dismissed Mar. 1, 1956, pursuant to stipulation.
Silesian-American Corp., debtor (2d Circuit).	Petition of Bondholder's Protective Committee for leave to appeal from order of June 4, 1956, making allowances of compensation to the Trustee, the petitioner and others. Commission filed memorandum in support of petition, June 8, 1956. Leave to appeal granted; notice of appeal filed June 29, 1956.
The Wilcox-Gay Corp., and Garod Radio Corp., debtors; Securities and Exchange Commission, appellant (6th Circuit).	Appeal from order of Aug. 3, 1955, denying the Commission's motion to dismiss the Chapter XI proceedings and to reinstate the petitions under Chapter X. Application for stay denied by order of Sept. 23, 1955. Commission's brief filed Nov. 17, 1955. Brief for appellees filed Dec. 9, 1955 Reply brief by Commission filed Dec. 27, 1955. Decision of CA–6, Apr. 14, 1956, affirming the judgment of the district court.

TABLE 24.—*A 23-year summary of criminal cases developed by the Commission—1934 through 1956 by fiscal year*

[See table 26 for classification of defendants as broker-dealers, etc.]

Fiscal year	Number of cases referred to Department of Justice in each year	Number of persons as to whom prosecution was recommended in each year	Number of such cases in which indictments were obtained by United States attorneys	Number of defendants indicted in such cases [1]	Number of these defendants convicted	Number of these defendants acquitted	Number of these defendants as to whom proceedings were dismissed on motion of United States attorneys	Number of these defendants as to whom cases are pending [2]
1934	7	36	3	32	17	0	15	0
1935	29	177	14	149	84	5	60	0
1936	43	379	34	368	164	46	158	0
1937	42	128	30	144	78	32	34	0
1938	40	113	33	134	75	13	45	1
1939	52	245	47	292	199	33	60	0
1940	59	174	51	200	96	38	66	0
1941	54	150	47	145	94	15	36	0
1942	50	144	46	194	108	23	48	15
1943	31	91	28	108	62	10	33	3
1944	27	69	24	79	48	6	20	5
1945	19	47	18	61	36	10	14	1
1946	16	44	14	40	13	8	4	15
1947	20	50	13	34	9	5	15	5
1948	16	32	15	29	20	3	6	0
1949	27	44	25	57	19	13	25	0
1950	18	28	15	27	21	1	5	0
1951	29	42	24	48	37	5	6	0
1952	14	26	13	24	17	4	3	0
1953	18	32	15	33	19	6	5	3
1954	19	44	19	52	16	4	2	30
1955	8	12	7	12	5	0	2	5
1956	[3] 17	43	8	21	0	0	0	21
Total	655	2,150	[4] 543	2,283	1,237	280	[5] 662	104

[1] The number of defendants in a case is sometimes increased by the Department of Justice over the number against whom prosecution was recommended by the Commission. For the purpose of this table, an individual named as a defendant in 2 or more indictments in the same case is counted as a single defendant.

[2] See table 25 for breakdown of pending cases.

[3] Nine of these references as to 24 proposed defendants were still being processed by the Department of Justice as of the close of the fiscal year.

[4] 513 of these cases have been completed as to 1 or more defendants. Convictions have been obtained in 444 or 87 percent of such cases. Only 69 or 13 percent of such cases have resulted in acquittals or dismissals as to all defendants, including numerous cases in which indictments were dismissed without trial because of the death of defendants or for other administrative reasons. See note 5, infra.

[5] Includes 51 defendants who died after indictment.

TABLE 25.—*Summary of criminal cases developed by the Commission which were still pending at June 30, 1956*

	Cases	Number of defendants in such cases	Number of such defendants as to whom cases have been completed	Number of such defendants as to whom cases are still pending and reasons therefor		
				Not yet apprehended	Awaiting trial	Awaiting appeal
Pending, referred to Department of Justice in the fiscal year:						
1938	1	2	1	1	0	0
1939	0	0	0	0	0	0
1940	0	0	0	0	0	0
1941	0	0	0	0	0	0
1942	2	18	3	14	1	0
1943	1	5	2	2	1	0
1944	1	7	2	5	0	0
1945	1	1	0	1	0	0
1946	4	16	1	15	0	0
1947	2	6	1	5	0	0
1948	0	0	0	0	0	0
1949	0	0	0	0	0	0
1950	0	0	0	0	0	0
1951	0	0	0	0	0	0
1952	0	0	0	0	0	0
1953	3	13	10	1	2	0
1954	6	30	0	7	23	0
1955	2	5	0	0	5	0
1956	8	21	0	0	20	1
Total	[1] 31	[1] 124	20	51	52	1

SUMMARY

Total cases pending [1]	41
Total defendants [1]	149
Total defendants as to whom cases are pending [1]	129

[1] Except for 1955 and 1956 indictments have been returned in all pending cases. As of the close of the fiscal year, indictments had not yet been returned as to 25 proposed defendents in 10 cases referred to the Department of Justice in 1955 and 1956 These are reflected only in the recapitulation of totals at the bottom of the table.

TABLE 26.—*A 23-year summary classifying all defendants in criminal cases developed by the Commission—1934 to June 30, 1956*

	Number indicted	Number convicted	Number acquitted	Number as to whom cases were dismissed on motion of United States attorneys	Number as to whom cases are pending
Registered broker-dealers [1] (including principals of such firms)	345	213	24	99	9
Employees of such registered broker-dealers	123	64	16	42	1
Persons in general securities business but not as registered broker-dealers (includes principals and employees)	717	358	57	257	45
All others [2]	1,098	602	183	264	49
Total	2,283	1,237	280	662	104

[1] Includes persons registered at or prior to time of indictment.
[2] The persons referred to in this column, while not engaged in a general business in securities, were almost without exception prosecuted for violations of law involving securities transactions.

TABLE 27.—*A 23-year summary of all injunction cases instituted by the Commission, 1934 to June 30, 1956, by calendar year*

Calendar year	Number of cases instituted by the Commission and the number of defendants involved.		Number of cases in which injunctions were granted and the number of defendants enjoined.[1]	
	Cases	Defendants	Cases	Defendants
1934	7	24	2	4
1935	36	242	17	56
1936	42	116	36	108
1937	96	240	91	211
1938	70	152	73	153
1939	57	154	61	165
1940	40	100	12	99
1941	40	112	36	90
1942	21	73	20	54
1943	19	81	18	72
1944	18	80	14	35
1945	21	74	21	57
1946	21	45	15	34
1947	20	40	20	47
1948	19	44	15	26
1949	25	59	24	55
1950	27	73	26	71
1951	22	67	17	43
1952	27	103	18	50
1953	20	41	23	68
1954	22	59	22	62
1955	23	54	19	43
1956 (to June 30)	19	49	11	29
Total	712	2,082	[2] 641	1,632

SUMMARY

	Cases	Defendants
Actions instituted	712	2,082
Injunctions obtained	634	1,632
Actions pending	16	[3] 40
Other dispositions [4]	62	410
Total	712	2,082

[1] These columns show disposition of cases by year of disposition and do not necessarily reflect the disposition of the cases shown as having been instituted in the same years.

[2] Includes 7 cases which were counted twice in this column because injunctions against different defendants in the same cases were granted in different years.

[3] Includes 2 defendants in 1 case in which injunctions have been obtained as to 3 co-defendants.

[4] Includes (a) actions dismissed (as to 342 defendants); (b) actions discontinued, abated, vacated, abandoned, or settled (as to 53 defendants); (c) actions in which judgment was denied (as to 11 defendants); (d) actions in which prosecution was stayed on stipulation to discontinue misconduct charged (as to 4 defendants).

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