47th Annual Report of the Securities and Exchange Commission

for the fiscal year ended September 30, 1981

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Chairman's Letter of Transmittal

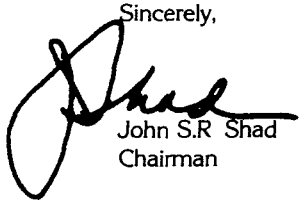
The Honorable George Bush
President, U.S. Senate
Washington, D.C. 20510

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

Gentlemen:

On behalf of the Securities and Exchange Commission, I have the honor to transmit to you the Forty-Seventh Annual Report of the Commission covering the fiscal year October 1, 1980 to September 30, 1981, in accordance with the provisions of Section 23(b) of the Securities Exchange Act of 1934, as amended; Section 23 of the Public Utility Holding Company Act of 1935; Section 46(a) of the Investment Company Act of 1940; Section 216 of the Investment Advisers Act of 1940; Section 3 of the Act of June 29, 1949 amending the Bretton Woods Agreement Act; Section 11(b) of the Inter-American Development Bank Act; and Section 11(b) of the Asian Development Bank Act.

Sincerely,



John S.R Shad
Chairman

Commissioners and Principal Staff Officers

(As of December 31, 1981)

Commissioners	Term expires June 5
JOHN S.R. SHAD, *Chairman*	1986
PHILIP A. LOOMIS, JR.	1984
JOHN R. EVANS	1983
BARBARA S. THOMAS	1985
BEVIS LONGSTRETH	1982

Secretary: **George A. Fitzsimmons**
Executive Assistant to the Chairman: **Daniel L. Goelzer**

Principal Staff Officers

George G. Kundahl, *Executive Director*
Lee B. Spencer, *Director, Division of Corporation Finance*
John J. Huber, *Deputy Director*
William C. Wood, *Associate Director*
Mary E. T. Beach, *Associate Director*
John M. Fedders, *Director, Division of Enforcement*
David P. Doherty, *Associate Director*
Theodore A. Levine, *Associate Director*
Douglas Scarff, *Director, Division of Market Regulation*
Sheldon Rappaport, *Deputy Director*
Edward A. Kwalwasser, *Associate Director*
Joel H. Goldberg, *Director, Division of Investment Management*
Gerald Osheroff, *Associate Director*
Richard W. Grant, *Associate Director*
Aaron Levy, *Director, Division of Corporate Regulation*
Grant Guthrie, *Associate Director*
Edward F. Greene, *General Counsel*
Paul Gonson, *Solicitor*
Michael K. Wolensky, *Associate General Counsel*
Jacob H. Stillman, *Associate General Counsel*
John T. Shinkle, *Associate General Counsel*
Andrew L. Rothman, *Director, Office of Public Affairs*
Chiles T.A. Larson, *Deputy Director*
A. Clarence Sampson, *Chief Accountant*
LeGrand C. Kirby, *Deputy Chief Accountant*
Jeffry L. Davis, *Acting Director, Directorate of Economic and Policy Analysis*
Terry M. Chuppe, *Associate Director*

William S. Stern, *Director, Office of Opinions and Review*
Herbert V. Efron, *Associate Director*
R. Moshe Simon, *Associate Director*
Warren E. Blair, *Chief Administrative Law Judge*
Lawrence H. Haynes, *Comptroller*
Richard J. Kanyan, *Director, Office of Administrative Services*
G. William Richardson, *Deputy Director*
James C. Foster, *Director, Office of Personnel*
Wilson Butler, *Director, Office of Applications and Reports Services*
Robert R. Wolf, *Director, Office of Consumer Affairs and Information Services*
John D. Adkins, *Director, Office of Information Systems Management*
Thomas J. Whalen, *Deputy Director*
Matthew R. Schneider, *Director of Legislative Affairs*
James A. Clarkson, III, *Director of Regional Office Operations*
Phillip H. Savage, *Director of Equal Employment Opportunity*

Regional and Branch Offices

Regional Offices and Administrators

Region 1. New York, New Jersey.—**Donald N. Malawsky,** Room 1102, 26 Federal Plaza, New York, New York 10278.

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

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

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

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

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

Region 7. California, Nevada, Arizona, Hawaii, Guam.—**Michael J. Stewart,** Suite 1710, 10960 Wilshire Blvd., Los Angeles, California 90024.

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

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

Branch Offices

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

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

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

Philadelphia, Pennsylvania 19106.—Federal Building, Room 2204, 600 Arch Street.

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

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

Biographies of Commissioners

John S.R. Shad, *Chairman*

John Shad was sworn in by Vice President Bush as the 22nd Chairman of the SEC on May 6, 1981. He is currently serving a term which expires on June 5, 1986.

Mr. Shad was previously Vice Chairman of the board of E.F. Hutton Group. In 1963 he joined Hutton and initiated their investment banking activities, which grew rapidly under his direction into a multi-billion dollar annual principal amount of corporate financings and mergers.

In May, 1981 he resigned from Hutton and the boards of six other New York Stock Exchange listed corporations to join the Commission.

He was born in Utah. While attending college, he worked nights as a riveter in an aircraft plant. During World War II, he served in the Pacific and China as a naval officer.

He graduated, cum laude, from the University of Southern California in 1947, received an M.B.A. from Harvard Business School in 1949, and an LL.B. from New York University Law School in 1959. He is a member of Beta Gamma Sigma and Phi Kappa Phi (academic honoraries); the author of articles on corporate finance and mergers; and has taught Investment Banking at the New York University Graduate School of Business Administration.

He began his business career in New York City in 1949 as a security analyst. He obtained his law degree while working at Shearson, Hammill & Co., where he became a partner and also initiated that firm's investment banking activities, prior to joining Hutton.

Philip A. Loomis, Jr.

Philip A. Loomis, Jr., took the oath of office as Commissioner on August 13, 1971. His current five year term expires June 5, 1984. A career employee of the Securities and Exchange Commission, Mr. Loomis first served as a consultant to the staff in 1954. Prior to his appointment to the Commission he was General Counsel.

After a short period as a consultant, Mr. Loomis was appointed Associate Director of the Division of Trading and Exchanges in 1955, and later that year he was named Director. In 1963 he was named General Counsel to the Commission and served in that capacity until his appointment to the Commission in 1971. During Mr. Loomis' service as a member of the staff, he made major contributions towards the passage of important securities legislation, principally the 1960 amendments to the Investment Advisers Act of 1940, the Securities Act Amendments of 1964 and the Securities Protection Act of 1970.

In the course of his career at the Commission, Mr. Loomis has been cited often for distinguished service. In 1964 he received the National Civil Service League Career Award, followed in 1966 by the SEC Distinguished Service Award and in 1971 the Federal Bar Association's Justice Tom C. Clark Award.

Mr. Loomis was born in Colorado Springs, Colorado, June 11, 1915. He received his A.B. degree with Highest Honors from Princeton University in 1938 and his LL.B. degree cum laude from Yale Law School in 1941. While there he served on the editorial board of the Yale Law Journal.

Mr. Loomis was admitted to the California Bar in 1941 and the Supreme Court Bar in 1955. He practiced law with the Los Angeles firm of O'Melveny & Myers in 1941 and from 1946 to 1954. From 1942 to 1944 he was an attorney with the Office of Price Administration and served as Associate Counsel for Northrop Aircraft, Inc. (now Northrop Corporation) from 1944 to 1946.

John R. Evans

John R. Evans was sworn in as a member of the Commission on March 3, 1973, filling out the unexpired term of James J. Needham. His current five year term expires June 5, 1983. Mr. Evans was a member of the Professional Staff of the U.S. Senate Committee on Banking, Housing and Urban Affairs from June 1971 to March 1973, and served as minority staff director from July 1964 to June 1971.

Mr. Evans was born in Bisbee, Arizona on June 1, 1932. He received his B.S. degree in Economics in 1957 and his M.S. degree in Economics and his Secondary Teaching Certificate in Business in 1959 from the University of Utah.

Mr. Evans came to Washington in February 1963 as Economics Assistant to Senator Wallace F. Bennett of Utah. Prior to that he had been a Research Assistant and later Research Analyst at the Bureau of Economics and Business Research at the University of Utah, where he was also an Instructor of Economics during 1962 and 1963.

Barbara S. Thomas

Barbara S. Thomas was sworn in as a member of the Commission in a White House ceremony held October 21, 1980. The 58th person appointed to the Commission, she is now serving for the term of office expiring June 5, 1985.

A corporate and securities lawyer, Ms. Thomas became a partner of Kaye, Scholer, Fierman, Hays & Handler, a New York law firm, in January 1978. She had been an associate of the firm since 1973 and an associate of the Paul, Weiss, Rifkind, Wharton & Garrison firm, also of New York, from September 1969 to April 1973.

Ms. Thomas is a member of the Securities Regulation Committee of the New York State Bar Association, the Committee on Federal Regulation of Securities of the American Bar Association, and the International Bar Association. In addition, prior to joining the Commission, Ms. Thomas was Chairman of the Corporation Law Committee of the Association of the Bar of the City of New York. She is also a member of the Board of Overseers of the Wharton School of Finance at the University of Pennsylvania, the University of Pennsylvania Alumni Council on Admissions, the Economic Club of New York, and the Financial Women's Association of New York. She also serves as a Trustee for the University of Pennsylvania Alumni Association of New York City.

Ms. Thomas was born in New York City on December 28, 1946. She is a graduate of New York University School of Law, J.D. 1969, cum laude, where she placed second in a class of 323, was a member of the Order of the Coif, and was an editor of the *New York University Law Review*. A John Norton Pomeroy Scholar, she received the Jefferson Davis Prize in Public Law and American Jurisprudence Prizes for Excellence in 15 (out of 28) subjects, and was on the Dean's List every semester. In 1966, she earned a B.A., cum laude, in history from the University of Pennsylvania.

Bevis Longstreth

Bevis Longstreth took the oath of office as the 60th member of the Securities and Exchange Commission on July 29, 1981, filling a term which expires on June 5, 1982.

Since 1962, Mr. Longstreth has practiced law with the New York firm of Debevoise & Plimpton. He was admitted to partnership in that firm in 1970. He specializes in corporate securities and real estate finance law, bankruptcy and business work-outs and not-for-profit law.

Mr. Longstreth was a Lecturer at Columbia Law School from 1975 until his appointment to the Commission, teaching a seminar on the corporation in modern society. He has lectured on various securities and corporate law topics at the Practising Law Institute and other seminars and has written numerous articles on business-related subjects. Mr. Longstreth has served on the boards of a number of charitable and educational organizations active in the New York area.

Mr. Longstreth was born in New York City in 1934 and grew up in Princeton, New Jersey. He graduated from Princeton University in 1956 (B.S.E.) and from Harvard Law School in 1961 (LL.B). From 1956 to 1958 he served in the U.S. Marine Corps.

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Regulation of the Securities Markets

Securities Markets, Facilities and Trading

The National Market System—During the past fiscal year, continued progress was made in the development of a national market system. Most significantly, the Commission had the opportunity to observe the first full year of trading pursuant to Rule 19c-3 under the Securities Exchange Act of 1934 (Exchange Act), which precludes the application of off-board trading restrictions to certain securities that became exchange-listed after April 26, 1979, and issued its first monitoring report on trading under that rule. In addition, significant progress was made during the year in establishing an automated trading link between the exchange and over-the counter (OTC) markets in securities subject to Rule 19c-3.

Rule 19c-3 became effective on July 18, 1980.[1] Its effect is generally to allow broker-dealers who are members of exchanges to deal as principal in the OTC market in securities which became listed on an exchange after April 29, 1979. On August 25, 1981, the Commission issued its first monitoring report on the operation and effects of the Rule.[2] Among other things, that report examined the characteristics of trading under Rule 19c-3, the surveillance of that trading by the National Association of Securities Dealers, Inc. (NASD), and the impact, to date, of Rule 19c-3 on market quality. The report indicated that there had been limited OTC trading under Rule 19c-3, and that, while the results of that trading were inconclusive, the rule did not appear to be having an adverse effect on the quality of markets for securities subject to the rule. The report concluded that a more significant analysis of trading under Rule 19c-3 would have to await implementation of an automated link between the exchange and OTC markets for trading securities subject to Rule 19c-3.

The Commission has frequently attempted, over the past two years, to encourage the industry to voluntarily develop a linkage between the OTC and exchange markets. On April 21, 1981, the Commission issued an order which requires establishment of an automated link between the Intermarket Trading System (ITS), a trading system operated jointly by certain national securities exchanges,[3] and the NASD's Computer Assisted Execution System (CAES). The linkage, which will be applicable to trading in securities subject to Rule 19c-3, must be in place by March 1, 1982.[4] In issuing the order, the Commission stated that the interface will permit market professionals trading in Rule 19c-3 securities to route orders efficiently between exchange and OTC markets, and will therefore significantly further the goals of a national market system. At the close of the fiscal year, the ITS participants and the NASD were continuing their work in preparation for the interface.

Previously, on February 10, 1981, the Commission approved the admission of the Cincinnati Stock Exchange (CSE) to membership in the ITS and the establishment of a manual link between the CSE's automated National Securities Trading System and the ITS.[5] That interface, as well as the ITS-NASD linkage, will increase the opportunities for brokers to secure the best execution of their customers' orders and will enhance marketmaker competition and efficient pricing. In particular, the Commission believes that these two interfaces are critical to achieving the Commission's goals of eliminating "trade-throughs"

(which are orders executed in one market at a price inferior to the quotation being displayed in another market) and ensuring nationwide price protection of limit orders in securities traded through ITS.

In a further effort to eliminate the adverse effects of trade-throughs, on April 9, 1981, the Commission approved proposed rule changes submitted by the ITS participants which addressed the problems created by trade-throughs.[6] Those rules require ITS members to avoid initiating a trade-through in an ITS eligible security. In the event that a trade-through with respect to an agency order does occur, and the aggrieved party makes a timely complaint, it is the responsibility of the party who initiated the trade-through to take corrective action in accordance with the provisions of the rules. In addition, by the close of the fiscal year, the ITS participants had reached agreement, in principle, on rules which would provide price protection to limit orders in securities traded through the ITS. The Commission expects that those rules will be implemented in the forthcoming fiscal year. The Commission believes that the trade-through rules and the limit order protection rules are significant steps in achieving the national market system envisioned by Congress in the Securities Act Amendments of 1975 (1975 Amendments).

The Commission also took an initial step toward including certain securities traded solely in the OTC market in national market system facilities. On February 17, 1981, the Commission adopted Rule 11Aa2-1 under the Exchange Act which provides for the designation of certain securities traded in the OTC market as "national market system securities".[7] The primary effects of such designation at the present time are the requirements that transactions in such securities be reported in a real time system and that quotations for such securities be firm as to the quoted price and size. Under the rule, approximately 50 of the most actively traded OTC stocks will be designated as national market system securities on March 1, 1982. Approximately 650 additional OTC stocks will be eligible for such designation, upon application of the issuer, beginning on August 1, 1982. Following the adoption of Rule 11Aa2-1, on July 24, 1981, the NASD filed a rulemaking petition with the Commission, proposing a number of amendments which, among other things, would increase to approximately 1,450 the number of securities eligible for designation upon issuer application. In proposing those amendments, the NASD indicated that it had concluded that the designation of national market system securities will have a substantial and long lasting impact on the OTC market. The NASD also believes such designation, and the accompanying dissemination of last sale information, will be highly desired by many NASDAQ companies. (After the close of the fiscal year, on October 1, 1981, the Commission published the NASD's proposals for public comment.[8]

On February 26, 1981, the Commission adopted Rule 11Aa3-2 under the Exchange Act, establishing procedures and requirements for joint industry plans in connection with planning, developing, operating or regulating a national market system or its facilities.[9] Rule 11Aa3-2 specifies procedures for filing and amending national market system plans (including amendments initiated by the Commission) and establishes certain minimum procedural and substantive requirements applicable to such plans.

On February 27, 1981, the Commission proposed amendments to Rule 11Ac1-1 under the Exchange Act governing the collection and dissemination of quotation information.[10] The proposed amendments would, under certain circumstances, permit regional exchange specialists and third market makers to disseminate quotations on a voluntary, rather than mandatory basis. In proposing the amendments, the Commission stated its preliminary belief that the amendments would eliminate unnecessary regulatory burdens on secondary market makers and enchance the

accuracy and reliability of quotation information. At the close of the fiscal year, the Commission was analyzing the comments received in response to the proposed amendments to Rule 11Ac1-1, and was considering further action with respect to it.

Monitoring Commission Rules—As discussed earlier in this section, the Commission's Directorate of Economic and Policy Analysis has developed and implemented a program to monitor the operation and effects of Rule 19c-3 under the Exchange Act.[11] (The rule precludes application of off-board trading restrictions to securities which become exchange-listed after April 26, 1979.) The first monitoring report prepared by the Directorate and the Division of Market Regulation, published during the fiscal year, focused upon major areas of concern to the industry and the Commission.[12] Specifically, the report discussed, in part, the volume trends in securities eligible for trading pursuant to the rule, the characteristics of order flow in those securities, and the impact of the rule on market quality and execution quality.

In conjunction with the Commission's ongoing program to monitor the national market system facilities, the Directorate published in February 1981, "A Monitoring Report on the Operation of the Intermarket Trading System," and in May 1981, "A Monitoring Report on the Operation of the Cincinnati Stock Exchange National Securities Trading System." These reports were designed to provide the Commission, and the securities industry, with an analysis of the impact of the Intermarket Trading System and the National Securities Trading System on, the routing of order flow, intermarket competition, and the quality of markets.

National System for Clearance and Settlement of Securities Transactions—During the fiscal year, substantial progress was made in the Commission's effort to foster development of a national system for clearance and settlement of securities transactions. The staff completed its review of the two issues remanded by the United States Court of Appeals for the District of Columbia Circuit in *Bradford National Clearing Corporation v. Securities and Exchange Commission*.[13] In that decision, the court affirmed the Commission's decision granting the application of National Securities Clearing Corporation (NSCC) for registration as a clearing agency. The Commission has viewed that registration as a key step in achieving a national clearance and settlement system. The two issues remanded by the court for further consideration by the Commission were: (a) NSCC's selection of Securities Industry Automation Corporation (SIAC) as the facilities manager of its consolidated system without competitive bidding; and (b) NSCC's use of geographic price mutualization (GPM) GPM is the practice of charging all participants the same fee regardless of whether the participants deal with the clearing agency at its main facility or through a branch office

After extensive review of comment letters, reports and other available information, the Commission affirmed in substance both its decision authorizing NSCC to use GPM and NSCC's selection of SIAC as facilities manager without the use of competitive bidding [14]

The Commission completed its review of and approved a proposed rule change submitted by NSCC that would establish automated comparison and clearance systems for municipal securities.[15] The approved system (a) enables municipal securities brokers and dealers to compare transactions through a central entity rather than having to relate directly to each broker and dealer with whom they execute transactions; (b) increases standardization in the processing of transactions in municipal securities; and (c) provides the settlement and financial benefits that accrue from the netting of transactions in the same security. On the basis of a request from Bradford Securities Processing Services, Inc. (BSPS), the Commission also terminated the authority of BSPS to operate an auto-

mated comparison and clearance system for municipal securities.[16] Finally, the Commission reviewed and approved a proposed rule change by the Depository Trust Company that established depository facilities for municipal bonds, including municipal bonds in bearer form.[17]

Progress toward an increasingly comprehensive and efficient national system was also evidenced in other areas. For example, during the fiscal year, the Commission completed a review of and approved a proposed rule change by The Options Clearing Corporation that established systems for the issuance, clearance and settlement of options on Government National Mortgage Association Securities (GNMAS).[18] Also, Pacific Depository Trust Company enhanced its institutional delivery system to provide for the delivery and acceptance of trade confirmations among brokers and their institutional customers through the depository.

Options Trading—During the fiscal year, the Commission took several actions designed to reduce the regulation of standardized options and permit the orderly expansion of options trading. As previously reported, on March 26, 1980, the Commission terminated the moratorium on expansion of the standardized options markets, which had been in effect since July 15, 1977. Simultaneously, the Commission announced its determination to begin to consider on a case-by-case basis expansionary self-regulatory organization rule proposals relating to options.[19] In this connection, on October 22, 1980, the Commission approved three sets of proposed rule changes submitted by the options exchanges and the NASD to modify or eliminate certain regulations pertaining to options trading. First, the Commission approved proposals by the options exchanges and NASD to rescind their "restricted options" rules, which, subject to certain enumerated exceptions, generally prohibited opening transactions in deep-out-of-the-money options (*i.e.*, options whose exercise prices are substantially away from the current market price of the underlying security).[20] Second, the Commission approved proposals by the options exchange to increase position and exercise limits from 1,000 to 2,000 contracts.[21] Finally, the Commission approved modifications of options exchange policies which enabled the exchanges to reduce the intervals between options exercise prices and which gave the exchanges additional flexibility with respect to the introduction of new options series.[22]

Rule changes proposed by certain of the options exchanges providing still further flexibility in the introduction of new options series were approved by the Commission on September 15, 1981.[23] During the fiscal year the Commission also approved rule changes eliminating the requirement that exchange member firms automatically submit monthly reports of uncovered short options positions, requiring instead that such reports be submitted only upon request.[24]

The Commission has approved, or is actively considering, exchange proposals to trade a variety of new options products. On February 26, 1981, the Commission approved a proposed rule change of the Chicago Board Options Exchange, Inc. (CBOE) to trade standardized options on mortgage pass-through certificates guaranteed by the Government National Mortgage Association (GNMAs).[25] The proposal was approved after the Commission solicited comments[26] and received the views of more than 80 persons, including GNMA, the Treasury Department, the Federal Reserve Board and other interested government agencies. Commentators generally were strongly supportive of the proposal, many stating that the availability of GNMA options would facilitate capital formation in the housing and related financial markets.[27] The Commission's approval order, however, has been challenged in court by the Chicago Board of Trade, which contends that the Commission lacked the authority to approve the CBOE proposal.[28] At the end of the fiscal year, no decision had been

reached on the petition for review of the Commission order.

In addition to the CBOE proposal, the Commission has received a proposal from the New York Stock Exchange (NYSE) to trade options on GNMAs.[29] The Commission also has received proposal from the American Stock Exchange (Amex), CBOE and NYSE to trade options on various United States Treasury securities,[30] and from the Philadelphia Stock Exchange (Phlx) to trade options on certain foreign currencies.[32] These proposals have been published for public comment[32] and at the close of the fiscal year were under review. In addition, the Commission has received proposals from the Pacific Stock Exchange (PSE) and Amex to trade options on gold currency and on gold and silver bullion value demand promissory notes, respectively.[33]

Finally, Trans Canada Options, Inc. (TCO), which issues and performs clearing and related functions with respect to standardized options traded on the Montreal and Toronto Stock Exchanges, is seeking to register those options with the Commission for sale in the United States.[34] At the end of the fiscal year, the Commission was reviewing the TCO registration statement to assure that it adequately disclosed the terms, risks and other characteristics of TCO options and the trading of TCO options. (On November 2, 1981, the Commission declared the registration statement effective).

Option Transactions During Underwritten Offerings—On March 6, 1981, the Commission authorized issuance of two staff letters setting forth the interpretative and enforcement positions of the Divisions of Market Regulation and Corporation Finance regarding the application of certain provisions of the Federal securities laws to transactions involving exchange-traded options by participants in an underwriting of the security underlying such options.[35] The letters addressed the application to these transactions of Sections 2(11) and 5 of the Securities Act of 1933 (Securities Act) and Section 10(b) of the Exchange Act, and Rule 10b-6 thereunder.

Issuer Repurchases—On October 17, 1980, the Commission published a release asking for public comment on a revised version of proposed Rule 13e-2.[36] If adopted, proposed Rule 13e-2 would regulate purchases of an issuer's securities by or on behalf of an issuer and certain other persons. As proposed, the rule would generally limit the time, price and volume of such purchases. It also would impose disclosure requirements that would pertain to repurchase programs of substantial size. In addition, the rule subjects issuers and certain other persons to a general antifraud provision in connection with their purchases of an issuer's common or preferred stock. The proposed rule is designed to assure that the trading markets are free from control and domination by the issuer and certain other persons. It had previously been published for comment in 1970 and 1973.

Short Tendering of Securities—On August 21, 1981, the Commission withdrew its previously proposed amendments to Rule 10b-4 under the Exchange Act. The rule was adopted in 1968 for the purpose of prohibiting a practice known as "short tendering" (i.e., tendering more shares than a person owns in order to avoid or reduce the risk of *pro rata* acceptance in tender offers for less than all the outstanding securities of a class or series).[37] The Commission also announced that it was requesting comment on two alternative proposals. The first would amend the rule to (a) impose additional ownership requirements for persons tendering securities in response to tender offers; (b) clarify the application of existing provisions of the Rule; and (c) limit the type of offers to which the Rule applies. The alternative proposal would deregulate "short-tendering" entirely.

Market Manipulation—On February 17, 1981, the Commission announced that it had adopted amendments to Rule 10b-6 under the Exchange Act,[38] which generally prohibits trading by persons interested in a distribution of securities. These amend-

ments except from the application of the rule, distributions of securities pursuant to employee or shareholder plans sponsored by an issuer or its subsidiaries. These distributions generally do not present the potential for manipulative abuse that the rule was designed to prohibit.

Regulation of Brokers, Dealers, Municipal Securities Dealers and Transfer Agents

Regulatory Burdens on Small Broker-Dealers—The Commission is aware of the need to assess and balance the costs and competitive impact of its regulations on small brokers and dealers. Accordingly, in adopting new rules and amending others, the Commission carefully weighs the investor protection benefits and other statutory goals against the burdens which will be imposed upon competition. Moreover, the Commission strives to tailor its regulatory requirements to particular business practices so as to avoid imposing unnecessary regulatory burdens. These efforts are particularly beneficial to the small, more specialized firms.

In addition, on September 19, 1980, the Regulatory Flexibility Act (RFA) was adopted by Congress.[39] The RFA amended the Administrative Procedure Act to require that agencies examine the impact of proposed rules on small entities, as defined in the RFA, and consider alternative requirements that could accomplish the stated objectives of the applicable statutes. Although the RFA defines the term "small entity" by reference to industry size standards established by the Small Business Administration (SBA), Congress recognized that those size standards may be inappropriate in different regulatory contexts. It authorized agencies to adopt, after public comment and consultation with the SBA, different definitions for affected industries. In that regard, the Commission, on March 30, 1981, proposed for comment definitions of the terms "small business" and "small business organization" as those terms relate to organizations and entities that are subject to regulation by the Commission.[40]

Broker-Dealer Reporting Requirements—On February 11, 1981, the Commission adopted amendments to Part I of Form X-17A-5, the Financial and Operational Combined Uniform Single Report (FOCUS Report) required to be filed by brokers and dealers, and related Rule 17a-5 under the Exchange Act.[41] The amendments to Part I of the FOCUS Report are designed to reorganize the form so that it follows a more logical progression from an accounting and operational standpoint. In addition, the Commission has issued instructions useful to completion of Part I. These changes should enable the Commission to more effectively and efficiently monitor the financial condition of brokers and dealers and also to reduce the overall reporting burden on the brokerage community.

Using FOCUS data submitted by brokers and dealers, the Directorate of Economic and Policy Analysis produced last year its third annual *Staff Report on the Securities Industry in 1980*. The report's purpose is to provide the Commission with a comprehensive factual basis on which to ascertain the effects of regulatory changes on the industry and investors. This report analyzes the financial results of the securities industry, and centers on the performance and financial structure of various industry segments. An examination of changes in the macro economy and their impact on the securities industry in 1980 is presented along with a comprehensive analysis of the securities industry as a whole. Discussions of discount broker-dealers are included in addition to analyses of securities firms classified according to type of business conducted and exchange membership. Also presented is a section on recent industry trends and developments which contains information on concentration, diversification and commission rate trends.

On August 31, 1981, the Commission proposed for comment a new rule under the Exchange Act, Rule 17a-8,[42] that would

incorporate by reference existing Treasury regulations promulgated under the Currency and Foreign Transactions Act of 1970. These regulations, among other things, require brokers and dealers to make reports and maintain records on domestic currency transactions of more than $10,000 and the import and export of currency and monetary instruments of $5,000 or more. The Currency Act and the Treasury regulations are designed to assist in discovering violations of Federal laws that are difficult to detect because of various practices, including the use of foreign bank accounts and the "laundering" of funds through domestic businesses. The Treasury regulations delegate to the Commission, with respect to brokers and dealers, the responsibility for assuring compliance. The proposed rule is the most appropriate means of enabling the Commission and the self-regulatory organizations (SROs) to enforce these regulations. Since brokers and dealers already must comply with the Treasury regulations, it would not impose any new regulatory burdens.

Financial Responsibility Requirements—The uniform net capital rule[43] is an integral part of the Commission's financial responsibility program designed to ensure that brokers and dealers have on hand at all times sufficient amounts of liquid assets to promptly satisfy the claims of customers. The rule, in essence, requires brokers and dealers to maintain specified levels of net capital in relation to their aggregate indebtedness. In the case of brokers or dealers electing an alternative method of computing net capital, it would be in relation to aggregate debit items computed in accordance with the reserve formula under the Commission's customer protection rule. Since its inception in 1975,[44] the uniform net capital rule has continually been modified in response to changing industry conditions and the regulatory environment. In this regard, the Commission, on October 9, 1980, proposed for comment revisions to the rule which will substantially reduce capital requirements for those brokers and dealers electing the alternative method of computing net capital.[45] These proposed revisions include a lowering of the ratio of required net capital to aggregate debit items computed in accordance with the reserve formula under the Commission's customer protection rule, as well as a reduction in the minimum net capital requirement under the alternative method.

The Commission also proposed to eliminate certain items from the reserve formula which would serve to further reduce the amount of net capital required under the alternative method. In addition, the Commission solicited comment on a broad range of questions in an effort to initiate a dialogue with the securities industry which might lead to a refashioning or eventual elimination of certain of the financial responsibility rules.

Also, on October 9, 1980, the Commission proposed for comment revisions to the uniform net capital rule which would increase the percentage deductions from net worth ("haircuts") for certain debt securities held in the proprietary or other accounts of the broker or dealer.[46] This proposal is in response to the recent sharp fluctuation in the market value of these securities which consistently have exceeded the "haircuts" prescribed under the rule. The Commission, however, also is soliciting comments on whether and to what extent these deductions should be reduced by hedging positions in financial futures or securities of a different issuer.

In an attempt to reduce the burden of computing net capital on brokers and dealers who also are registered with the Commodity Futures Trading Commission (CFTC), as futures commissions merchants, on July 9, 1981 the Commission adopted amendments to Appendix B of the uniform net capital rule relating to capital charges taken in connection with commodity transactions.[47] The amendments to Appendix B were adopted in response to the "silver crisis" of 1980, and conform the Commission's rule to certain recent

amendments adopted by the CFTC to its net rule. Basically, the amendments require brokers and dealers to take capital charges for undermargined customer commodity accounts or debit/deficit commodity accounts sooner than under the old provision. In addition, the amendments require that non-cash items used to collateralize a commodity related receivable or used to margin, guarantee or secure a commodity futures account be valued at a substantial discount from their market value.

Registration Requirements—Form U-4, the Uniform Application for Securities and Commodities Industry Registration, is the personnel form that the Commission requires a registered broker or dealer who is not a member of a registered national securities association to file on behalf of its associated persons. Form U-4 is also accepted as a uniform application form for associated persons by 46 states, all of the national securities exchanges and the NASD. On December 17, 1980, the Commission adopted previously proposed revisions to Form U-4[48]. The revisions included changes in format to improve clarity and to eliminate duplicative information. In addition, new questions have been added in order to include information required by the 1975 Amendments and Item 10(a) of Form BD.

Self-Underwriting by SECO Broker-Dealers—On August 20, 1981 the Commission proposed to amend Rule 15b10-9, the so-called "self-underwriting" rule, which prohibits a broker-dealer that is not a member of a registered securities association (SECO broker-dealer) from underwriting or otherwise participating in any public offering of its own securities or the securities of an affiliate unless several conditions are met.[49] The proposed amendment would create a conditional exception to that rule for SECO broker-dealers that limit their business to participation in the offer and sale of securities issued by an affiliate that is not a broker-dealer. The proposed amendment would essentially codify the disclosure conditions imposed by the Commission in granting exemptive requests to certain SECO broker-dealers.

Broker-Dealer Examinations—The Division of Market Regulation's Branch of Broker-Dealer Examinations has primary responsibility for planning and coordinating the Commission's broker-dealer examination programs. During the fiscal year, the Commission's regional offices, under the direction of the branch, conducted 202 routine SECO broker-dealer examinations, 716 oversight or cause examinations of broker-dealers, and 457 post-effective conferences with newly registered broker-dealers. The regional offices also reviewed, within 15 days of receipt, approximately 7,800 financial reports filed by broker-dealers with the regional offices.

During the fiscal year, the branch initiated formal periodic reviews of each regional office's broker-dealer examinations program. These reviews resulted in improved program planning and effectiveness, and made it possible to identify potential regulatory problems quickly and respond accordingly. In addition, the branch directed and participated in an examination of a major wirehouse which was conducted by the staff of several regional offices. This examination established the feasibility of such interregional examinations of broker-dealers. The branch also initiated a joint regional office and Division pilot project whereby examiners can be provided on-line access to historical price and volume data on all NASDAQ listed and several thousand over-the-counter securities.

In addition, two conferences were conducted for senior regional office regulatory staffs in order to discuss various regulatory developments and problems. These conferences resulted in a number of improvements in the Commission's examination program.

Two, two-week training programs for new and senior securities compliance examiners were also held. The program for new examiners covered an overview of the Exchange Act, methods for examining a broker-dealer's records (particularly for

compliance with net capital customer protection and sales practice rules). The program for senior examiners concentrated on examination techniques for the in-depth review of broker-dealer sales practices.

Municipal Securities Brokers and Dealers—Although the Commission did not adopt any rules or regulations with respect to municipal securities dealers, amendments to Form MSD, the form used by municipal securities dealers that are banks or separately identifiable departments or divisions of banks, became effective during the year. These amendments conform a definition in Form MSD to a definition in a rule of the Municipal Securities Rulemaking Board (MSRB), and allow, under certain circumstances, a reduction in the number of different forms required to be filed by bank municipal securities dealers.

The Commission also continued to consult with the bank regulatory agencies with respect to bank municipal securities activities, and in addition, the Commission staff issued several no-action and interpretative letters with respect to securities activities by municipal securities brokers and dealers.

Lost and Stolen Securities—The Lost and Stolen Securities Program, which includes nearly 18,000 securities organizations, Federally-insured banks, and non-bank transfer agents as participants, uses a data bank to monitor missing securities. Participants use the system to validate the authenticity and ownership of the certificates coming into their possession. On April 7, 1981, the Commission released a staff report containing comprehensive general statistical information regarding the operation of the Program for calendar year 1980. As stated in that report, the Securities Information Center, the Commission's designee to operate and maintain the computerized data base of missing, lost, counterfeit and stolen securities, received reports of loss, theft or counterfeiting concerning approximately 290,000 certificates valued at approximately $1 2 billion. As of December 31, 1980, the aggregate net value of the data base since the inception of the program was approximately $3.6 billion.

Securities Investor Protection Corporation—The Securities Investor Protection Act of 1970 (SIPA)[50] provides certain protections to customers of brokers and dealers that fail to meet their obligations to their customers. SIPA is administered principally by the Securities Investor Protection Corporation (SIPC), a non-profit membership corporation, the members of which are, with limited exceptions, registered brokers and dealers. SIPC is funded through assessments on its members, although it may borrow up to $1 billion from the United States Treasury under certain emergency conditions.

During fiscal year 1981, Congress adopted amendments to SIPA[51] that increased the level of customer protection provided by SIPA to $500,000 (from the previous level of $100,000), not more than $100,000 (previously $40,000) of which may be for cash claims.

Transfer Agents—On December 30, 1980, the Commission announced the adoption of amendments to Rule 17Ac2-1 under the Exchange Act and Form TA-1, the uniform transfer agent form.[52] These amendments eliminated the requirement that a transfer agent registered with the Commission file annual updates to the information contained in Schedule B of Form TA-1. Schedule B requires registered transfer agents to list, among other things, securities for which they performed transfer agent functions and the capacities in which they acted for those securities. The Commission determined that the cost to collect and update that information by transfer agents and the cost to process it by the Commission outweighed the regulatory benefit of that information to the Commission.

Oversight of Self-Regulatory Organizations

Surveillance and Compliance Inspections—During the fiscal year, the Commis-

sion staff continued its comprehensive inspection program of the Nation's securities markets. The purpose of this program is to evaluate, on an ongoing basis, the adequacy of market surveillance, compliance, disciplinary and operational programs of all the national securities exchanges and the NASD.

A total of 12 inspections focusing on market surveillance were conducted during the fiscal year. These inspections included an overall review of the equity trading programs of the BSE, MSE, the NASDAQ trading program of the NASD, the PSE and the Phlx. The staff also inspected the NYSE and Amex programs for evaluation of specialist performance and the disciplinary programs of these exchanges. In addition, the staff continued to monitor the programs of the NYSE in developing a complete audit trail for stock trading on its floor. Finally, the staff conducted a complete review of options trading programs at the PSE and the Phlx.

A total of seven inspections focusing on SRO compliance programs were conducted in the fiscal year. These inspections encompassed reviews of such program areas as routine and cause examinations, financial surveillance, and discipline of broker-dealers by SROs.

The Commission's inspection program disclosed progress at several of the SROs in addressing surveillance deficiencies found during earlier inspections. Factors which contributed to enhanced market surveillance programs included additional staffing, upgraded or refined computerized surveillance capacity, and better procedures among the SROs for exchanging surveillance information. Nevertheless, the inspection program disclosed some significant surveillance deficiencies at certain of the SROs. These deficiencies were attributable to such factors as inadequate trading information and data gathering systems to detect specific types of trading violations and, in some instances, the failure to optimize the use of existing trading information for surveillance purposes. Finally, the inspection program disclosed laxity in the prosecution of some categories of trading violations at certain of the SROs. The SROs were asked to address these problems and throughout the fiscal year significant corrective actions were taken by several of them.

In February 1981, the staff completed inspections of the stock and options trading programs of the Phlx. These inspections disclosed various deficiencies in the administration and conduct of surveillance activities for both stock and options trading. In July 1981, the Phlx submitted a detailed plan to remedy each of the concerns raised by these inspections. The Commission staff has planned a series of inspections in fiscal year 1982 to monitor the enhancement of surveillance programs at the Phlx.

In August 1981, the staff completed a comprehensive inspection of the NASD's market surveillance and disciplinary programs respecting OTC trading in stocks quoted in the NASDAQ system. This inspection disclosed certain systemic weaknesses that exist because OTC trading in NASDAQ securities takes place without the reporting of individual trades in such securities. This situation will change somewhat during the next fiscal year with the commencement of last-sale transaction reporting for approximately the 50 most active NASDAQ stocks. The staffs of the Commission and the NASD will be meeting to discuss implementation of improved surveillance procedures as a result of last-sale reporting and other automated enhancements proposed by the NASD that will expand the scope of trading information readily available for surveillance programs.

Inspections conducted during the previous fiscal year disclosed that a complete transaction audit trail was essential for the NYSE to conduct adequate surveillance of stock trading on its floor. During fiscal year 1981, the Commission staff conducted a series of inspections to monitor the NYSE's efforts to develop data gathering systems needed to create an acceptable transaction audit trail. The NYSE

expects to implement a pilot program providing a complete audit trail in a limited number of stocks by December 1981. During fiscal year 1982, the Commission staff will monitor expansion of the pilot program to additional stocks as well as the refinement of surveillance procedures made possible by the capture of additional trading information through the pilot program.

In fiscal year 1980, the Commission instituted an administrative proceeding against the BSE for failure to develop and employ adequate surveillance procedures to detect certain trading violations by BSE specialists. That matter was settled with the BSE undertaking to implement corrective procedures. An inspection conducted in March 1981 verified the implementation of those procedures.

At the end of the fiscal year, inspections that were in progress included the disciplinary programs of the Amex and NYSE as well as an inspection of the CBOE's market surveillance and disciplinary programs.

Since September 1980, the staff has conducted inspections of the operations of NASD District Offices located in New York City, New Orleans and Denver. The focus of these inspections was the overall quality of the NASD's programs to insure compliance by its member firms with the securities laws. Specifically, the staff reviewed all NASD District programs, including not only the District Offices' routine examination programs, but also their programs for (a) investigating customer complaints and terminations of registered representives from employment for cause; (b) monitoring the financial condition of member firms; (c) processing Regulation T extension requests; and (d) disciplining member firms. In these inspections, the Commission's staff found that those offices generally appeared to be executing their routine examination programs with reasonable thoroughness. However, the staff identified several areas in which remedial attention was needed to cure problems in the examination program.

The staff also conducted an inspection of the CBOE, which was similar in scope to the NASD District Office inspections. The staff found that the CBOE had made a commendable commitment of its resources to its compliance programs, although some areas in need of improvement were noted.

During the fiscal year, the staff conducted an inspection in which it reviewed the NASD's examination procedures for enforcing compliance with its self-underwriting rule proposal. The staff also conducted an inspection of the NYSE's financial surveillance program for the purpose of assessing the impact of certain proposed amendments to the net capital rule.

Finally, in fiscal year 1981, the staff concluded a comprehensive compliance inspection of the Phlx. In that inspection, the staff found substantial deficiencies in the Phlx's financial surveillance, disciplinary and routine and cause examination programs. Following extensive consultation with the Commission, the Phlx determined to reallocate its upstairs member firm compliance responsibilities to the NASD, as have the other regional stock exchanges, in order to concentrate resources on its remaining regulatory responsibilities, particularly market surveillance

At the end of the fiscal year, an inspection of the NYSE's cause examination program was still in progress.

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

The Moss project was initiated in August 1978 as a two-part study and design effort. The study examined the market surveillance capabilities of the Commission and the SROs. It concluded that, in view of significant developments in the complexity, structure and trading volume in the securities markets, and in view of the increasingly sophisticated product mix of the securities

markets resulting from the introduction of standardized options trading, the Commission must improve its oversight and surveillance capabilities. In its review of the project in 1980, Congress reached a similar conclusion.[53]

In order to evaluate the feasibility of building a system such as MOSS, the Commission initiated a pilot project of portions of the proposed system in New York City in early 1980. Throughout 1980 and the early part of 1981, a series of computer algorithms was designed to detect unusual trading activity. These algorithms were tested and refined by monitoring actual trading in a small number of stocks and options.

In early 1981, the staff began the process of converting the computer programs of the pilot project in order to transfer the system to a computer at the Commission's headquarters in Washington, D.C. The transfer was completed in July.

Consistent with its commitment to work closely with the SROs in the development of MOSS, Chairman Shad invited the presidents and senior staff members of the three largest exchanges involved in the MOSS pilot project (the Amex, CBOE, and NYSE) to attend a series of meetings with Commission staff members in August to discuss the possibility of the SROs developing an alternative to MOSS for the surveillance of inter-market trading activity. As an outcome of these meetings, the SROs submitted a proposal to the Commission for the establishment of such a program to be operated by the SROs and the implementation of a complete audit trail of securities transactions on the NYSE, a keystone of any effective surveillance effort. The SROs have begun to implement their proposal and the Commission is closely monitoring the progress of the project in order to reach decisions on the future direction of MOSS.

Pursuant to the requirement in the Congressional budget authorization for MOSS, the Commission has submitted two reports to Congress on the project. These reports, submitted on April 1 and October 1, 1981, provide greater detail about developments in the MOSS project and the proposal from the SROs to develop a program for surveillance of inter-market trading activity.

National Securities Exchanges—As of September 30, 1981, ten exchanges were registered with the Commission as national securities exchanges pursuant to Section 6 of the Exchange Act: American Stock Exchange (Amex); Boston Stock Exchange (BSE); Chicago Board Options Exchange (CBOE); Cincinnati Stock Exchange (CSE); Intermountain Stock Exchange (ISE); Midwest Stock Exchange (MSE); New York Stock Exchange (NYSE); Pacific Stock Exchange (PSE); Philadelphia Stock Exchange (Phlx); and Spokane Stock Exchange (SSE). No exchange is currently operating under an exemption from registration as a national securities exchange.

In connection with the Commission's oversight of the delisting of securities traded on national securities exchanges pursuant to Section 12(d) of the Exchange Act, during the fiscal year the Commission granted applications by exchanges to strike 57 equity issues and 18 debt issues from listing and registration. The Commission also granted applications by issuers requesting withdrawal from listing and registration for 25 equity issues and 4 debt issues.

Pursuant to the Commission's responsibility under Section 12(f) of the Exchange Act, during the fiscal year, the Commission granted 248 applications by exchanges for unlisted trading privileges in listed securities. The Commission also revised its policy concerning applications for unlisted trading privileges in listed securities. The Commission had previously limited unlisted trading privileges for listed securities to securities reported in the consolidated quotation and transaction reporting system (reported securities). However, it determined to grant unlisted trading privileges in non-reported securities provided the applicant exchange certifies that it will provide to vendors last sale reports and quotation infor-

mation for the security, and that such information will be available on the floor of the applicant exchange.

During the fiscal year, the Commission also created a limited exception to its general policy to defer any decision regarding the granting of unlisted trading privileges in OTC securities pending further developments in the national market system. The Commission concluded that it would grant unlisted trading privileges in OTC securities in the narrow situation involving a solely listed reported security subject to an issuer delisting application where the applicant exchange has exempted such security from any applicable off-board trading restrictions. In such instances, third markets makers would be subject to the last sale reporting requirements of Rule 11Aa3-1 under the Exchange Act.[54]

The national securities exchanges reported to the Commission, pursuant to Section 19(d)(1) of the Exchange Act and Rule 19d-1 thereunder, 309 final disciplinary actions imposing a variety of sanctions upon member firms and their employees.

During the fiscal year, the Commission received from the national exchanges 154 filings of proposed rule changes, pursuant to Rule 19b-4 under the Exchange Act. Among the significant exchange rule filings approved by the Commission during the fiscal year were (a) revisions to Phlx disciplinary procedures[55] (b) a one-year pilot program by the PSE relating to the appointment and evaluation of specialists and the creation of new specialist posts[56] and (c) rule changes by seven national securities exchanges regarding trade-throughs and locked-markets on the ITS.[57]

During the fiscal year, the Commission concluded proceedings initiated the previous year to determine whether to disapprove proposed rule changes of the NYSE and Amex to make permanent their rules governing registered competitive market makers (RCMMs) and registered equity market makers (REMMs), respectively.[58] The Commission found that RCMM and REMM trading activity did not qualify for the market maker exemption from the general exchange member proprietary trading prohibitions of Section 11(a)(1) of the Exchange Act. Nevertheless, the Commission determined that, on balance, RCMMs and REMMs provide the potential for benefits to their markets. Accordingly, the Commission approved the RCMM and REMM rules and adopted a rule under Section 11(a)(1)(H) of the Exchange Act exempting RCMM and REMM transactions from the proprietary trading prohibitions of Section 11(a)(1) of the Exchange Act.[59]

During the fiscal year, the Commission approved proposed rule changes filed by the NYSE[60] and the Amex[61] concerning their regulatory authority over corporate affiliates, including foreign affiliates, of their members. In particular, the rules provide for third party examination procedures for certain foreign-domiciled persons. The Commission found that the examination procedures reflected good faith efforts to balance the need for effective surveillance against what today seems to be appropriate deference to the laws and customs of foreign nations.

National Association of Securities Dealers, Inc.—The NASD is the only national securities association registered with the Commission. At the close of the fiscal year, 3,132 brokers and dealers were NASD members.

During the last nine months of the fiscal year, the NASD reported to the Commission the final disposition of 393 disciplinary actions.

During the fiscal year, the Commission received also from the NASD 29 filings of proposed rule changes. One of the significant NASD rules aproved by the Commission during the fiscal year—originally submitted in 1978—prohibits NASD members from giving discounts to customers in distributions of securities offered at a fixed price.[62] The rule change amended the NASD's Rules of Fair Practice to impose a more explicit prohibition on an NASD member's taking securities in trade

(swapping) at more than their fair market price and to limit the ability of members to grant or receive discounts in connection with fixed price offerings. In addition, the Commission approved amendments to the NASD's Anti-Reciprocal Rule to permit, subject to certain restrictions, NASD members to seek or grant brokerage commissions in connection with the sale of investment company securities.[63]

The Commission reviewed a number of proposed NASD rules to revise qualifications for securities included on NASDAQ. One rule approved by the Commission increased the minimum standards for total assets and total capital and surplus for companies included on NASDAQ.[64] The Commission also approved the NASD's request to use financial criteria, as well as dollar volume data, in determining which NASDAQ companies will have their securities included on the NASDAQ National and Additional lists,[65] which are distributed to the news media for publication. The NASD was also authorized to make future revisions in the size or number of lists as market conditions, or the needs of issuers, investors, the news media or the securities industry require.

During the year, the Commission also authorized the NASDAQ market makers to display, on a voluntary basis, a quotation for an amount of securities in excess of the normal unit of trading.[66] This information will appear on NASDAQ six months after the installation of new NASDAQ terminal equipment is completed.

Allocation of Regulatory Responsibility—During the fiscal year 1981, the Commission continued its efforts to eliminate duplication in the self-regulatory system for brokers and dealers. The Commission began reviewing plans proposed by the SROs for allocating their responsibility to perform various regulatory functions for brokers and dealers which belong to more than one SRO. One set of plans represents agreements among the Amex, MSE, PSE, Phlx, CBOE and NASD to reduce regulatory duplication relative to options-related sales practice matters for firms currently members of two or more of the organizations. The second set of plans represents agreements between the NYSE and the Amex, BSE, Phlx, MSE, PSE and CSE, which reflect progress toward reducing unnecessary regulatory duplication by assigning to one SRO much of the responsibility for conducting on-site examinations of dual members and for processing various applications.

Statutory Disqualifications—On March 10, 1981, the Commission proposed amendments to Rule 19h-1 under the Exchange Act concerning admissions to, or continuances in, membership in SROs or participation in the securities business of persons subject to statutory disqualifications.[67] The revisions are designed primarily to reduce the burdens that have been encountered by SROs and the Commission in the administration of the rule. Under the proposed amendments: (a) detailed filings would be required to be made with the Commission on behalf of statutorily disqualified persons in fewer situations; (b) certain additional information would have to be included in those detailed filings that are required, in order to facilitate their review and processing by the Commission; and (c) certain provisions of the rule would be clarified.

Applications for Re-Entry—During the fiscal year, the Division of Market Regulation processed 54 applications, pursuant to Section 6(c)(2) and 15A(g)(2) of the Exchange Act and Rule 19h-1 thereunder, to permit persons subject to statutory disqualifications, as defined in Section 3(a)(39) of the Exchange Act, to become associated with broker-dealers. The following SROs filed such applications: (a) NASD—35 applications; (b) NYSE—18 applications; and (c) Amex—one application. Five of the 54 applications filed were subsequently withdrawn.

Municipal Securities Rulemaking Board—As in the case of national securities exchanges and the NASD, the Commission reviews proposed rule changes of

the MSRB. During the fiscal year, the MSRB filed 14 rule proposals; the Commission considered a number of these proposals plus others that were pending from previous years.

The Commission approved amendments to the MSRB rule on syndicate practices in connection with the sale of new issue municipal securities. These revisions: (a) eliminated the requirement that a municipal securities dealer that is not a member of the syndicate disclose the fact that securities which it is purchasing from the syndicate are for a related portfolio; and (b) require that the syndicate manager disclose in writing to members of the syndicate the securities that had been allocated on a "priority" basis, and the customers to whom such securities had been allocated.[68]

In addition, the commission approved a rule filing to consolidate the MSRB's advertising rules into a single rule[69] and to require the disclosure of certain information by municipal securities professionals in connection with the sale of new issue municipal securities. Specifically, the advertisements must disclose, if applicable, the fact that certain securities may not be available from the syndicate or may be available at a different price or yield than those listed in the advertisement.

Finally, the Commission approved amendments to the MSRB rule on uniform industry practice. These amendments altered the procedure by which municipal securities professions may close-out open transactions in municipal securities.[70]

Clearing Agencies—During the fiscal year, the Commission received and began reviewing applications from 12 clearing agencies for full registration under standards adopted by the Division of Market Regulation during the 1980 fiscal year.[71] These standards represent the views of the Division regarding the manner in which clearing agencies should comply with the clearing agency registration provisions of Section 17A(b)(3) of the Exchange Act. The Division standards deal with, among other things, requirements regarding participation in clearing agencies, fair representation of participants, disciplinary procedures, the safeguarding of securities and funds and the clearing agency's obligation to participants. The Division will apply the standards in making recommendations to the Commission regarding the granting or denial of registration to clearing agecies. At present, 13 clearing agencies are temporarily registered with the Commission.

During the fiscal year, the Commission staff conducted oversight inspections of Midwest Clearing Corporation and Boston Stock Exchange Clearing Corporation. The staff also conducted joint inspections of Midwest Securities Trust Company (MSTC) and New England Securities Depository Trust Company (NESDTC) with the Board Governors of the Federal Reserve System (FRS). The FRS is the appropriate regulatory authority for MSTC and NESDTC, and the joint conduct of these examinations furthered the statutory goal of avoiding unnecessary regulatory duplication and regulatory burdens on clearing agencies that are subject to inspection by both the Commission and the Federal bank regulators.

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

Procedures for Filing Proposed Rule Changes—Section 19(b) of the Exchange Act, as amended by the 1975 Amendments, requires self-regulatory organizations to file all proposed rule changes with the Commission for approval. Shortly after Section 19(b) became effective, the Commission adopted Rule 19b-4 and related Form 19b-4A establishing procedures for SROs to file proposed rule changes, and designating the types of proposed rule changes that may become effective upon filing.

On October 30, 1980, the Commission adopted amendments to Rule 19b-4 and Form 19b-4A[72] which were designed to improve and simplify the rule filing process,

thus expediting Commission review of proposed rule changes. The amendments, which became effective on January 1, 1981, include: (a) an amendment to Rule 19b-4 clarifying which actions of SROs require proposed rule changes; (b) an amendment to Rule 19b-4 designating certain clearing agency rules as eligible for summary effectiveness; and (c) amendments to Form 19b-4A, redesignated as Form 19b-4, to specify, in greater detail, the information required by that form.

The Disclosure System

The purpose of the "full disclosure" system administered by the Commission is to assure that the securities markets operate in an environment in which full and accurate material information about publicly traded companies is available to investors, securities analysts and other interested persons. By fostering investor confidence and implementing the Congressional mandate of investor protection, the full disclosure system contributes to the maintenance of fair and orderly markets and facilitates the capital formation process. In 1980, over $600 billion in equity securities was traded on exchanges and in the over-the-counter (OTC) market, and there were public offerings of over $100 billion in equity and debt securities.

During the fiscal year, the Commission's continuing efforts to improve the disclosure system centered on major initiatives in implementing its integration program and responding to the particular needs of small business. The integration program will be implemented through changes in the operations of the Commission's Division of Corporation Finance, particularly the selective review system which was initiated during the year. Also in fiscal year 1981, the Commission undertook several other rule-making projects in the area of full disclosure and continued its program of providing interpretive advice on disclosure matters. Certain of these initiatives were cooperative efforts with representatives of the state securities administrators. The Commission views such cooperative efforts as a means of enhancing the longstanding beneficial relationship between the Federal government and the states, in addition to reducing the burdens imposed by multiple levels of regulation while maintaining a high degree of investor protection.

The Integration Program

The aim of the integration program is to enhance investor protection through disclosure documents which provide meaningful information in a clear, concise and understandable format. At the same time, the program responds to the need to reduce the burdens of compliance caused by duplicative, outmoded or unnecessary requirements. The Securities Act of 1933 (Securities Act) established a system of transaction-oriented disclosure with a focus on particular offerings of securities. The Securities Exchange Act of 1934 (Exchange Act) established a system of continuous disclosure with a focus on public companies and their ongoing reporting obligations to the Commission and to their shareholders. Because the two disclosure systems have developed and operated independently for more than 40 years, the same information is frequently required to be disclosed in different formats under the separate systems.

The integrated disclosure system harmonizes the two disclosure systems into a comprehensive whole. It will perform the role envisioned by both the Securities Act and the Exchange Act, will eliminate or reduce overlapping or duplicative corporate reporting, and will streamline corporate reporting generally. The system simplifies corporate reporting in three ways: (1) disclosure requirements are made uniform under the Securities Act and the Exchange Act, (2) Exchange Act periodic reporting is used to satisfy much of the disclosure necessary in Securities Act registration statements; and (3) the use of informal shareholder communica-

tions is encouraged, but not required, to satisfy formal statutory requirements under both Acts.

Development of the integrated disclosure system is an on-going process which is scheduled to be completed during fiscal year 1982. During fiscal 1981, the Commission made substantial progress toward full implementation of the system. In December 1980, the Commission published proposals resulting from the "sunset" review of the Guides for the Preparation and Filing of Registration Statements and Reports (Guides) and from the enhanced role of Regulation S-K in an integrated disclosure system.[73] In February 1981, the Commission adopted revisions to Form 10-Q and Regulations S-X and S-K to streamline interim financial and other reporting and to make quarterly and interim disclosure requirements uniform under both Acts.[74] In August 1981, eight releases comprising the latest phase of the program were published as proposed rulemaking actions.

Each of these eight releases was integrally related to the others and to the rulemaking actions taken in 1980. In the integrated disclosure system, a Securities Act registrant would look (1) to the appropriate form for a determination of the type and amount of disclosure which must be furnished to investors; (2) to Regulation S-K for substantive disclosure requirements; and (3) to Regulation C for procedural instructions. Separate releases addressed the role in the integrated system of security ratings, delayed or continuous offerings and Securities Act liabilities in connection with Exchange Act periodic reports incorporated by reference into Securities Act registration statements Finally, the Commission's integration of the two existing corporate disclosure systems included a wide ranging "sunset" review, resulting in revisions to Regulation C and in proposed coordinating changes to rules and forms under the two systems. The republished outstanding proposals and the five newly developed coordinating projects are summarized in the following discussion.

Proposed Forms S-1, S-2 and S-3[75]— These three proposed forms would constitute the basic framework for the registration of securities under the Securities Act. Differences among the forms take into account differences in information regarding companies already publicly available and the wide variety of public offerings. Thus, Form S-3 requires minimal disclosure in the prospectus and relies upon incorporation by reference of material already presented in Exchange Act reports. It would be used by the most widely followed corporations for equity offerings and by most other companies reporting under the Exchange Act for registering investment grade debt, dividend reinvestment plans, and certain other offerings. Form S-2 would be available to companies which are not as widely followed as Form S-3 companies, but which have reported under the Exchange Act for at least three years. Under Form S-2, registrants would either incorporate by reference into the prospectus the information in their annual reports to shareholders or provide similar information in the prospectus. Companies which have reported under the Exchange Act for less than three years would generally use Form S-1. It requires complete disclosure of relevant information to investors in the prospectus and permits no incorporation by reference.

Revision of Regulation S-K[76]—The proposed revision of Regulation S-K represents the evolution of that regulation into a repository of uniform disclosure provisions relating to substantially all of the information required to be set forth in registration statements under the Securities Act and in annual and other periodic reports required under the Exchange Act. Disclosure requirements would be centralized in Regulation S-K in order to avoid the need to refer to multiple sources for document content requirements. Thus, certain disclosure requirements currently included in the Guides, in Regulation C and

in various Securities Act registration forms and Exchange Act forms would now be moved to Regulation S-K

The Regulation S-K release also represented the completion of the "sunset" review of the Guides. In addition to moving certain substantive Guide provisions to Regulation S-K, the "sunset" review of the Guides resulted in the inclusion of certain procedural provisions in Regulation C and the deletion of 50 percent of the Guides as obsolete. The only remaining Guides would be those relating to specific industries, where greater flexibility than that provided by formal Commission rules is desirable.

Revision of Regulation C and 12B[77] The rules comprising Regulation C and Regulation 12B were adopted in order to standardize the mechanics of securities registration under the Securities Act and Exchange Act, respectively. The rules implement the statutes and provide more specific instructions for registrants than are contained in the statutes. Although these regulations developed over a long period, no overall review of their provisions had been undertaken for some time. The Commission believed a comprehensive review of Regulation C and Regulation 12B was appropriate at this time in order to implement fully the integrated disclosure system and to continue the Commission's ongoing "sunset" review of its regulations.

The proposed amendments are designed to simplify and clarify procedural requirements and to conform the provisions of Regulation C and Regulation 12B to the procedures established in the integrated disclosure system. These amendments involve revising existing provisions, incorporating certain procedural requirements from the Guides and the current registration forms into Regulation C, and moving certain Regulation C provisions relating to substantive disclosure and document content into Regulation S-K. The "sunset" amendments, which would revise, up-date or delete provisions where appropriate, include the proposed rescission of approximately 25 percent of the rules now contained in Regulation C.

Delayed or Continuous Offerings[78]— Proposed Rule 462A, which was first published in the December 1980 Guides release, would facilitate new methods of financing. For the first time, the Commission would specify by rulemaking the conditions under which registrants could register securities to be offered on a delayed or continuous basis at the market (so-called "shelf registration"). The proposal would codify staff practice concerning "traditional" shelf offerings, such as securities to be offered in a continuing acquisition program. It would also permit, for the first time, the registration of securities that the issuer did not intend to offer immediately to the public or that it intended to sell gradually on a non-fixed price basis over time depending on market conditions. The proposed rule would permit an issuer to sell the securities so registered in a succession of different kinds of offerings. The proposed shelf rule is designed to relieve processing pressures upon the Commission staff and to facilitate capital formation by granting issuers ready access to the markets.

Liability Issues[79]— Because the securities markets absorb previously filed information about seasoned issuers, the Commission has determined, as part of the integrated disclosure system, to permit such issuers to satisfy certain disclosure requirements of the Securities Act by incorporating by reference into the registration statement pertinent information, updated where necessary, from previously filed Exchange Act reports *(See discussion of Forms S-1, S-2 and S-3 above.)* Nevertheless, persons subject to Section 11 of the Securities Act will continue to be responsible for confirming the accuracy of information in the registration statement, including information incorporated by reference. The Commission published for comment several proposals addressing the questions of liability which arise in the context of the integrated disclosure system. Proposed Rule 176 would codify Section

1704(g) of the draft Federal Securites Code as modified and approved by the Commission in 1980. The proposed rule would identify certain circumstances, including incorporation by reference, which may bear upon the determination of what constitutes reasonable investigation and reasonable ground for belief as those terms are used in Section 11. The Commission also proposed to codify in Regulation C certain previously proposed provisions regarding the effective date of documents incorporated by reference and the making of statements modifying or superseding such incorporated documents.

Security Ratings—The rating assigned to a class of debt securities or preferred stock by a professional rating organization represents, along with the interest or dividend rate, one of the most significant considerations in an investor's decision to purchase such securities. In recognition of this fact, the Commission proposed to permit the voluntary disclosure of such ratings in filings with the Commission. The security rating release contained two proposals to facilitate this change in policy: an exemptive rule concerning the issues of expert's consent and Securities Act liability (Rule 436(g); and an amendment to Rule 134 permitting the disclosure of ratings in "tombstone" advertisements. The release also set forth the Commission's views regarding other information which should be included with disclosure of the security rating.

Coordinating Releases—As part of its efforts to implement a comprehensive integrated disclosure system, the Commission proposed to amend existing Securities Act registration forms.[81] These proposed amendments were the result of a review of existing forms that was designed: (1) to identify portions of such forms where the Regulation S-K uniform disclosure items could be substituted for individual form items containing substantially similar requirements; (2) to conform existing references to Regulation S-K with the proposed revisions thereto; and (3) to conform other Securities Act forms, wherever possible, to the instructions, format and requirements of proposed Forms S-1, S-2 and S-3. In addition, the Commission proposed to rescind five rarely used registration forms.

The Commission also proposed amendments resulting from an examination of Exchange Act continuous disclosure and proxy-related rules, forms and schedules.[82] This review was undertaken with a view to coordination with other aspects of the integration rulemaking program, particularly the revision of Regulation S-K, as well as with a view to streamlining and improving the quality of Exchange Act disclosure, which is critical to the functioning of the integrated disclosure system. As in the Securities Act context, the Commission proposed to rescind six rarely used forms, three for registration and three for annual reporting.

The Exchange Act coordinating release also proposed amendments to broaden and clarify the scope of safe harbor protection available under the various securities laws for disclosure of forward looking statements. The release proposed correcting an inconsistency in the scope of the rules, as currently in effect, to permit projections in first-time Exchange Act registrations as well as Securities Act registrations.

Final Phase of Program—The period for public comment upon the eight outstanding proposals described above closed on October 30, 1981. The Commission intended to take final action with respect to these proposals as soon as possible in order to set in place the completed integrated disclosure system.

Selective Review

In anticipation of the final phase of implementation of the Commission's integrated disclosure program and in response to budgetary constraints, the Division of Corporation Finance during the course of fiscal 1981 significantly revised its program for the examination of filings under the Securities Act and the Exchange Act by implementing a system of "selective review". The

purpose of this system is to allocate more staff resources to the examination of Exchange Act reports, which form the basis for the integrated disclosure system. Selective review is also designed to make optimal use of the Division's staff by focusing staff review attention upon filings which are most likely to present problems in the area of full disclosure. To those ends, only filings for certain types of transactions, such as "new issues," non-issuer tender offers, and contested director elections, are generally examined without regard to the company involved. This will free staff resources to permit more comprehensive examinations of the entire scope of certain companies' disclosure. Staff examination of other filings reflects the economic conditions prevailing at the time, areas of particular concern to the Division, and existing staff levels.

Selective review follows the Division's reorganization in 1980 which focused the activities of staff groups on particular industries. By making the staff more familiar with the disclosure problems of companies in particular industries, "industry centralization" laid the groundwork for implementation of the selective review system.

Small Business

The Office of Small Business Policy in the Division of Corporation Finance was established in June 1979, to coordinate the Commission's small business rulemaking and legislative initiatives, to review and comment upon the impact of rule proposals on small business, and to serve as liaison with Congressional committees, government agencies and other groups concerned with small business. Since its inception, the Office has initiated several comprehensive projects designed to address and alleviate, to a degree consistent with the public interest and the protection of investors, the problems confronted by small business in raising capital.

Regulation D—During fiscal 1981, the Commission determined to evaluate the Securities Act exemptive scheme in light of recent amendments to the Securities Act occasioned by the Small Business Investment Incentive Act of 1980[83] (the Incentive Act), and the views expressed by commentators at the Commission's Small Business Hearings held in 1978. Specifically, the Incentive Act significantly increased the Section 3(b) dollar ceiling and authorized the Commission, pursuant to newly created Section 19(c), to work with the states to develop a uniform exemption Thus, on December 23, 1980, the Commission announced that it was considering the interrelationship among certain exemptions from the registration provisions of the Securities Act and the utility of such exemptions as they relate to the capital formation needs of small business.[84]

As a result of the public hearings, the comments received in response to the December 23, 1980 release, and discussions with the North American Securities Administrators Association (NASAA), in August 1981, the Commission proposed for comment a new regulation, proposed Regulation D[85], governing the offers and sales of certain securities without registration under the Securities Act. This action represents a major effort by the Commission to make the various limited offering provisions and the requirements for private offers and sales of securities more uniform and to coordinate the small offering requirements under the Federal and state securities laws to alleviate the burden of those regulations upon capital formation by small business. The regulation, if adopted, would replace and significantly revise the existing limited offering exemptions contained in Securities Act Rules 146, 240 and 242.

In conjunction with its examination of the Securities Act exemptive rules, and as provided for in newly created Section 19(c) of the Securities Act, the Division of Corporation Finance has had discussions with NASAA to develop the proposed regulation, which is intended to be adopted, in part, as a uniform Federal-state exemption. As a result of this cooperative effort, the NASAA Board of Directors has solicited

comment on the proposed exemptions from the NASAA membership and approved a uniform state limited offering exemption closely paralleling the relevant portion of Regulation D. The Commission and NASAA believe the uniform limited offering exemptive scheme will reduce the burdens on small issuers by eliminating, in most instances, the multiplicity of regulations imposed at both the state and Federal levels.

Form S-18—The Office of Small Business Policy is responsible for monitoring the content and quality of disclosure in offerings made on Form S-18 (which was adopted in April, 1979[86]) as the simplified Securities Act registration procedure for small business. Form S-18 calls for substantially less narrative and financial disclosure than Form S-1, which is the form such issuers would otherwise use for registration of their securities. However, in view of the experimental nature of Form S-18 and the initiation of regional processing, its availability was limited to certain domestic and Canadian corporate issuers for the registration of securities up to $5 million. In March 1981, on the basis of relatively widespread acceptance of the form and the absence of any significant disclosure problems, the Commission adopted amendments to Form S-18 to expand the availability of the form to certain companies engaged in the mining business.[87] Additionally, at the end of the year, the Commission was considering proposing certain amendments to Form S-18, which, if adopted, would further expand the availability of Form S-18 to non-corporate issuers and to those issuers who engage or intend to engage in oil and gas related operations. In this regard, disclosure provisions applicable to these types of issuers will also be proposed.

Classifying of Issuers—On June 2, 1980, the Commission announced that it was considering the advisability of classifying issuers under the Exchange Act so that defined classes of smaller issuers might have modified reporting and other requirements.[88] This effort was undertaken in order to determine whether the burden of compliance with Exchange Act reporting requirements, which is relatively greater for smaller companies, might be alleviated without detriment to investor protection.

The Commission, mindful of the Report of the Advisory Committee on Corporate Disclosure, the views expressed by witnesses at the public hearings held by the Commission in April and May of 1978, and the comments received regarding the June 1980 advance notice release, intended to propose in October 1981 a system of classifying small issuers for purposes of exempting them from certain obligations under the Exchange Act. Generally speaking, the classification system would represent an inflationary adjustment to the $1 million asset figure of Section 12(g) established by Congress in 1964. (After the close of the fiscal year on October 20, 1981, the Commission issued a release proposing for comment rule and form amendments which would implement this system of classification of smaller issuers.[89])

Regulation A—The Commission's small business hearings of April and May 1978 also addressed the continued viability of Regulation A as an alternative to full registration. Commentators at the hearings consistently indicated the need to revise and update the requirements of Regulation A to make it a more practical means for small business to raise capital.

In response to these comments, on December 23, 1980, the Commission proposed a comprehensive revision and reformatting of the Regulation A disclosure provisions designed to codify disclosure standards which were being applied to Regulation A offerings, to provide specific disclosure requirements for different types of issuers and different types of offerings, and to assist the administration of uniform disclosure policies.[90] The proposed revisions were adopted in final form on August 7, 1981.[91]

Section 4(6)—The Incentive Act provided several statutory changes in the Securities Act which have an impact on small

business capital formation, one of which was the adoption of new Section 4(6). That section provides an exemption from the registration requirements of the Securities Act for offers and sales of securities by an issuer solely to accredited investors, without any public solicitation, if the aggregate amount of securities offered is $5 million or less. In connection therewith the issuer is required to file a notice of sales with the Commission on such forms as the Commission shall prescribe.

In order to permit issuers to utilize Section 4(6) promptly after the enactment of the Incentive Act, the Commission adopted, on an interim basis, a notice-of-sales form to be used by issuers relying on the new statutory exemption.[92] The final form, Form 4(6), was adopted on March 19, 1981.[93]

In an effort to further the utility of Section 4(6), the Commission, in conjunction with proposed Regulation D and pursuant to the statutory language of Section 2(15)(ii), has proposed new Rule 215 which would, if adopted, define "accredited investor" for purposes of that exemption.

Rule 242—Rule 242, adopted under Section 3(b) of the Securities Act, provides an exemption from registration for sales of securities by domestic or Canadian corporate issuers to an unlimited number of accredited persons, as defined in the rule, and to 35 non-accredited persons.

In the release adopting Rule 242[94], the Commission stated that the rule was in the nature of an experiment, and that after an appropriate period, consideration would be given to determining whether the availability of the rule should be expanded. Since Rule 242 requires that non-accredited investors receive the same kind of information as that specified in Part I of Form S-18, the restrictions on the issuers eligible to use the rule were consistent with similar restrictions as to the availability of Form S-18. The Commission went on to indicate that if revisions as to eligibility for registration on Form S-18 were effected, it was possible that changes in the Rule 242 definition of "qualified issuer" would be made. When the Commission adopted amendments to Form S-18 in order to permit certain issuers engaged in mining operations to register their securities on that form and to include a new disclosure item applicable to such issuers, in accordance with its stated policy regarding Rule 242, the Commission authorized the publication of a release proposing to expand the availability of Rule 242 by deleting the exclusion relating to mining companies appearing in Rule 242(a)(5)(iii) and the Note thereto.[95] The revisions were adopted in final form on June 11,1981.[96]

Trust Indenture Act of 1939—The Incentive Act included, among other measures, amendments to Sections 304(a)(8) and 304(a)(9) of the Trust Indenture Act of 1939, the substance of which was submitted by the Commission as a legislative proposal. These amendments provided an increase to the aggregate amount of debt securities that could be offered and remain partially or totally exempt from the provisions of that Act. On October 23, 1980, the Commission adopted rules, on an interim basis and pursuant to the above enumerated sections, which established $2 million and $5 million, respectively, as the dollar limitation on the amount of debt securities that could be offered without qualification under that Act.[97] These interim rules were adopted to remain in effect until December 31, 1981. The Commission adopted the final rules prior to that expiration date.

Studies Involving Small Issuers—Two joint small business projects were completed by the Commission's Directorate of Economic and Policy Analysis (the Directorate) in 1981. A project with the Department of Commerce's Experimental Technology Incentives Program (ETIP), that was begun in 1977, examined the capital market environment for small issuers, particularly the high technology issuers which often have venture capital financing. Several of the Commission's regulatory initiatives regarding these firms were examined, including usage of Form S-18. The

project also encompassed a variety of other studies related to small issuers which have been published as Capital Market Working Papers by the Directorate.

As part of the ETIP project the Commission released the results of another study of the use of Form S-18,[98] prepared by the Directorate. The report updated the Directorate's initial study covering the first nine months of the registration form's use. Since its April 3, 1979, adoption, Form S-18 has become the predominant registration statement used for smaller initial public offerings of common stock and has been especially popular for use by "start-up" firms. The report also examined the financial characteristics of issuers utilizing Form S-18, the distribution arrangements and costs associated with its use, and the post-offering price performance of securities sold in offerings registered using the form.

A second joint project with the Small Business Administration examined the role of regional brokers as underwriters of the initial public offerings of small businesses. This project broke new ground in examining the market-making and securities research support activities of the securities industry for these stocks.[99] The final segment of this project, which is examining the experience of small issuers with several of the Commission's small offerings exemptions from registration, was being completed as the fiscal year ended.

The Directorate has also published the results of its monitoring of the first six months of the availability of Rule 242,[100] and is completing a study of the use of Regulation A. The Regulation A study is focusing on the effects of the 1978 increase from $500,000 in the aggregate dollar amount ceiling constraining the size of Regulation A offerings. The study also analyzes issuer and offering characteristics, issuance costs and after-offering price performance of securities sold in Regulation A offerings.

Another study being undertaken by the Directorate is of the use of Rule 146 by issuers during 1980. Rule 146, which is used primarily by small business, was adopted by the Commission as a "safe harbor" rule to provide objective standards upon which businessmen may rely in raising capital under the private placement exemption provided in Section 4(2) of the Securities Act.

Other Rule-making; Continuing Projects

Proposed Amendments to Proxy Rules—On February 5, 1981, the Commission proposed for public comment[101] amendments to the disclosure requirements for proxy statements contained in Schedule 14A under the Exchange Act and Regulation S-K, relating to: (1) business and other relationships between directors and companies; (2) full board consideration of shareholder nominations; (3) the vote needed for election to office; (4) management indebtedness and remuneration; and (5) beneficial ownership. In addition, the Commission proposed amendments to Exchange Act Rule 14a-8 concerning proposals of security holders. The proposals, which were based, in large part, on recommendations contained in the Staff Report on Corporate Accountability issued by the Division of Corporation Finance in 1980 (the Accountability Report)[102], were designed to improve disclosure and to reduce compliance burdens on registrants.

The amendments to Schedule 14A were reproposed without change as part of the integration proposals in order to give commentators the opportunity to view them in the context of those other proposed actions.[103] The comment period was thus extended to October 30, 1981.

Proxy Monitoring Program—In February 1981, the Division of Corporation Finance was authorized to publish a release announcing the results of its 1980 proxy disclosure monitoring program.[104] The analysis of disclosures concerning corporate boards of directors indicated that since 1979, there have been increases in the number of boards with nominating committees, the average number of board

meetings per year, and the average amount of compensation paid to directors by the 1,100 issuers surveyed. The release also reported a substantial decrease in the number of issuers which had their investment banker or outside counsel serving as a director.

Shareholder Communications—In April 1981, on the basis of a recommendation contained in the Accountability Report, the Commission established an Advisory Committee on Shareholder Communications.[105] This Committee, composed of professionals from business, banking and the securities industry, was created for the purpose of advising the Director of the Division of Corporation Finance on questions relating to the development of better procedures for issuers to communicate with the beneficial owners of securities registered in the name of a broker-dealer, bank or other nominee.

Amendments to Rule 144—In October of 1980, the Commission proposed,[106] and in February 1981 adopted,[107] amendments to Rule 144 under the Securities Act, which provides a method for resales of unregistered securities and securities held by affiliates of an issuer. The amendments relieve nonaffiliates, who have held their securities for three years or more, from certain provisions of the rule which limit the amount of securities which they can sell, restrict the manner in which they can dispose of the securities and require a Form 144 to be filed in connection with such sales. Because of the successful operation of Rule 144 since its original adoption in 1972, the Commission believed that it was appropriate to lessen the burdens of the rule on non-affiliates.

Proposed Amendments to Rule 13e-3—Rule 13e-3 under the Exchange Act applies to certain transactions by public issuers or their affiliates which result in one or more classes of equity securities of the issuer no longer having the attributes of public ownership. As a result of its experience in administering Rule 13e-3 under the Exchange Act relating to so-called "going private" transactions, in April 1981 the Commission published for comment proposed amendments to the rule and related Schedule 13E-3.[108] If adopted, certain of the proposals would codify staff interpretations and practice respecting existing exceptions for (1) transactions pursuant to a multi-step plan for the acquisition of a class of equity securities of an issuer by or on behalf of a person who becomes an affiliate of such issuer prior to the consummation of the last step; and (2) the use of a cash election in connection with certain transactions otherwise excepted from the operation of the rule. Other proposals would make clarifying and technical changes to improve the operation of the rule.

Environmental Disclosure—On May 4, 1981, the Commission proposed for public comment amendments to its regulations regarding disclosure of environmental proceedings.[109] The proposals would: (1) establish a threshold for companies' omission of disclosure about certain environmental proceedings to which a governmental authority is a party and (2) require that registrants provide interested investors with the names and addresses of the governmental authorities from which compliance related reports about disclosable environmental proceedings can be obtained. Because the current requirements have resulted in the disclosure of environmental proceedings which are not significant, the Commission believes that the amendments will improve the quality and utility of environmental disclosure to shareholders while reducing burdens on corporations disclosing environmental proceedings.

International Corporation Finance—The Commission proposed[110] and adopted[111] amendments to the exemptive regulations for primary distributions of securities issued by the International Bank for Reconstruction and Development, the Inter-American Development Bank, and the Asian Development Bank (the Banks). The amendments permit the Banks to sell their securities immediately upon filing certain information with the Commission instead of

waiting a period of seven days. The purpose of the amendments was to give the Banks the same flexibility in reaching the financial markets as issuers of registered securities are developing under the integrated disclosure program.

Real Estate Guidelines—During 1981, the staff of the Division of Corporation Finance continued its cooperation with the Subcommittee on Financial Statement and Track Record Disclosure of the NASAA in developing revised disclosure requirements for public real estate programs. This cooperative effort resulted in proposals that would revise the track record disclosure guidelines of the Commission's Guide 60 for "Preparation of Registration Statements Relating to Interests in Real Estate Limited Partnerships" and would amend the financial statement requirements of Item 3-14 of Regulation S-X concerning "Special Instructions for Real Estate Operations to be Acquired." The proposals would standardize and streamline prospectus presentation of the prior experience of sponsors of public real estate programs by setting forth specific guidelines as to the type and quantity of disclosure required. The proposed amendment to Item 3-14 of Regulation S-X would reduce the requirement for financial statements of significant properties acquired by a real estate program from three years to one year if certain conditions are met by the issuer. (After the close of the fiscal year, on October 7, 1981, the proposals were published for public comment.[112]

Other Rule-Making—On September 1, 1981, the Commission adopted amendments to Rule 463 and related Form SR under the Securities Act, which require filings by issuers with respect to their first registration statement disclosing their sales of securities and uses of proceeds.[113] The major changes consisted of: standardization of Form SR to a short-answer format; inclusion of a materiality standard for disclosure of differences between actual uses of proceeds and the uses stated in the prospectus; clarification of the time for filing reports and the filing requirement for certain successor issuers; and addition of several exemptions from the filing requirement.

Interpretive Advice

Concomitant to the Commission's rulemaking function is the role which its staff plays in providing interpretive advice concerning the Federal securities laws and the rules thereunder. In the area of full disclosure, the staff provides such advice through responses to telephone inquiries (an estimated 45,000 in fiscal 1981) and written responses to formal requests for advice (an estimated 1,600 through the year). During fiscal 1981, the Commission also published several interpretive releases in the area of full disclosure with the aim of providing reference sources for the public in areas of general concern. It is hoped that these releases will also reduce the need for individualized staff responses, thus making better use of the staff's resources.

Employee Benefit Plans—On January 15, 1981,[114] the Commission authorized the publication of staff interpretive advice concerning several aspects of employee benefit plans This release supplemented an earlier, extensive release discussing registration of interests in employee benefit plans and related topics.[115] The supplemental release discussed four major topics: (1) applicability of the Securities Act registration provisions to specific types of plans, such as Tax Reduction Act Stock Option Plans and open-market stock purchase plans; (2) aspects of the exemption from Securities Act registration provided by Section 3(a)(2) of that Act; (3) plan sales and participant resales of stock; and (4) simplification of procedures connected with registrations on Form S-8.

Going Private Transactions—On April 17, 1981, concurrent with its publication of proposed amendments to Rule 13e-3 *(see above),* the Commission published the views of the Division of Corporation Finance on various interpretive questions regarding the rule and related Schedule 13E-3 under the Exchange Act.[116] The principal matters discussed in the release were:

(1) the kinds of transactions which are subject to the rule; (2) the persons subject to the filing, disclosure and dissemination provisions of the rule; (3) the scope of the Rule 13e-3 exceptions; and (4) the nature and timing of the Schedule 13e-3 disclosure requirements.

Insider Trading and Reports—On September 23, 1981, the Commission authorized the publication of a comprehensive interpretative release treating various aspects of Section 16 of the Exchange Act and the rules thereunder.[117] Section 16 requires corporate "insiders" to disclose transactions in their companies' securities and for the recovery by the corporation of "short-swing" profits made by insiders through such transactions. While the release addressed a wide variety of issues arising in this area of the Federal securities laws, it devoted particular attention to Rule 16b-3 under the Exchange Act, which regulates the applicability of Section 16 to employee stock purchase plans, bonus and option plans and other similar arrangements.

Retail Repurchase Agreements—During September 1981, the Commission authorized the publication of staff positions concerning the applicability of the Securities Act registration provisions to so-called "retail repurchase agreements" issued by banks and savings and loan associations.[118] The Commission determined to address this area in light of the volume of inquiries from financial institutions, prompted by the increase in the use of "retail repos" as a means of raising short-term capital. While the staff took the position that the Securities Act registration requirements would not apply to the offer and sale of retail repos, it emphasized the applicability of the antifraud provisions of the Federal securities laws to such transactions.

Other Interpretive Releases—During the course of fiscal 1981, the Commission authorized the issuance of other interpretive releases in the area of full disclosure on a variety of specific topics. These included: (1) procedures for requesting specific interpretations or "no action" positions[119]; (2) a simplified form of trust indenture[120], (3) the distribution of proxy materials to beneficial shareowners[121]; and (4) option and option-related transactions during underwritten offerings.[122]

Accounting Matters

Oversight of the Accounting Profession—The Commission has continued to actively monitor and encourage private sector initiatives to implement meaningful self-regulation of accountants practicing before the Commission, to maintain the independence of auditors, and to establish and improve accounting and auditing standards. The objective of the Commission's oversight activities is to assure that the accounting profession continues to make progress in improving the integrity and credibility of financial reporting by public entities.

For the past three years, the Commission has submitted to Congress separate comprehensive reports on the accounting profession and the Commission's oversight role. These reports commented on the accounting profession's response to the various challenges which Congress and others had placed before it and on the Commission's own initiatives in this area. During the current fiscal year, the Commission determined that it was not necessary to issue a separate report on the accounting profession. Rather, it believes that this annual report is the appropriate forum in which to comment on the developments within the accounting profession, and to assess the degree to which the profession is meeting the challenges it faces.

During the past year, the accounting profession continued to make progress in implementing a meaningful system of self-regulation. This effort represents a major commitment on the part of the profession, and the Commission continues to actively support and encourage its continuing evolution. Although additional experience is necessary in order to form a conclusion as to the ultimate success of the profession's self-regulatory initiatives, the Commission believes that they have great poten-

tial for achieving improvements in the quality of audit practice, and thus, significantly adding to the credibility of financial reporting.

With respect to the standard-setting processes of the private sector, the Commission continues to believe that the initiative for establishing and improving accounting and auditing standards should remain in the private sector, subject to Commission oversight. The Commission reaffirms its strong support of the Financial Accounting Standards Board (FASB). The Commission believes that the FASB must continue its efforts to provide leadership and take timely action in controversial areas, and that members of the accounting profession and the business community must continue to support the FASB's decisions and participate in the standard-setting process. The Commission also continues to believe that the Auditing Standards Board (ASB) has generally performed in a satisfactory manner.

Although the Commission acknowledges that significant progress has been made by the private sector self-regulatory organizations, the Commission's statutory responsibility for the integrity of the financial information disseminated by public companies requires that it be concerned with the accounting principles underlying that information, the auditing standards by which it is reviewed, and the independence and competency of the profession which performs that review. The Commission will continue to seek to fulfill its responsibility by close oversight of the various private sector initiatives, but will not hesitate to take appropriate action if necessary.

SEC Practice Section—In 1977, the American Institute of Certified Public Accountants (AICPA) established the Division for CPA Firms. The Division is a voluntary organization for accounting firms and consists of two sections—the Private Companies Practice Section and the SEC Practice Section (SECPS). The SECPS has membership requirements that are designed to improve the quality of practice by accounting firms that audit the financial statements of companies which file registration statements and reports with the Commission. The SECPS's member firms collectively audit the financial statements of approximately 9,000 registrants, including virtually all companies listed on the national stock exchanges.

The Commission believes that the peer review program is the most important element in this self-regulatory initiative. The periodic peer reviews test for compliance with the SECPS's membership requirements, including a determination as to whether or not the firm is maintaining and applying an appropriate system of quality control. During the fiscal year, approximately 150 peer reviews were conducted pursuant to SECPS requirements. This compares with a total of about 50 reviews during the previous two years. The Commission's staff has reviewed a sample of the public reports and comment letters reflecting the results of the peer reviews, as well as the oversight files of the Public Oversight Board (POB). The POB is an independent body responsible for monitoring and evaluating the activities of the SECPS. The Commission's staff is encouraged by the results of its review because they suggest that: (a) the standards for performing and reporting on peer reviews are appropriate; (b) the standards are being meaningfully applied; and (c) the POB is actively monitoring the peer review process.

Starting with the approximately 250 peer reviews scheduled to be completed during fiscal year 1982, the Commission's staff will have the opportunity—under an access arrangement which has been agreed to by the SECPS and the Commission—to review a sample of certain working papers prepared by the reviewers in support of the results of their review. The objective of the staff's access to peer review working papers is to enable the Commission to reach an informed judgment as to the adequacy and application of the peer review standards, and the extent of reliance which can be placed on the work of the POB consistent

with the Commission's oversight responsibilities. Based on its experience to date, the Commission's staff expects that the Commission will be able to place substantial reliance on the POB's oversight function.

The SECPS is empowered to impose sanctions on member firms for failure to comply with membership requirements. Sanctions may be imposed as a result of monitoring specific alleged or possible audit failures, or as a result of serious quality control deficiencies uncovered during peer reviews. The POB has reported that while the SECPS has made significant progress in establishing operational procedures for monitoring audit failures, it is too early to draw any conclusions regarding the effectiveness of this aspect of the SECPS's disciplinary program.[123] With respect to deficiencies noted during peer reviews, the SECPS's emphasis to date has largely been on remedial steps—such as voluntary agreements to correct deficiencies and undergo additional professional education or follow-up peer reviews. While such a remedial approach appears to make sense, the SECPS must be prepared to take more stringent actions if warranted in order to ensure the credibility of its disciplinary procedures.

The Commission continues to agree with the POB that all accounting firms which audit publicly-held companies should participate in the accounting profession's self-regulatory program.[124] In this connection, the Commission encourages the SECPS to continue to explore ways in which to facilitate membership. Membership in an organization such as the SECPS—with attendant peer review and other meaningful membership requirements—should provide investors and clients with the requisite degree of assurance that member firms consistently conduct their accounting and auditing practice in accordance with professional standards. While membership cannot guarantee that there will be no future audit failures, it should reduce the likelihood of such failures. If and when audit failures occur, the Commission expects they will be due to isolated breakdowns or "people problems," and not to inherent deficiencies in firms' systems of quality control.

The POB has stated its belief that since the principle objectives of the Division for CPA Firms are improvement of the profession and protection of the public, the public is entitled to know the identity of firms that are members of the Division and the type of standards with which they must comply.[125] The Commission agrees that it may be important that investors know whether a registrant's auditor is a member of a recognized and effective self-regulatory organization. Therefore, the Commission endorses the decision of the AICPA Council to publish a directory of accounting firms that are members of the Division for CPA Firms.

FASB Activities—The FASB has continued its efforts to develop and improve the financial accounting and reporting standards upon which financial reporting is based. A number of statements and interpretations were issued during the past year, and the FASB's agenda currently includes various significant projects such as: (a) development of a conceptual framework for financial accounting and reporting by business enterprises; (b) reconsideration of a standard on accounting for foreign currency translation; (c) consideration of employers' accounting for pensions and other post-employment benefits; (d) consideration of the extent to which the rate-making process should affect the application of financial accounting standards to companies in certain regulated industries; (e) development of a cohesive and comprehensive set of disclosures about oil and gas exploration and producing activities; and (f) extraction of specialized accounting and reporting practices in the AICPA statements of position and guides on accounting and auditing matters. The FASB is also continuing its efforts to provide timely guidance on various implementation and practice problems.

The Commission's staff has closely monitored the FASB's activities during the

year. A description of certain FASB projects follows.

(1) Conceptual Framework—Shortly following its creation in 1973, the FASB began the task of developing a conceptual framework for business enterprises. This project was not an entirely new effort, but it was the first time that significant resources were dedicated to the planned development of a comprehensive body of concepts intended to undergrid financial accounting and reporting.

A unified body of concepts that support financial accounting and reporting and facilitate the process of finding solutions to emerging problems would provide logical order and uniformity to the process of standard-setting. Ideally, a conceptual framework would lead to the elimination of alternative principles and practices and contribute to increased comparability of financial information among diverse business enterprises.

Although, as in prior years, deadlines in the project's timetable were missed, some progress was made. During the year, two statements in the concepts series were issued which identified and defined the ten interrelated elements that comprise financial statements, and the objectives of financial reporting by nonbusiness organizations. Additionally, the FASB published two research studies related to the recognition phase of the project, and held public hearings on the funds flows, liquidity and financial flexibility phase.

In the coming year, the FASB expects to issue a statement of financial accounting concepts which will combine in a single pronouncement the interrelated phases of reporting earnings and funds flows, liquidity and financial flexibility. The display of earnings and funds flows data is also under active consideration. At least one discussion memorandum regarding the issues to be considered in the recognition phase is also expected during 1982. Work on the measurement-of-elements phase of the conceptual framework project should extend beyond 1982.

The FASB's work on a conceptual framework is now at a critical stage. The fundamental conceptual issues identified with reporting earnings and funds flows, including the display of this information, have been under active consideration for several years. Work on the difficult areas of accounting recognition and measurement of the elements of financial statements has been started, but delays persist and meaningful solutions continue to be elusive. It is possible that the FASB's success in resolving the conceptual issues related to recognition and measurement may determine the ultimate success or failure of the conceptual framework project.

The FASB believes that the progress made to date on the framework does assist in its deliberations on specific standards. Substantial completion of the project—that is, the point where it becomes a visible aid in the reporting process—does not, however, appear to be a near-term prospect. Thus, the FASB should continually assess its resource allocations to ensure that work on specific accounting issues which have been identified as needing the board's attention—such as accounting for income taxes and consolidation accounting—is not being inappropriately postponed. While the Commission continues to believe that the development of a conceptual framework is worthwhile, the FASB's major objective should be to provide timely guidance on major issues and emerging accounting problems which constantly arise in a dynamic financial reporting environment. In addition, work on some of the major accounting issues currently facing the financial community, including the FASB's project on accounting for pensions by employers, may aid in the future development of recognition and measurement concepts

The Commission will continue to work with the FASB by offering its comments and observations as this process continues to evolve.

(2) Financial Reporting and Changing

Prices—During the past two years, certain large, publicly-held enterprises have disclosed supplementary information regarding the effects of changing prices under the FASB's Statement of Financial Accounting Standards No. 33 (FAS 33). FAS 33 requires information regarding both operations and financial position on two bases—constant dollar accounting and current cost accounting. This year, the Commission revised its rules to specifically require disclosure pursuant to FAS 33 in certain registration statements, annual reports on Form 10-K and annual reports subject to the proxy rules and certain proxy statements.

FAS 33 does not require current cost information for specialized assets associated with unprocessed natural resources and income-producing real estate. However, it was supplemented during the past year by three new statements which cover the specialized assets in those industries. Two of the new statements merely extended the interim provisions of FAS 33 for certain specialized assets—income-producing real estate and timberlands and growing timber—so that current-cost based data remains optional for these assets and related depreciation, depletion and amortization. The remaining statement imposes a requirement for current-cost information for the specialized assets in the oil and gas and hard minerals industries.

Accounting for the effects of changing prices is not a settled area in accounting theory or practice. Consequently, the FASB issued FAS 33 before the definitional, conceptual and display issues were fully settled, and decided to reexamine the issues after a five-year period of experimentation. In June 1981, the FASB issued an invitation to comment regarding research needed on reporting the effects of changing prices in order to provide information about cost/benefit assessments, use of the data, behavioral effects, and indicated needs for change in the manner in which the data are derived and communicated.

High rates of inflation seriously impair the ability of financial statements, which are predicated on historical cost/nominal dollars, to indicate earnings available for expansion or distribution to owners. The FASB made a significant breakthrough in private sector standard-setting process in issuing FAS 33. The Commission recognizes the importance of coordinated research in this important area of financial reporting. Preparers and users of financial information should be joined by auditors, academics and others in providing useful empirical data and opinions on the issues identified in the FASB's invitation to comment. The ultimate success in achieving disclosure of useful information concerning the effects of changing prices should not be dependent entirely on the efforts of the FASB. The business community and the accounting profession should be partners with the FASB in this effort through their contributions of time and talent to relevant research and experimentation.

Other Significant Financial Reporting Issues—During the past year, the Commission continued to be actively involved with several important financial reporting issues. These include: (1) the efforts to achieve more useful financial reporting for oil and gas producing companies; (2) the private sector's initiatives regarding voluntary reporting on internal accounting control; and (3) the evolving area of supplemental financial information and the question of appropriate auditor association with that data. A brief discussion of each of these issues follows.

(1) Financial Reporting Practices for Oil and Gas Producers—During the fiscal year, the Commission and its staff continued to review the various supplemental disclosures made as a part of the Commission's experiment to develop a new method of accounting for oil and gas producers—reserve recognition accounting (RRA). Companies are required to disclose supplementary information about the value of their reserves, changes in those values and an alternative measure

of performance, all based on RRA. The Commission noted significant revisions to estimated proved reserves quantities in the supplemental disclosures included in various required filings, and received comments from oil and gas reservoir engineers that a significant range of reserve estimates is considered reasonable by that profession. Also, the published results of several studies suggested a substantial degree of uncertainty of oil and gas reserve estimates.

After assessing the development of RRA since September 1978, the Commission determined that, because of the inherent uncertainty of recoverable quantities of proved oil and gas reserves, RRA does not presently possess the requisite degree of certainty to be useful as a primary method of accounting. Therefore, in February 1981, the Commission announced that it no longer considered RRA to be a potential method of accounting for use in the primary financial statements.

At that time, the Commission also announced its support for an FASB project to develop a comprehensive set of disclosures for oil and gas producers. This project comprehends all aspects of financial reporting by oil and gas producers except the issue of a uniform method of accounting. The Commission presently has no plans to attempt to address the issue of a uniform method of accounting since it believes that concepts developed by the FASB in its standard-setting role may have an impact on the ultimate resolution of the uniform method question.

In connection with its disclosure project, the FASB issued an invitation to comment in May 1981 and held public hearings on the subject in August 1981. It expects to issue an exposure draft of a reporting standard in early 1982, with a final standard to be adopted in the summer of 1982. The Commission's staff has followed and will continue to closely follow the FASB's progress on this disclosure project, and expects that the Commission's rules will be amended to be consistent with the disclosure standards adopted by the FASB.

Since the Commission is no longer working to develop RRA as a method of accounting for use in the primary financial statements and there are no immediate plans for adopting a single uniform method of accounting, the staff has recommended the rescission of Accounting Series Release No. 261 (February 23, 1979) which expressed the Commission's view that changes from either the full cost or the successful efforts method of accounting would not be in the interest of investors. This view was espoused because of the potential for another change in accounting method in the near future. Since RRA is no longer being developed, the Commission's staff believes that it is no longer necessary to discourage accounting changes. Therefore, the staff has recommended rescission of the subject release. If this recommendation is adopted, in the future the Commission will accept accounting changes from either the full cost or the successful efforts method when such changes are in accordance with generally accepted accounting principles (GAAP). (After the close of the fiscal year, on October 7, 1981, the Commission authorized the publication of the recommended release.[126])

(2) Management Reports—The Commission's staff continued to monitor the private sector initiatives for management reports on internal accounting controls. Significantly more annual reports issued this year included such reports than those issued last year. The staff is encouraged by the increasing number of reports submitted and by the broad range of topics covered by these reports. The strong positive response by the private sector suggests that regulatory action in this area is not warranted at this time.

(3) Supplemental Financial Information—In 1978, in connection with its project to develop a conceptual framework, the FASB concluded that some financial information should be reported outside the financial statements, notwithstanding its relevance to an understanding of an

entity's financial position and results of operation. Accordingly, the FASB determined to develop standards for disclosure of supplementary financial information where appropriate. The Commission has previously expressed support for the FASB's decision to look beyond the reporting of financial information in financial statements to a broader concept of financial reporting. The Commission continues to concur in this broadened objective of the FASB.

At the present time, the only FASB standards that address supplementary financial information concern inflation accounting and, to a limited extent, information about oil and gas reserves. The new FASB initiative in the area of disclosures about oil and gas exploration and producing activities is expected to result in additional specific standards for supplementary disclosures.

Independent accountants are required, by generally accepted auditing standards, to review the supplementary financial information presented under FASB pronouncements and the oil and gas reserve disclosures required by the Commission. The required review of supplementary financial information is less extensive than an audit. However, independent accountants are not required to report on the supplementary financial information. They are only required to expand their reports on the audited financial statements when they have been unable to complete the prescribed review procedures, or when the disclosure is incomplete or materially different from the reporting standards.

The Commission has stated that an accountant's report on supplementary information would provide an important channel of communication between the profession and users of financial reports. Such a report would describe the nature of the accountant's review and state whether he is aware of any material modifications that should be made to the information for it to conform with the FASB's guidelines.

The Commission understood that consideration of explicit reporting had been hindered by uncertainty over the applicability of Section 11 of the Securities Act to accountants' reports on supplementary information which are included in registration statements. Accordingly, it proposed rules which would clarify that accountants would not be liable under Section 11 for their reports on supplementary financial information as to the effects of changing prices and as to oil and gas reserves. Final action on these rules has been deferred because of questions relating to the most appropriate way for the Commission to express its view that accountants' exposure to liability must be consistent with the responsibilities they assume.

Review of Accounting-Related Rules and Interpretations—The Commission relies to a great extent on GAAP, as established by the private sector, to provide guidance to registrants and accountants in preparing financial statements required to be included in various registration statements and reports filed with the Commission. The Commission's accounting-related rules and interpretations serve primarily to supplement GAAP, by addressing those areas which are unique to Commission filings or where GAAP is not explicit.

The Commission's principal accounting requirements are embodied in Regulation S-X (S-X) which governs the form and content of, and requirements for, most financial statements filed under the Federal securities laws. The Commission also publicizes its views on various accounting and financial reporting matters in Accounting Series Releases (ASRs). In addition, the Commission's staff periodically issues Staff Accounting Bulletins (SABs) as a means of informing the financial community of its views on accounting and disclosure practices.

The Commission continually evaluates its requirements as the private sector effectuates changes in financial reporting

standards, and modifies or eliminates those requirements which become unnecessary. To the extent that the FASB and the AICPA accelerate their efforts to enhance financial reporting, the Commission should be able to place more reliance on private sector standards.

In addition, the Commission updates its rules and issues interpretations where necessary and appropriate For example, in July 1981, the Commission announced its concerns about certain application and disclosure practices relating to the last-in, first-out (LIFO) method of accounting for inventories. The Commission encouraged registrants and accountants to carefully reexamine LIFO accounting and disclosure practices to ensure that those practices result in accurate and meaningful financial reporting.

During the past year, the Commission has devoted substantial resources to a comprehensive review of its existing accounting-related rules and interpretations. The objective of this review is to ensure that the Commission's requirements remain necessary and cost-effective in today's environment and that they contribute to the usefulness of financial reporting without imposing unjustified burdens on registrants. As a result of this effort, the Commission has made progress in reducing and simplifying its rules without sacrificing the integrity of financial disclosure documents. Some specific initiatives in this area are discussed below.

(1) Scope of Services by Independent Accountants—In 1978 and 1979, the Commission issued two releases relating to the scope of services performed by independent accountants for their audit clients. ASR No. 250 (June 29, 1978) announced the adoption of a rule requiring disclosure in proxy statements about nonaudit services performed by accountants. In ASR No. 264 (June 14, 1979), the Commission discussed factors relevant to an evaluation of the impact of the performance of nonaudit services on auditor independence.

These releases were issued by the Commission as a part of its response to concerns raised by members of Congress and the public during the mid-1970's that the performance by accountants of nonaudit services could or could appear to create a conflict of interest which would impair the accountant's independence. The disclosure about nonaudit services was intended to permit security holders to better evaluate registrants' relationships with their independent accountants. In addition, the Commission intended to monitor the disclosures to assist in developing an empirical basis from which to determine the need for any further action in this area.

Based on the review of the proxy disclosures conducted by the Commission's staff, the Commission obtained a better understanding of the nature and extent of nonaudit services performed by accountants. Although the Commission believes that information about nonaudit services performed by independent accountants is important for monitoring the relationships between accountants and their clients, in August 1981, it proposed to rescind the proxy rule because it believed that the detailed nonaudit services disclosure may not be of sufficient utility to investors to justify continuation of the disclosure requirement.[127] In addition, the Commission thought that the SECPS could generate sufficient information to enable the Commission, the POB, and others to appropriately monitor the services performed by accountants. In this connection, subsequent to the issuance of the above proposal, the Executive Committee of the SECPS agreed to require member firms to provide additional disclosure about nonaudit services in annual reports filed with the SECPS and available for public inspection

In a related action, the Commission withdrew ASR No. 264.[128] Although registrants and accountants must continue to carefully evaluate their relationships to ensure that the public maintains confidence in the

integrity of financial reporting, the Commission took this action because ASR No. 264 might have confused persons trying to evaluate services performed or to be performed by accountants. Moreover, the Commission believes it has achieved its objective in issuing that policy statement. Accountants and their self-regulatory structure, audit committees, boards of directors and managements are aware of the Commission's views on accountants' independence and should be sensitive to possible impact on independence of nonaudit services performed by accountants. The Commission believes it should be able to rely on these persons to ensure adequate consideration of the impact on accountants' independence of nonaudit services because they share the responsibility to assure that the public maintains confidence in the independence of accountants.

In its release proposing withdrawal of the proxy rules, the Commission emphasized that the independence of auditors—both in fact and in appearance—is critical to their role under the Federal securities laws. Because of its responsibility and authority under the securities laws to assure that accountants who practice before it are independent, the Commission is prepared to take further action if either the fact or appearance of accountants' independence is questioned seriously in the future.

(2) Regulation S-X—As part of the continuing efforts to streamline the Commission's regulations, the Commission and its staff have: (a) standardized and centralized in S-X the instructions for interim financial statements in registration statements and quarterly reports to further simplify disclosure requirements; (b) proposed to significantly reduce the requirements for financial statements, such as parent company, unconsolidated subsidiaries, etc., which supplement consolidated financial statements (The Commission adopted final rules to reduce the number of instances where separate financial statements are required on November 6, 1981.); (c) revised the rules relating to the detailed property, plant and equipment schedules to require the filing of such schedules only by capital intensive companies; (d) reviewed the financial statement requirements for companies in specialized industries—insurance companies, bank holding companies and investment companies—and either issued, or will soon issue, proposals to revise those requirements (The Commission adopted final rules relating to insurance companies on October 21, 1981.); (e) issued a proposal to simplify and standardize requirements for disclosure of a ratio of earnings to fixed charges; and (f) issued a proposal to simplify and improve the registration and reporting process by codifying administrative policies regarding the presentation of pro forma financial information

The Commission's staff believes that these initiatives will result in substantial improvement in S-X while reducing reporting burdens on registrants The staff will continue to explore ways in which S-X can be refined.

(3) ASRs—The Commission's staff has commenced a review of the approximately 300 ASRs which have been issued by the Commission since 1937. The objective of this review is to identify unnecessary, outdated or otherwise extraneous material and to publish a codification of those portions of the ASRs which remain relevant to financial reporting today. This project is expected to result in a substantial reduction in the material that the financial community need be concerned with, and the inclusion of the remaining material in a more concise and useful format which is expected to vastly increase its utility. The staff expects to recommend that the Commission consider the final document during fiscal year 1982.

Although this project is in its initial stages, the staff has already identified a number of ASRs which have been rescinded recently because the policies stated therein no longer have current

application or have been superseded by other pronouncements.

(4) SABs—In January 1981, the Commission staff published a codification of the material included in 38 earlier SABs. The codification represents an integrated package of updated and indexed SABs to make those staff interpretations more useful to issuers, accountants and others. The principal revision to the material in the previous SABs related to deletion of material no longer necessary because of private sector developments and Commission actions.

Disclosure Study

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

During the 1981 fiscal year, the study group reviewed changes in reporting requirements for management investment companies. On November 17, 1980, the Commission proposed three revisions to Form N-IQ, the quarterly reporting form for management investment companies.[129] The major revision would shift the requirements for reporting changes in an investment company's portfolio securities from a quarterly to an annual basis. The Commission proposed the revisions because (1) the staff makes little internal use of the quarterly information; and (2) the institutional disclosure program established under Section 13(f) of the Securities Exchange Act of 1934 (Exchange Act) sets appropriate disclosure requirements for all institutions, including investment companies.

The study group also continued its effort to eliminate duplicative reporting requirements in documents sent to existing shareholders and potential investors. On July 8, 1981, the Commission adopted uniform requirements for the contents of and periods to be covered by financial statements included in shareholder reports and prospectuses in (or annual updates of) management investment company registration statements.[130]

As a result, management investment companies can prepare a single set of uniform updated financial statements that can be used in both the prospectus and the annual report to shareholders. In addition, open-end management investment companies, at their option, can either incorporate financial statements included in any shareholder report by reference into the prospectus, or transmit a currently effective prospectus as the equivalent of a shareholder report. The Commission adopted these changes to: (1) reduce the costs incurred in preparing and transmitting essentially duplicative financial information; and (2) provide an opportunity for open-end management investment companies to reduce the length of their prospectuses or eliminate separate preparation of periodic reports.

Rule 465 under the Securities Act became effective in October 1980. This rule permits most post-effective amendments filed by open-end management investment companies and unit investment trusts, other than insurance company separate accounts, to become effective automatically, without affirmative action on the part of the Commission or its staff. Amendments that merely register additional shares, or that are filed to update the issuer's prospectus and do not discuss any material events in its operations, can become effective either immediately or on a date chosen by the registrant within 20 days of the date of filing. All other amendments become effective on the 60th day after filing, including those that discuss material events in investment company operations. The rule was adopted to accomplish two goals. First, it should eliminate staff review of purely routine filings, thereby enabling the Division to concentrate its resources on those filings which need the review process in order to insure

complete disclosure. Second, and perhaps more importantly, it should permit registrants to assume greater responsibility for their compliance with the disclosure requirements of the Federal securities laws. In this regard, since the rule was adopted, over half of the post-effective amendments subject to its provisions have been filed under the provision permitting immediate effectiveness.

The study group is considering a number of other proposals including the possibility of simplifying the disclosure contained in investment company prospectuses. The goals of such simplification would be to make disclosures easier for investors to understand and to reduce the costs and burdens of preparing and distributing prospectuses.

Investment Company Act Study

In 1978, the Division established the Investment Company Act Study (the Study) to review the Investment Company Act and the rules, regulations and administrative practices under it, with a view towards simplifying and reducing the burden of regulation upon the investment company industry, to the extent practicable, consistent with the protection of investors. Through its rulemaking proposals to the Commission, the Study has advocated a more efficient regulatory system which enhances the oversight responsibilities of investment company directors and concomitantly minimizes Commission involvement in investment company operation. The recommendations of the Study have generally taken two forms: (1) replacing administrative review by the Commission's staff of proposed investment company activities with rules establishing general criteria under which certain activities are permissible; and (2) refining the Investment Company Act's broad statutory prohibitions by interpretation so as to permit activities otherwise prohibited under conditions which preserve the underlying purpose of the regulatory provision.

Consistent with the purposes stated above, during the fiscal year the Commission adopted rules which:

(1) exclude from the definition of investment company and hence from regulation under the Investment Company Act, certain *prima facie* investment companies which are primarily engaged in a non-investment company business;[131]

(2) temporarily deem certain transient investment companies not to be investment companies for purposes of the Investment Company Act;[132]

(3) deem certain subsidiaries of operating corporations not to be investment companies for purposes of the Investment Company Act;[133]

(4) exempt the purchase or sale of certain securities between an investment company and an affiliated person which is so affiliated solely because of having a common investment adviser, common officers and/or common directors;[134]

(5) permit use of fund assets to finance distribution of fund shares;[135] and

(6) require that investment companies develop codes of ethics governing purchases or sales by investment company insiders of the same securities held or to be acquired by the investment company.[136]

The Commission also proposed rules developed by the Study to resolve several longstanding issues. First, the Commission proposed Rule 3a-4 which would provide a "safe harbor" for certain "mini-account" services. These accounts are offered by investment advisers in the form of individual accounts, but may be operated, in practice, more like investment companies. The proposed rule would deem investment management services providing their clients with individualized treatment not to be investment companies for purposes of the Investment Company Act.[137]

The Commission also proposed Rule 180 which would exempt from the registration requirements of the Securities Act, interests and participations issued in

connection with the tax-qualified retirement plans commonly know as "H.R. 10" plans. Because H.R. 10 plans are not entitled to the exemption from registration available to the tax-qualified retirement plans of certain employers, many such plans have applied for and received exemptions from such registration requirements. The proposed rule would obviate the filing of many such applications.[138]

Legislation

The Commission, consistent with its deregulatory objectives, participated in the development of the legislation which resulted in the enactment of the Small Business Investment Incentive Act of 1980. That legislation, through the addition of Sections 2(a)(46) through 2(a)(48) and 54 through 65 of the Investment Company Act and the addition of Section 202(a)(2) and amendment of Sections 203(b)(3) and 205 of the Investment Advisers Act of 1940 (Investment Advisers Act), was designed to accommodate the special characteristics of business development companies (also known as venture capital companies and small business investment companies). Special regulation was created to: (1) permit public business development companies increased flexibility to issue debt and other senior securities; (2) provide incentive compensation to internal management or external advisers; (3) narrow prohibitions regarding transactions which involve indirectly affiliated persons of the business development company; and (4) clarify or change certain other regulations which would otherwise apply to business development companies as closed-end investment companies.

In order to implement this legislation, the Commission undertook several regulatory initiatives. The Commission adopted rules that would:

(1) permit certain transactions between a business development company, as newly defined in the Investment Company Act, and a company controlled by it or certain affiliated persons of such controlled company;[139] and

(2) permit a business development company to acquire the securities of and operate a wholly-owned small business investment company.[140]

The Commission also adopted, on an interim basis, three forms to be used by business development companies to notify the Commission of their status under the Investment Company Act: Form N-6F, the notice of intent to file a notification of election; Form N-54A, the notification of election of business development company status; and Form N-54C, the notification of withdrawal of election.[141] As a part of the same release, the Commission also made public the views of the Division as to: (1) the existing forms that should be used by business development companies to register their securities under the Securities Act and the Exchange Act; (2) the disclosure that would be appropriate to inform investors about the special characteristics of business development companies. Finally, the Commission withdrew two outstanding rule proposals (Rule 3c-2 under the Investment Company Act[142] and Rule 205-3 under the Investment Advisers Act[143]) because the subject matters of those rules were comprehensively addressed by the legislation.

Investment Advisers Act Study

The Division continued its comprehensive review of the Investment Advisers Act and the rules, regulations and administrative practices under it, with an aim towards determining whether the existing regulatory structure is adequate in light of the dramatic growth of the advisory industry in recent years.

As a foundation for this review, the investment adviser study group is compiling a comprehensive profile of the investment advisory industry based upon analysis of information filed with the Commission in investment adviser registration applications.

In July 1981, the Commission published, in question and answer format, certain interpretive positions of the Division regarding the revised integrated disclosure and reporting requirements for investment advisers.[144] On the same date, the Commission proposed certain amendments to these requirements.[145] The revised disclosure and reporting requirements, which became effective on July 31, 1979, and the interpretive release and proposed amendments were based on experience with the revised requirements. The proposed revisions would substantially reduce the burden of compliance with these requirements for a significant number of investment advisers by eliminating the requirement that these advisers file an unaudited balance sheet with the Commission with their registration application.

In August 1981, the Commission published the views of the staff regarding the applicability of the Investment Advisers Act to financial planners, pension consultants, and other persons who, as an integral component of other financially related services, provide investment advisory services to others for compensation.[146] The statement of staff views generally sets forth long-standing interpretive positions of the staff as to the circumstances under which persons providing such services would be investment advisers under the Investment Advisers Act and thus subject to the registration requirements of the Act.

Significant Applications and Interpretations

Heizer Corporation—On July 7, 1981, the Commission granted an application, under Section 57 (a)(4) of the Investment Company Act and Rule 17d-1 thereunder, to Heizer Corporation, a business development company. This order was the first to be granted by the Commission pursuant to the Small Business Investment Incentive Act. The order granted to Heizer Corporation permitted it to provide for its officers and employees a Simplified Employee Pension Plan, qualified under Section 408(k) of the Internal Revenue Code. The Commission granted the application noting that the pension plan is subject to the fiduciary requirements and self-dealing prohibitions of the Employee Retirement Income Security Act of 1974 and the reporting and disclosure requirements of the Internal Revenue Code. The Commission also placed weight on the fact that Section 408(k) of the Internal Revenue Code was enacted by Congress to provide small businesses with a less burdensome and expensive alternative to the establishment of a pension plan qualified under Section 401 of the Internal Revenue Code.

Investment Company Institute—On January 23, 1981, the staff advised the Investment Company Institute that it would not recommend that the Commission take any enforcement action if an investment company purchased certificates of deposit issued by members of the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation having a level of assets less than the specified minimum amount of assets required by the investment company's investment policy. The staff recommended this no-action position, subject to certain conditions, in order to remove impediments preventing investment companies from investing in certificates of deposit of small banks and savings and loan associations.

Walter Untermeyer, Jr.—On January 14, 1981, Walter Untermeyer, Jr. (Untermeyer), a shareholder of Fidelity Daily Income Trust (the Fund), filed an application requesting an order of the Commission determining that two of the disinterested trustees of the Fund are controlled by and interested persons of the Fund's investment adviser. The named trustees, the Fund, and the investment adviser opposed the Commission's exercise of jurisdiction over the application, contending that essentially the same issue

was raised in a shareholder derivative suit that Untermeyer had filed against the Fund in the United States District Court of Massachusetts alleging that the Fund had paid excessive fees to the adviser.

After considering briefs submitted by Untermeyer, the Trustees, the Fund, the investment adviser, and the Division in this matter, the Commission decided to accept jurisdiction over the application. The Commission held that, since the determination sought in Untermeyer's application would not necessarily be decided in the course of the district court's disposition of the issues raised in Untermeyer's lawsuit, the doctrine of comity did not require the Commission to defer to the court.

Institutional Disclosure Program

The Commission's institutional disclosure program, adopted pursuant to Section 13(f) of the Exchange Act, has been in operation for over two years. Under the program, money managers that fall within the definition of an "institutional investment manager" contained in Section 13(f) (5) of the Exchange Act, and that meet certain criteria set out in Rule 13f-1 under the Exchange Act, file reports on a quarterly calendar basis on Form 13F. Among the institutional investment managers that typically meet the requirements of Section 13(f) and file Form 13F reports are investment advisers, banks, and insurance companies. Those managers required to file Form 13F reports disclose certain equity holdings of the accounts over which those managers exercise investment discretion. This year over 900 institutional investment managers have reported on Form 13F security holdings which total almost $500 billion dollars.

Form 13F reports are made available to the public at the Commission's Public Reference Room promptly after filing. Also available for public inspection at the Public Reference Room are two tabulations of the information contained in Form 13F reports filed with the Commission. The first of the tabulations includes a listing, arranged according to the individual security held, showing the number of shares of that security held and the name of the money manager reporting the holding. The second tabulation is a summary listing, also arranged according to the individual security, showing the number of shares of that security reported by all institutional investment managers filing reports. The tabulations are normally available between ten days to two weeks after the end of the 45-day period for filing Form 13F reports for a particular calendar quarter.

Both tabulations are produced by an independent contractor selected through the competitive bidding process. The contractor provides its services to the Commission without charge, and is required to make a variety of specified tabulations available to the public at reasonable prices within 10 days after receipt of the reports. The independent contractor also produces and offers for sale to the public a magnetic tape containing the information included in the two tabulations.

Form 13F reports are not required to be filed in machine readable form. The Commission decided not to adopt such a form of reporting after receiving public comments in 1979 and determining that managers would find it unduly burdensome to employ uniform computer systems for the purpose of filing Form 13F in machine language.

Enforcement Program

The disclosure requirements of the Federal securities laws, including the issuer registration and reporting requirements, are aimed at maintaining high standards of integrity in United States securities trading markets. Strict requirements imposed on market professionals, such as broker-dealers and investment advisers, are likewise designed to assure that investors may rely on the integrity of securities transactions. It is the task of the Commission's enforcement program to assure that these high standards of integrity are in fact adhered to. To do this, the Commission maintains a surveillance of the securities markets. Its pursuit of violations of the Federal securities laws is intended both to provide remedial relief in particular situations and to deter others who might otherwise be tempted to engage in similar violations.

The Commission's enforcement program aims at maximizing the limited resources available to it in maintaining a strong and effective presence in those areas within its jurisdiction. Substantial efforts are devoted to co-ordinating enforcement activities with self-regulatory organizations and state and other Federal agencies. In addition, civil damage actions, which have the effect of supplementing the Commission's enforcement efforts, are brought by private parties based upon violations of the Federal securities laws.

The enforcement actions described in this section are illustrative of trends in enforcement activities encountered in the past year. They also indicate the magnitude of the Commission's enforcement reponsibilities and the variety of Commission responses adapted to the needs of particular situations.

Set forth below is, first, a summary of the sanctions and remedies available to the Commission in dealing with enforcement matters. (Table 33, "Types of Proceedings", outlines in detail various types of proceedings which the Commission may pursue.) Following this is a summary of some of the significant enforcement actions brought in the 1981 fiscal year.

Sanctions and Remedies

The Federal securities laws provide administrative, civil and criminal remedies for violations of those laws. Sanctions in administrative proceedings for individuals subject to the Commission's regulatory jurisdiction may range from the imposition of a censure to the barring of a securities professional from engaging in business in the industry. Issuers of securities subject to the periodic reporting provisions of the Federal securities laws may be subject to proceedings under which the Commission may find that they have failed to comply with those provisions In this type of proceeding the Commission may order such issuers to comply with those provisions upon such terms and conditions as it may specify. The civil remedy usually available to the Commission is the entry of a Federal court ordered injunction barring future violations. In addition, courts often enter orders providing for other equitable relief, such as disgorgement of profits gained from violative activities, restitution, or the appointment of special agents or trustees to manage or monitor the use of corporate assets. Criminal sanctions include fines and imprisonment

The enforcement provisions of the Federal securities laws are primarily remedial in nature, and in litigating and settling proceedings the Commission makes every attempt to prevent a recurrence of violative activity and to rectify the result of past

violations. Examples of some types of relief obtained are discussed in the summaries of selected cases which follow. In fiscal 1981, Commission actions resulted in the disgorgement or restitution of over $30 million.

In the majority of its cases, the Commission is able to settle with respondents or defendants on terms which secure necessary and appropriate remedial relief. Generally, respondents or defendants who consent to such settlements do so without admitting or denying the factual allegations contained in the Commission's complaint or order for proceedings. Unless otherwise noted, in the discussion of the illustrative cases which follows, it should be assumed that settlements achieved were upon that basis. In addition use of the phrase, violations of the Federal securities laws, includes allegations of both direct violations and the aiding and abetting of such violations.

Insider Trading

The Commission monitors, investigates, and, where appropriate, brings enforcement actions in cases involving the purchase or sale of securities by persons in possession of material, non-public information. The Commission works closely with the registered securities exchanges and the National Association of Securities Dealers (NASD) in uncovering and developing such cases.

During the past year, many of the insider trading cases initiated by the Commission involved trading in non-public information concerning tender offers or other potential changes in control of an issuer. Several actions also involved the misuse by professionals of non-public information.

SEC v. FinAmerica Corporation and Jorge E. Camicero[147]—This action, alleging violations of the antifraud provisions of the Securities Exchange Act of 1934 (Exchange Act), was filed against FinAmerica Corporation, the then largest shareholder of Riggs National Bank of Washington, D.C., and Jorge E. Camicero, president of FinAmerica, who was at that time also a director of the bank. The complaint alleged that while nonpublic negotiations were being held concerning the sale (at a substantial premium) of Riggs stock held by FinAmerica and others, the director purchased Riggs stock, recommended the purchase of Riggs stock to others, and attempted to include the stock purchased by himself and others in the negotiated sale. The court enjoined the defendants and ordered disgorgement of profits amounting to $150,000.

SEC v. Banca Della Svizzera Italiana, et al.[148]—On March 27, 1981, the Commission filed a complaint against Banca Della Svizzera Italiana (Banca), Irving Trust Company and "certain purchasers of call options for the common stock of St. Joe Minerals Corporation" (Purchasers). The complaint alleged that defendant Purchasers had violated the antifraud and tender offer provisions of the Exchange Act by purchases of call options for the common stock of St. Joe Minerals Corporation (SJO) based on material nonpublic information concerning a tender offer for SJO by a subsidiary of Joseph E. Seagram & Sons, Inc. The alleged purchases were made by defendant Banca, a banking institution located in Switzerland. The complaint alleged that over 1,000 option contracts for over 100,000 shares of SJO stock were purchased, and that the increase in price of SJO stock upon the announcement of Seagram's tender offer resulted in a profit to the purchasers of over $1 million.

The court imposed a Temporary Restraining Order freezing $2 million of the assets of Banca and Purchasers. At the end of the fiscal year, litigation was continuing.

SEC v. Daniel H. O'Connell, Arthur D. Tanner[149]—The Commission filed a complaint against Daniel H. O'Connell and Arthur D. Tanner, alleging that they violated the antifraud provisions of the Exchange Act by purchasing the common stock of Catalina Savings and Loan Association on the basis of material non-public informa-

tion concerning a proposed tender offer for all of the outstanding shares of Catalina common stock by D. W. Ludwig. O'Connell, a practicing attorney, and Tanner, a business executive, reside in Tucson, Arizona.

The Commission's complaint alleged that O'Connell and Tanner learned from a director of Catalina that Catalina's board of directors had voted unanimously to recommend that Catalina's shareholders accept a tender offer for all of the outstanding shares of Catalina common stock. The complaint further alleged that O'Connell and Tanner traded in the common stock of Catalina while in possession of material, non-public information without disclosing such information.

The court entered final judgments of permanent injunction against O'Connell and Tanner and ordered them to disgorge profits of $17,800 and $32,375, respectively, which were derived from the purchase of Catalina common stock. This matter was referred to the Commission by the market surveillance staff of the NASD.

SEC v. Howard L. Davidowitz[150]—The Commission filed this complaint against Howard L. Davidowitz, a former principal in the accounting firm of Ernst & Whinney, Chairman of the firm's Retail Industry Committee and National Director of its Retail Consulting Group. The complaint alleged that Davidowitz violated the anti-fraud provisions of the Exchange Act by the purchase and sale of common stock of Drug Fair, Inc. based on non-public information concerning the proposed merger of Drug Fair and Gray Drug Stores, Inc. This information was allegedly obtained in connection with services performed by Ernst & Whinney for Gray Drug Stores, Inc., relating to the planned merger.

Davidowitz's purchase and sale of stock of Drug Fair, Inc. resulted in a net profit of over $45,000. He was enjoined by the court and ordered to disgorge that profit.

SEC v. Frank H. Wyman; SEC v. Frederick Wyman, II[151]—In this case the Commission filed two separate complaints alleging violations of the antifraud provisions of the Exchange Act based on trading on non-public information obtained, directly or indirectly, from a paralegal employee of a New York law firm. In each instance, the non-public information concerned proposed tender offers by clients of the firm. The defendant in the first action was a private investor. In the second action the defendant was a former registered representative of a broker-dealer firm.

In the first action, the Commission alleged that the defendant traded on material non-public information relating to the interest of Blue Bell, Inc. in making a tender offer for Jantzen, Inc. In that case the court entered an order of permanent injunction, and ordered disgorgement of over $99,000.

In the second action, the Commission alleged that the defendant traded on material non-public information relating to the interest of Phillips Petroleum Co. in making a tender offer for the stock of Crown Zellerbach Corporation. The Commission also alleged that, by disclosing such information to the defendant, the paralegal had breached a duty to her employer law firm and its client, Phillips Petroleum Co., to keep such information confidential. The court entered an order of permanent injunction against the defendant.

In announcing each action, the Commission acknowledged the assistance provided to the Commission staff by the Stock Watch Division of the New York Stock Exchange (NYSE) during each investigation.

SEC v. Carlo M. Florentino[152]—On September 23, 1981, the Commission filed a complaint against Carlo M. Florentino, alleging violations of the antifraud provisions of the Exchange Act. Florentino is a former partner of a New York law firm, and a former associate of two other New York law firms.

The Commission's complaint alleged that commencing on or about October 11, 1977, Florentino effected transactions in

the securities of certain publicly held companies while in possession of material nonpublic information which he had obtained in confidence relating to, among other things, the possible acquisition of these companies through tender offer or merger transactions. The Commission alleged that as a result of such transactions, Florentino realized a net profit of approximately $450,000, that Florentino effected these transactions while associated with two law firms, and without following various policies and procedures of those law firms.

At the end of the fiscal year, litigation was continuing.

Changes in Corporate Control

In recent years there has been a significant increase in corporate mergers and acquisitions, and in the novelty of techniques used to accomplish these transactions. Maintenance of the confidence of investors in making decisions concerning investments in companies engaged in such transactions depends upon assuring full, fair and timely disclosure of such transactions. Commission actions in this area are aimed at assuring investor protection as mandated by the Federal securities laws. Discussed below are examples of Commission actions seeking sanctions against false and misleading disclosure in Commission filings relating to tender offers, proxy contests, and "going private" transactions.

SEC v. El Dorado International, Inc., Deil O. Gustafson, et al.[153]—The Commission filed a complaint against El Dorado International, Inc., Deil O. Gustafson, Roger F. Newstrum, InnTernational, Inc., Hotel Conquistador, Inc., doing business as the Tropicana Hotel and Country Club and Consolidated Financial Corporation (CFC) alleging violations of the antifraud provisions of the Federal securities laws. In addition, the Commission alleged that El Dorado and certain other defendants violated the reporting and recordkeeping provisions of the Exchange Act.

The Commission alleged that, from September 1978 to June 1979, the defendants engaged in a scheme under to which InnTernational attempted to merge with El Dorado through an exchange of InnTernational stock for El Dorado stock, resulting in the control of El Dorado passing to Gustafson; that Gustafson diverted $1,960,000 of El Dorado's funds by causing the advance of such funds to Gustafson, CFC, InnTernational and Conquistador for the benefit of Gustafson and his related corporations; that advances of certain funds from El Dorado to InnTernational and Conquistador, and certain actions taken toward effecting the attempted merger of InnTernational and El Dorado, occurred without prior approval from the Nevada gaming authorities and in violation of the Nevada gaming laws; and that the defendants made, or facilitated the making of, numerous false and misleading representations and disclosures in filings with the Commission, to El Dorado's board of directors and shareholders, to the public and others in furtherance of such scheme.

The court entered final judgments of permanent injunction against the defendants. The court ordered Conquistador, or Gustafson, if Conquistador was unable, to reimburse El Dorado the sum of $83,781 for expenses incurred in connection with matters alleged in the Commission's complaint. (It was represented that over $2 million had already been repaid to El Dorado.) The court also, among other things, ordered Gustafson and Newstrum not to become associated in certain specified capacities with public companies for four years and two years, respectively. The action remains pending against Jay Brown, Esq., another named defendant alleged to have violated the antifraud provisions of the Federal securities laws.

SEC v. C&R Clothiers, Inc.[154]—The Commission filed a complaint against C&R Clothiers (C&R) alleging violations of the antifraud and reporting provisions of the Exchange Act. The complaint alleged that C&R distributed tender offer materials to its

shareholders which failed to disclose, among other things, that the tender offer was designed to benefit the two largest shareholders of C&R, and that a principal purpose of the tender offer was to allow these shareholders to dispose of at least 70,000 shares of C&R stock at a price above the prevailing market price. It was also alleged that C&R did not disclose that, in connection with the tender offer, bonuses were to be paid to these two shareholders, and that these bonuses totalling $198,000 significantly affected the earnings per share and book value of C&R stock. The complaint also alleged that on three occasions the prior counsel for C&R had advised the company that the proposed transaction raised issues of corporate waste and possible breach of fiduciary duties.

The court ordered entry of a final judgment of permanent injunction against C&R and ordered it to comply with its undertaking to: provide C&R shareholders with tender offer materials containing all of the information required under the tender offer provisions of the Federal securities laws; return shares previously tendered unless shareholders indicated that they still desired to tender their shares; and institute procedures reasonably designed to ensure C&R's future compliance with the tender offer provisions of the Federal securities laws.

SEC v. Cooper Industries, Inc.[155]—The Commission filed a complaint against Cooper Industries, Inc. (Cooper) alleging violations of the antifraud provisions of the Exchange Act in connection with a tender offer for the securities of Crouse-Hinds Company.

The Commission's complaint alleged that, prior to the public announcement of Cooper's exchange offer-merger proposal for Crouse-Hinds, eight arbitrageurs, two trusts, one individual shareholder, and a group of officers and directors, holding in the aggregate approximately 3.6 million of Crouse-Hinds shares, had entered into agreements and understandings with, and made commitments to, Cooper with respect to their Crouse-Hinds stock, that in connection therewith, Cooper made false and misleading disclosures concerning the facts and circumstances pertaining to and the nature of such agreements, understandings and commitments; and that false and misleading statements were made to representatives of the New York Stock Exchange.

In addition to entering a final judgment of permanent injunction, the court ordered Cooper to comply with its undertaking to release shareholder commitments to Cooper with respect to Crouse-Hinds, not to seek similar future commitments otherwise than pursuant to a registered cash tender offer or exchange offer, and to make public disclosure of all material facts concerning the judgment.

SEC v. Diagnostic Data, Inc., et al.[156]—The Commission filed a complaint against Diagnostic Data, Inc. (DDI), "DDI Shareholders for Action" (Dissidents), Gerry L. Dagess, an officer of DDI, and Robert C. Bartels, DDI's largest shareholder, alleging violations of the proxy provisions of the Exchange Act. The Commission also alleged that DDI and Bartels violated the reporting provisions of that Act.

The Commission's complaint alleged that DDI failed to disclose in its annual reports and proxy statements that at least three of its former officers and directors had substantial amounts of DDI common stock pledged with or for the benefit of Bartels, and were receiving substantial fees for the arrangements. Bartels was charged with failing to report, on Schedule 13D, beneficial ownership of over five percent of the common stock of DDI. The complaint also charged that DDI failed to adequately and accurately make disclosure concerning a large loan made by DDI in December 1979. In addition, the complaint alleged that Dissidents and Dagess filed or caused to be filed false proxy materials in connection with a recent proxy contest for control of DDI.

In addition to the entry of injunctions against all defendants, the court ordered DDI to comply with its undertaking to maintain certain procedures designed to assure compliance with Section 14(a) of the Exchange Act, including adoption, implementation and maintenance of an independent audit committee. Bartels also undertook to file a Schedule 13D.

In the Matter of Tidelands Capital Corporation[157]—The Commission instituted proceedings against Tidelands Capital Corporation (TCC) under Section 15(c) (4) of the Exchange Act to determine whether TCC failed to comply with Section 13(e) of the Exchange Act with respect to the acquisition of an affiliated life insurance company, Western Resources Life Insurance Company (WRL), by one of TCC's wholly-owned subsidiaries.

Among other things, the Commission found that TCC failed to make the required filings and disclosures concerning the acquisition of WRC, a transaction in which cash was paid to affiliated shareholders of WRL and common stock to unaffiliated investors. The Commission determined that, as a result, the investing public and the unaffiliated shareholders of WRL were not provided information concerning, among other things, a requested valuation and a discussion in reasonable detail of the material factors upon which TCC determined that the transaction was fair to unaffiliated security holders of WRL and the weight assigned to each such factor.

The Commission ordered TCC to: comply with the requirements of Section 13(e) of the Exchange Act; comply with its undertakings to establish procedures to ensure future compliance with Section 13(e); and comply with its undertaking to provide unaffiliated WRL shareholders with full disclosure concerning the proposed acquisition and an offer of $3.10 per former share of WRL common stock in exchange for the shares into which the WRL shares were converted. If all such former WRL shareholders elected to exchange their shares, TCC would expend an aggregate of approximately $906,000 plus expenses.

Financial Reporting

The reporting of meaningful financial information by securities issuers is fundamental to the concept of full and fair disclosure to investors. Much of the Commission's enforcement effort has historically been devoted to the detection and suppression of fraud, or failure to comply with the reporting requirements, in the financial reporting area.

SEC v. World-Wide Coin Investments, Ltd.[158]—The Commission filed a complaint against World-Wide Investments, Ltd. (WWC), Joseph H. Hale, chairman of the board, chief executive officer and president of WWC, Floyd W. Seibert, a director of WWC, and Joe Gregory Jones, a former vice-president and director of WWC, alleging violations of the antifraud, reporting, recordkeeping, internal controls, tender offer and proxy solicitation requirements of the Federal securities laws.

The complaint alleged that defendants conduct related to the July 1979 takeover of WWC, a business engaged in buying and selling precious coins, metals and bullion. The complaint also alleged, inter alia, that defendants perpetrated a two-year fraudulent course of business related to the operation of WWC by the individual defendants, and numerous transactions between WWC and the individual defendants.

A final judgment of permanent injunction was entered against Jones. The court ordered remaining defendants to abide by their undertakings to comply with the Federal securities laws pending the outcome of the litigation, to cause an accounting firm to conduct an audit of all loans and repayments of same between defendants World-Wide and Hale, and for Hale to deliver 65,000 shares of World-Wide common stock to be held in escrow pending further order of the court.[159]

At the close of the fiscal year, litigation was continuing.

SEC v. Tesoro Petroleum Corporation[160] —The Commission filed a complaint against Tesoro Petroleum Corporation (Tesoro) alleging violations of the reporting and proxy provisions of the Exchange Act.

The Commission's complaint alleged, among other things, that Tesoro and others had engaged in a course of business in connection with acquiring material foreign assets, attempting to acquire material foreign assets, or conducting foreign business, whereby they made or caused to be made substantial payments to "finders" and "consultants". These payments, with respect to multi-million dollar contracts, were disproportionate to the business obtained or the services rendered, were not usual or customary and were made under circumstances such that Tesoro was unable to account for or satisfy itself as to the final disposition of such corporate funds. It was alleged that, in certain instances involving payments made in connection with foreign business activities, the circumstances of the payments indicated that the funds, in whole or in part, may have been directly or indirectly transferred to foreign government officials or political leaders, and that, in another instance, a significant sum was returned by such a recipient to Tesoro during the pendency of an internal Tesoro investigation of questionable or improper payments. It was further alleged that, knowing that such a course of business exposed material assets of the company to a significant and continuing risk of loss, Tesoro failed to make timely and adequte disclosure of this course of business, the unaccountability of such payments, and the particular risk that such course of business posed to material assets and revenues of the company.

The court entered a final judgment of permanent injunction against Tesoro, and ordered Tesoro to comply with undertakings to, among other things: appoint a new director, satisfactory to the Commission, to chair the audit committee of the board of directors; direct the audit committee to formulate and implement policies and procedures designed to prevent occurrence of matters of the nature alleged in the complaint and satisfy itself as to whether any fees hereafter paid in connection with conducting foreign business were paid directly or indirectly to any government official or employee; not make payments, or offers of payments, directly or indirectly, to any foreign official or any foreign political party or leader thereof for purposes of influencing an act of such officials or parties or inducing them to use their influence to affect a foreign government act or decision; and keep accurate books and records and file with the Commission a current report on Form 8-K attaching a copy of the executed consent, final judgment and complaint in this matter.

In the Matter of CGA Computer Associates, Inc. [161] —The Commission instituted administrative proceedings, under Section 8(d) of the Securities Act of 1933 (Securities Act), to determine whether a stop order should be issued to suspend the effectiveness of a registration statement filed with respect to CGA Computer Associates, Inc., a Delaware corporation engaged in the computer consulting and software marketing business.

It was alleged that the registration statement contained materially false and misleading information concerning the accounting treatment of a business combination, because it treated the combination as a pooling of interests under circumstances where such accounting treatment was contrary to generally accepted accounting principles.

These proceedings were pending at the close of the fiscal year.

SEC v McLouth Steel Corp.[162] —The Commission filed a complaint against McLouth Steel Corp. alleging violations of the antifraud and reporting provisions of the Federal securities laws.

The Commission's complaint alleged that McLouth filed certain periodic reports

with the Commission which contained false and misleading statements of material facts regarding its financial condition and omitted information which is required by Commission rules and regulations to be included in such reports. The Commission's complaint specifically alleged: improprieties in connection with McLouth's improper use of the equity method of accounting; failure to disclose certain significant litigation; and improper recognition and reporting of profits resulting from certain inventory transactions and valuations.

The court entered a final judgment of permanent injunction and ordered McLouth to comply, among other things, with its undertaking to. direct its audit committee to review McLouth's financial controls and accounting practices and all future reports containing financial statements filed with the Commission; and send to its shareholders certain information regarding its use of the equity method of accounting and its effect on McLouth's pretax earnings in the years in question.

SEC v. Litton Industries, Inc. [163]—The Commission filed a complaint against Litton Industries, Inc. alleging violations of the reporting provisions of the Exchange Act in connection with Litton's accounting for costs in excess of contract values on commercial and military shipbuilding contracts between 1971 and 1978, and disclosures relating thereto.

Among other things, the complaint alleged that Litton did not have adequate grounds for deferring, for financial reporting purposes, $128 million of excess costs incurred in connection with two commercial shipbuilding contracts awarded in 1968. It was alleged that such deferral was inappropriate in light of the nature of the excess costs, the lack of accounting records sufficient to segregate start-up costs from contract operating costs, and the lack of assured revenues against which to absorb the costs. The complaint also alleged that losses incurred in connection with a shipbuilding contract for the U.S. Navy, which rose from approximately $75 million in 1973 to approximately $500 million in 1978, should have been recognized prior to 1978. At that time, Litton provided for a pretax loss of $200 million as a result of a settlement with the Navy, which settlement, according to Litton, contained incentive provisions which significantly reduced the loss.

The court entered a final judgment of permanent injunction and also ordered Litton to comply with certain undertakings made by the company. The first undertaking provided for audit committee review, for a period of three years, of cost deferral and revenue recognition determinations relating to certain military procurement contracts where substantial overruns and disputes are involved. The second undertaking provided for Litton to retain an independent consultant to examine and report on the procedures by which the company estimates and accounts for costs in excess of contract values with respect to military procurement contracts of its shipbuilding division, and to make recommendations to be implemented by Litton with respect to such procedures.

Regulated Entities

Ensuring compliance with the Federal securities laws by regulated entities is one of the most important objectives of the Commission's enforcement program. The major regulated entities include broker-dealers, investment advisers and investment companies, as well as self-regulatory organizations such as the registered national securities exchanges and the NASD.

In fiscal 1981, cases involving broker-dealers constituted almost half of the 68 administrative proceedings brought by the Commission. These proceedings the great majority of which are conducted by the Commission's regional offices, are effective in obtaining compliance with applicable statutory provisions or Commission rules and in establishing high standards of conduct on the part of broker-dealers.

SEC v. WACO Financial, Inc. and J. Jerome Prevatte [164]—The Commission filed a complaint against WACO Financial, Inc., a Michigan broker-dealer registered with the Commission, and J. Jerome Prevatte, WACO's president, treasurer and majonty shareholder, alleging violations of the broker-dealer registration and regulation provisions of the Exchange Act. The complaint alleged, among other things, that WACO was not qualified to do business pursuant to the Commission's rules because it had been expelled from membership in the NASD. The NASD expulsion was based on WACO's violations of the NASD Rules of Fair Practice in 1979 and 1980. The district court entered an order of preliminary injunction against the defendants.

In a separate action, defendants were permanently enjoined earlier in the fiscal year from further violations of the net capital, recordkeeping, customer protection and reporting provisions of the Exchange Act. [165]

In the Matter of Paine, Webber, Jackson & Curtis, Inc.[166]—The Commission instituted proceedings, pursuant to Sections 15(b), 19(h) and 15(c)(4) of the Exchange Act, against Paine, Webber, Jackson & Curtis, Inc. (Paine, Webber), a registered broker dealer, and Paine Webber, Inc. (PWI), parent corporation of Paine, Webber. The Order for Proceedings alleged violations of the reporting and broker-dealer recordkeeping provisions of the Exchange Act. It was alleged that the violations were a consequence of operational complications that occurred in connection with the integration into Paine Webber's operating system of approximately 100,000 customer accounts of Blyth Eastman Dillion & Co., Inc., pursuant to the December 31, 1979 merger of Blyth, Eastman Dillon into PWI, and that the violations were compounded by a sustained high level of securities trading activity.

The Commission censured Paine, Webber and ordered various remedial relief against Paine, Webber and PWI, including a directive that, through December 31, 1981, Paine Webber was to review and report on its operational performance and compliance with specific regulatory provisions and customer complaints, and submit certain quarterly reports for review by its independent auditors. Another directive provided for PWI's audit committee to review and report in writing on whether all reports required to be filed with the staff by Paine, Webber and its independent auditors pursuant to the Commission's order, indicated that Paine, Webber was in compliance with the terms, conditions and undertakings agreed to by Paine, Webber under these proceedings.

SEC v. Barclay Financial Corp [167]—The Commision filed a complaint against Barclay Financial Corp., a registered broker-dealer, and Dennis E. Greenman, its senior vice-president, alleging violations of the antifraud provisions of the Federal securities laws in connection with the offer and sale of nationally traded common stock, stock options or limited partnership interests in entities formed for the purpose of such securities.

The complaint alleged that misstatements and omissions were made concerning, among other matters, the risks of the investment, the return on the investment, profits and losses, and the nature of the positions of securities and free credit cash balances in the accounts. The complaint also alleged that it was falsely stated that securities positions in accounts were liquidated each day, leaving a cash balance. The complaint alleged that, in fact, the accounts, which totalled about $40 million, were in the names of limited partnerships and corporations whose beneficial interests were held for an undetermined number of investors

The district court entered temporary restraining orders against the defendants. The court also appointed a trustee over the assets of Barclay, and prohibited Greenman from transferring or disposing of any personal assets or assets of customers of Barclay in his possession or control, with

the exception of customary and necessary living and medical expenses and certain expenses necessary to preserve assets.

SEC v. Gallagher, Boyle & Cook, Inc., and Michael J. Boylan[168]—The Commission filed a complaint against Gallagher, Boylan & Cook, Inc., a registered broker-dealer, and Michael J. Boylan, alleging violations of the broker-dealer financial responsibility and recordkeeping provisions of the Exchange Act.

The court entered a judgment of preliminary injunction. Pursuant to an application filed concurrently by the Securities Investor Protection Corporation, the court also entered an order appointing a trustee for the liquidation of the business of Gallagher, Boylan & Cook, Inc., under the Securities Investor Protection Act of 1970.

In the Matter of Reserve Management Corporation[169]—The Commission instituted administrative proceedings pursuant to Section 9(b) of the Investment Company Act) of 1940 (Investment Company Act) and Sections 203(e) and (f) of the Investment Advisers Act of 1940 (Investment Advisers Act) against Reserve Management Corporation, and Reserve Management Company, both registered investment advisers, and two individuals. The Order for Proceedings alleged that respondents violated the antifraud provisions of the Securities Act, the Exchange Act and the Investment Company Act in connection with disclosures made by The Reserve Fund, Inc., a registered investment company, which did not specifically disclose problems concerning computer and telephone malfunctions affecting the ability of Reserve to consistently make same day payments upon redemption of its shares.

The Commission censured the respondents. It also suspended the registrations of the two investment advisers and suspended respondents from association with an investment adviser or investment company for a period of 12 months if, prior to December 31, 1981, they wilfully fail or cease to comply with certain undertakings. Respondents undertakings provided that they will not violate or aid and abet any violation of the Federal securities laws. Respondents also undertook to use their best efforts to cause Reserve to employ an in-house legal counsel acceptable to the Commission's New York Regional Office (NYRO); to file periodic reports containing certain information with the NYRO; and to provide equipment and/or services to Reserve in an amount not less than all investment advisory fees earned by the investment advisorys from Reserve during a 20-day period.

SEC v. First Independent Stock Transfer Agent, Inc., and Terry E. Kirchner[170]—The Commission filed a complaint against First Independent Stock Transfer Agent, Inc. (FISTA), a Denver, Colorado securities transfer agent, and Terry E. Kirchner, president of FISTA, alleging violations of the recordkeeping and reporting provisions of the Exchange Act in connection with the turnaround requirements imposed on transfer agents for all securities classified as routine items. The complaint also alleged violations of the antifraud provisions of the Federal securities laws in connection with the purchase and sale of the securities of various issuers for which FISTA was the transfer agent.

Among other things, the complaint alleged that FISTA and Kirchner failed to disclose to shareholders, prospective shareholders and issuers of such securities, among others, that FISTA was insolvent, had over-issued securities, and failed to cancel securities.

At the motion of the Commission, the court appointed a temporary receiver to take charge of the assets of FISTA and to operate the business. At the close of the fiscal year, litigation was proceeding.

SEC v American Birthright Trust Management Co., Inc., et al.[171]—The Commission filed a complaint against American Birthright Trust Management Co., Inc. (ABTM), a Florida investment adviser, Richard J. Sluggett, ABTM's founder, president and principal shareholder, Richard S. Freedman, ABTM's ex-

ecutive vice-president, and various other defendants, some of whom served as directors or trustees of two investment companies for which ABTM acted as investment adviser.

The Commission alleged that all defendants violated the requirements imposed on directors by the Investment Company Act, that ABTM breached the fiduciary duties imposed on fund advisers by that Act; and that ABTM, Sluggett and one other defendant violated the antifraud provisions of the Securities Act and the disclosure provisions of the Investment Company Act.

The Commission's complaint principally involved the compensation paid to ABTM by the funds for advisory and related services. It was alleged that the compensation paid to ABTM by the funds was excessive in light of the services actually performed by ABTM, and that most of the advisory services provided to the funds had been provided by a "sub-adviser" retained by ABTM, rather than by ABTM itself. For 1978 and 1979, the aggregate fees paid to ABTM pursuant to the advisory and service contract, based upon one percent of the average net asset value of each fund, exceeded $2 million. During the same period, ABTM paid the "sub-adviser" approximately $125,000.

The complaint also alleged, among other things, that the defendant director/trustees approved the advisory contracts with ABTM without requesting information which was reasonably necessary to evaluate such contracts.

The court entered judgments of permanent injunction against all defendants. Among other things, it also ordered ABTM to pay $465,000 to the two investment companies, and it ordered ABTM, Sluggett and Freedman to make all efforts to ensure that: the boards of the funds include a majority of disinterested director/trustees with no previous affiliation with any of the defendants; an independent counsel will be appointed to assist the disinterested director/trustees in their duties and responsibilities; the disinterested director/trustees, with the assistance of the independent counsel, will review the advisory and service contracts with ABTM and thereafter renew, terminate, or seek to renegotiate such contracts to the extent they deem appropriate; ABTM, Sluggett and Freedman will maintain documents reflecting investment recommendations, research and analysis, and the independent counsel reviews of the recordkeeping systems of ABTM.

In the Matter of Government Securities Management Co.[172]; *In the Matter of Fundlink Information Services*—The Commission instituted proceedings against Government Securities Management Company (GSMC), pursuant to Section 9(b) of the Investment Company Act, and against Fundlink Information Services (Fundlink), pursuant to Section 203(e) of the Investment Advisers Act. GSMC was the investment adviser to First Variable Rate Fund for Government Income, Inc., a registered investment company, and Fundlink was the transfer dividend disbursing and shareholder servicing agent for the fund.

The Order for Proceedings alleged that GSMC and Fundlink violated the recordkeeping provisions of the Investment Company Act and that GSMC violated the antifraud provisions of the Investment Advisers and the Securities Acts. Specifically, the Order alleged that the books and records of the fund were maintained in an inaccurate and untimely manner, and that GSMC failed to disclose to the board of directors and shareholders of the fund that the fund was not accurate and timely in maintaining its books and records.

The Commission censured GSMC and Fundlink, and ordered them to comply with various undertakings, including daily reconciliations of the shares outstanding according to Fundlink and records, and submissions of reports on such reconciliations to the fund's audit committee on at least a quarterly basis

Hot Issues Market

During the past two years, the Com-

mission has become concerned with a hot issues market located primarily in the Denver, Colorado region. This hot issues market has been characterized by the promotion and sale of highly speculative stocks in initial offerings for a minimal price, followed by extremely active trading and rapid price increases in the after-market. The securities, which are usually traded over-the-counter, have been primarily securities of companies involved in energy development and production.

In the Matter of Synthetic Fuels, Inc.[173] —The Commission initiated a proceeding pursuant to Section 8(d) of the Securities Act, to determine whether a stop order should be issued suspending the effectiveness of the registration statement of an offering of securities of Synthetic Fuels, Inc. The registration statement represented that 42 percent of the $4.12 million of net proceeds of the offering was to be used to construct a plant in Rupert, Idaho, to produce denatured ethanol for use in making gasohol. The Commission found, among other things, that the registration statement, which contained numerous references to the proposed construction of the plant, failed to disclose: the fact that studies were still underway, the results of which would help determine whether the proposed plant would be built; the plans for use of the net proceeds earmarked for the plant if that plant were not constructed; and the fact that this portion of the offering was in effect a "blind pool."

The Commission entered and immediately withdrew its stop order against the registration statement based on the undertaking of Synthetic Fuels, Inc., which the Commission accepted, to deliver a copy of the corrected prospectus to all persons who, to its knowledge, received copies of the previous misleading prospectus, as well as to any purchaser, 72 hours prior to sending a confirmation to such purchaser.

SEC v. The Investment Bankers, Inc., et al.[174]—The Commission filed a complaint against Investment Bankers, Inc. (IBI) a Denver, Colorado broker-dealer, its president and a director and office manager alleging violations of the registration, antifraud and broker-dealer recordkeeping provisions of the Federal securities laws. The complaint alleged, among other things, that IBI, which underwrote a public offering of 20 million shares of Chipola Oil Corporation common stock at 10 cents per share, dominated, controlled and artifically inflated the price of Chipola Oil in the trading market. The complaint also alleged that, as a result of its violative activities, IBI was insolvent, owed over $5 million to public investors, and had a net capital deficiency of over $6 million.

Upon the filing of the complaint, the court approved a Stipulation and Order which provided that IBI would not engage in further business. The Commission also suspended over-the-counter trading in Chipola stock for a ten day period.

Foreign Issuers

Over the past 18 months a dramatic increase has been noted in the number of foreign issuers whose securities are traded in the United States. Most of these issuers are natural resource companies located in Australia and the western provinces of Canada, and the trading market in their securities closely resembles that of the domestic hot issues market. This trading activity is marked by dramatic upward price and volume movements shortly after trading commences and in the absence of accurate and adequate corporate disclosure.

Along with participating in a review of the regulatory framework applicable to securities of foreign issuers and related trading markets, the Commission staff has consulted and cooperated with officials of various foreign governments, as well as domestic self-regulatory organizations, in order to attempt to provide co-ordinated remedial action in appropriate cases. In addition, the Commission has pursued several enforcement actions in this area, one of which is discussed below.

In the Matter of Ferrovanadium Corporation, N.L.[175]—The Commission instituted administrative proceedings against Ferrovanadium Corporation, N.L., pursuant to Section 12(j) of the Exchange Act. Simultaneous with the institution of the proceedings, the Commission announced a 10-day suspension in the over-the-counter trading of the securities of, and the American Depositary Receipts issued against the securities of, Ferrovanadium pursuant to Section 12(k) of the Exchange Act.

The Commission took these actions based upon allegations that Ferrovanadium had failed to comply with the registration and reporting provisions of the Exchange Act. The Commission found, among other things, that Ferrovanadium had: stated that it owned mineral deposits which contained "proven reserves" of 27 million tons when Ferrovanadium had insufficient basis for such claim; stated that it owned mineral deposits which contained 60 million tons of "inferred reserves" when Ferrovanadium had insufficient basis for such claim; and presented financial statements which did not include sufficient detail concerning deferred mining exploration costs, and the company's policy regarding future amortization of such costs, and otherwise failed to meet applicable requirements.

The Commission ordered Ferrovanadium to comply with its undertakings to, among other things: comply with the registration and reporting provisions of the Exchange Act; use its best efforts to distribute copies of this Order to all beneficial and record owners of the securities of, or American Depository Receipts issued against the securities of, Ferrovanadium who are either residents or citizens of the United States; appoint an agent for service of process in the United States for Ferrovanadium; retain and maintain independent counsel in the United States not unsatisfactory to the Commission's staff to advise Ferrovanadium with respect to its future filings with the Commission and to advise the company with respect to compliance with the Federal securities laws; and cause any future geologic, feasibility and mining studies, prepared with respect to any properties in which Ferrovanadium has an interest, to include findings in accordance with applicable Commission standards.

Distribution Schemes

A variety of schemes have been used to avoid registering public offerings of securities with the Commission, and such schemes often involve purported claims of exemptions under the securities laws. Discussed below is an example of a scheme to use the bankruptcy laws to sell stock into the market which was restricted from being sold to the public without compliance with the registration and disclosure requirements of the Federal securities laws.

SEC v. Sam S. Brown, Jr., and Heritage Investment Group, Inc.[176]—The Commission filed a complaint seeking to enjoin Sam S. Brown, Jr., of Atlanta, Georgia, and Heritage Investment Group, Inc., located in Atlanta, Georgia, which is wholly owned by Brown, from further violations of the registration, antifraud, and broker-dealer registration provisions of the Federal securities laws.

The complaint alleged that Brown and Heritage had embarked upon a scheme to purchase a financially troubled business, acquire options to purchase unregistered stock issued by public companies, transfer the options to the financially troubled company, cause the troubled company to file for bankruptcy and petition the bankrputcy court for permission, pursuant to Federal bankruptcy law, to sell the stock underlying the options without registration under the Securities Act. If the court had approved the petition, the bankrupt entity would have exercised the options and sold the underlying stock to the general public, using the proceeds from the sale of the stock to pay for the stock. The Commission alleged that the principal purpose of this

scheme was to evade the registration requirements of the Securities Act and thereby realize a profit equal to the difference between the price of restricted stock and registered stock of the same issuer and class.

Brown and Heritage attempted to accomplish this scheme through a bankruptcy proceeding initiated and pursued by a subsidiary of Heritage. After the Commission intervened in the bankruptcy proceeding and opposed the petition to sell unregistered securities, the petition was withdrawn and the bankruptcy proceeding was terminated.

The complaint also alleged that, in the process of acquiring the options to purchase restricted stock, Brown and Heritage made false and misleading statements to the option sellers concerning the purpose of the purchases and the means by which the purchase would be financed. Finally, the complaint alleged that Brown and Heritage engaged in the business of buying and selling securities for their own accounts as a part of a regular business without registration as a securities dealer under the Exchange Act.

Final judgments of permanent injunction were entered against the defendants. The Commission acknowledged the cooperation of the Director of the Alabama Securities Commission in promptly bringing this matter to the Commission's attention and in providing valuable assistance.

Municipal and Government Securities

Municipal securities include bonds issued by state and municipal governments as well as industrial development bonds issued by authorities which do not have taxing powers. Over 38,000 entities may issue bonds which are tax-free and exempt from the registration provisions of the Securities Act. Government securities trading includes government and government guaranteed securities, such as forward contracts for securities guaranteed by the Government National Mortgage Association (GNMA).

Trading in these securities has increased significantly in recent years. While the Securities Acts Amendments of 1975 added registration requirements for municipal broker-dealers and created the Municipal Securities Rulemaking Board, the trading markets for these securities have historically been unregulated markets, and subject to potential trading abuses. Due to the continuation of questionable issuance and trading practices in this area, the Commission's enforcement interest has also continued.

Sec v. Calhoun County Medical Facility, Inc, et al. [177]—The Commission filed a complaint against Calhoun County Medical Facility, Inc., Bullington-Schas & Co., Inc., a broker-dealer registered with the Commission, and certain other defendants alleging violations of the antifraud provisions of the Securities Act in connection with the offer and sale of $1.8 million of first mortgage revenue bonds to finance the acquisition of the Calhoun County Hospital in Calhoun County, Mississippi.

The complaint alleged, among other things, that annual financial statements concerning the past operations of the hospital, which indicated an inability to service the bond offering, were not included in the offering circular. Rather, pro forma financials were included without discussion of the significantly divergent prior financial history.

The court entered final judgments of permanent injunction against the defendants. One defendant, a practicing attorney who served as bond counsel to the offering, was also ordered to comply with his undertakings concerning procedures to be followed in connection with future bond issues.

In a related proceeding, the Commission ordered administrative proceedings, pursuant to Sections 15(b) and 19(h) of the Exchange Act, against Bullington-Schas Co., Inc., its president and an employee, all of

whom were defendants in the injunctive proceeding. The Order for Proceedings alleged violations of the antifraud provisions of the Securities Act, and the failure by the president of Bullington-Schas & Co., Inc. to reasonably supervise other employees in connection with the offer and sale of Calhoun County Medical Facility, Inc. revenue bonds. The firm was censured and ordered to comply with its undertaking to institute and maintain adequate due diligence and compliance procedures. The individual respondents were suspended from association with any broker-dealer, and were ordered to comply with their undertakings to engage in a course of study for municipal bond principals.[178]

The Commission also issued a report, pursuant to Section 21(a) of the Exchange Act, in which it discussed the role of the attorney who, acting as bond counsel to the underwriter of the Calhoun County Medical Facility, Inc. bond offering, rendered an opinion on the offering circular for that offering. The Commission concluded that the attorney's conduct, without having conducted any inquiry of his client as to the underlying facts on which his opinion was predicated, failed to satisfy applicable standards.[179]

In the Matter of Bevill, Bresler & Schulman, Inc., et al[180]—On December 12, 1980, the Commission ordered the institution of public administrative proceedings, pursuant to Sections 15(b) and 19(h) of the Exchange Act, against Bevill, Bresler & Schulman, Inc., a registered broker-dealer located in Newark, New Jersey, two unregistered corporate affiliates, the firm's president, two former supervisors, a trader, and twelve former salesmen. The Order for Public Proceedings alleged violations of the antifraud and broker-dealer bookkeeping provisions of the Federal securities laws. The Order alleged that in addition to making misleading statements concerning, among other things, the nature and risks of trading in forward transactions in government securities, certain of the respondents caused unauthorized trades, engaged in so-called adjusted trading, induced and approved unsuitable transactions in U.S. Government issues and guaranteed securities. The Order also alleged failures to supervise on the part of certain respondents.

The Commission, upon entering findings of the alleged violations, censured the firm and its affiliates and ordered varying sactions against the individual respondents, including suspensions and bars from serving in a supervisory capacity. The Commission ordered the firm and its affiliates to comply with their undertakings to refrain from engaging in foward transactions in government securities for 60 days; refrain from opening any new branch offices for six months; and undertake a thorough review of compliance procedures and the implementation thereof.

SEC v. Cantor Fitzgerald Agency Corp, et al.[181]—On October 29, 1980, the Commission filed a complaint alleging that Cantor Fitzgerald Agency Corp. and certain present or former officers and directors violated the antifraud provisions of the Federal securities laws in connection with transactions in U.S Government guaranteed securities, including GNMA and Federal Home Loan Mortgate Corporation (FHLMC) securities.

The Commission alleged, among other things, that certain defendants caused Cantor to enter into numerous adjusted trades with several thrift institutions, including savings and loan associations and at least one credit union, and that Cantor falsely confirmed purchases of GNMA and FHLMC securities from customers at above-market prices without disclosing that such purchases were conditioned upon contemporaneous sales to such customers of like securities at above-market prices. These transactions were allegedly used to defer recognition of losses which occurred when the market prices of the securities held by or committed to be purchased by customers declined, in the hope that such market prices would rise and eliminate or reduce cus-

tomers' losses. The Commission further alleged that in many instances Cantor also required customers to pay fees to cover any loss to Cantor on such transactions, and that such fees were falsely stated to be refundable.

Final judgments of permanent injunction were entered against defendants. Cantor was also ordered to submit for the approval of the Commission staff a plan to distribute any remaining net assets and to make a full and complete accounting to the Commission staff when the staff deemed appropriate.

Energy and Tax Benefit Related Cases

Due to the tax consequences of certain investments such as those in energy-related products or real estate, a multi-billion dollar market exists for tax shelter securities. This market provides many opportunities for abuses which threaten the integrity of the securities markets. These abuses may take the form of misappropriation and misuse of assets by insiders and promoters and misrepresentation of material facts to investors.

The Commission has uncovered significant abuses, including the sale of unregistered securities masquerading as tax-shelter programs, which have resulted in the commencement of enforcement actions.

Investors in these offerings may be contacted initially in connection with nationwide, long-distance telephone solicitation campaigns. The offerings often are the subject of fraudulent solicitation statements. Individuals are often persuaded to make an investment on the basis of false statements or omissions concerning, among other things: the amount of business to be conducted by the issuer; the risks associated with the investment; the experience of the issuers' principals; and the use of investors'funds. One of the major inducements to investors is the purported availability of special tax benefits.

SEC v. Bishop Investment Corporation, et al.[182]—The Commission filed a complaint against Bishop Investment Corporation, six other corporate defendants and two individuals, alleging violations of the registration and antifraud provisions of the Federal securities laws.

The complaint alleged that, since April 1976, the defendants offered and sold to over 2,000 investors more than $80 million of unregistered securities in the form of tax sheltered limited partnership interests. According to the complaint, the defendants formed over 150 limited partnerships in which interests were sold to the public. The seven affiliated defendant companies, owned and controlled by the two individual defendants, acted as general partners of the limited partnerships. Funds raised through the sale of interests in the limited partnerships were then invested in other limited partnerships which purportedly owned or were purchasing real property in the form of hotels, apartment houses, or other business properties.

The complaint further alleged that the defendants made omissions and misrepresentations concerning, among other things: the use of investor proceeds; the amount and nature of fees to be paid to the general partners; the financial status of each issuer of limited partnership interests; the availability of promised tax benefits; the properties in which funds were invested; and the commingling of investor funds.

The court entered a final judgment of permanent injunction against each of the defendants.

SEC v. Gerald L. Rogers, et al.[183]—The Commission filed a complaint against International Monetary Exchange; S.A. (IME) of Panama and Woodland Hills, California, Gerald L. Rogers and 18 others alleging violations of the registration and antifraud provisions of the Federal securities laws. The charges were brought in connection with the offer and sale of unregistered securities, labelled "Gold for Tax Dollars", involving interests in purported placer gold-

mining "claims" in Panama and French Guiana and related financial and mining services.

The complaint alleged, among other things, that, in connection with the offer and sale of "Gold for Tax Dollars" securities, defendants falsely represented material facts to investors including, *inter alia,* that investors would obtain 400 or 500 percent Federal income tax "write-offs" and substantial; "gold profits." The complaint also alleged that defendants failed to disclose to investors, *inter alia*, that: the promised development expenditures upon which the tax "write-offs" were based had not and did not need to be made; the amount of monies invested for development was far in excess of necessary expenditures; explorations and initial operations found and produced gold in materially lower quantities than represented; and with respect to investments in Panama, the lessor of the "claims," had not acquired an interest in the properties at the time they were leased to investors in 1978.

The complaint also alleged that defendants failed to disclose to investors that Rogers, who controlled the "Gold for Tax Dollars" offering, had been permanently enjoined from violating the Federal securities laws, and that IME had been held in civil contempt of a Federal District Court for failure to obey the court's order to comply with a subpoena duces tecum issued by the Commission seeking information concerning investments in "Gold for Tax Dollars" securities.

On November 12, 1980, the court entered a preliminary injunction against IME by default. A contested preliminary injunction was entered against Gerald Rogers on April 6, 1981. As of the close of the fiscal year, the matter remained in litigation.

SEC v. Cable/Tel Corporation, et al.[184]—On December 17, 1980, the Commission filed a complaint against 22 affiliated companies (Cable/Tel companies) and various other defendants alleging violations of the registration and antifraud provisions of the Federal securities laws. The Cable/Tel companies provide services relating to the operation of cable television (CATV) systems located in 17 communities situated in four states.

The complaint alleged that defendants offered and sold to over 700 investors approximately $88,100,000 worth of unregistered securities in the form of tax sheltered investment interest in cable television systems. The complaint further alleged that the defendants made misrepresentations and omitted to state material facts in connection with the offer and sale of the investment interests concerning, among other things: the use of investor monies; the cost of constructing the investors' CATV systems; the payment of commissions, the timing of the completion of construction of the CATV systems; the availability of promised tax benefits; projections of subscriber saturation and potential profits; the ownership by the Cable/Tel companies of CATV franchises; restrictions against investor ownership of their CATV systems, the ability of the investors to independently operate the CATV systems; and the financial condition of the Cable/Tel companies.

The court entered a final judgment of permanent injunction against the Cable/Tel companies and eight other defendants. The court also ordered the Cable/Tel companies to, among other things: retain an independent accountant to determine and report on the use of proceeds obtained from investors; pay to investors an "adjustment" of monies, if any, determined by the accountant to have been used for purposes unrelated to the investment interests in CATV systems, and appoint an "Advisory Committee" composed of five investors to, among other things, examine and review the accounting, financial and operating controls with respect to the operation of their CATV systems At the close of the fiscal year, litigation against remaining defendants was continuing.

SEC v. Herman B. Rothbard, et al.[185]—The Commission filed a complaint against Hawaii Nevada Investment Corporation

(Hawaii Nevada) and five other defendants alleging violations of the registration and antifraud provisions of the Federal securities laws. Certain defendants were also charged with violations of the broker-dealer registration provisions of the Exchange Act.

The complaint alleged that in connection with the offer and sale, primarily to residents of Hawaii, of units in "general partnerships" relating to real estate in Las Vegas, Nevada, the defendants made misstatements and omissions concerning, among other things: the risk and rewards of the ventures; the value of the real estate; the fees that would be paid the promoters; and the use that would be made of investors' funds. It was also alleged that defendants, who obtained approximately $15 million from about 1,200 investors, improperly commingled investors' funds and misappropriated in excess of $2 million of these funds.

On August 17, 1981, the court entered final judgments of permanent injunction against four defendants, including Hawaii Nevada, and preliminary injunctions were issued against the two remaining defendants. Litigation was pending at the close of the fiscal year.

SEC v. Edward G. Heller et al.[186]—The Commission filed a civil injunctive action against Edward Heller and affiliated companies of certain partnerships controlled by him alleging violations of the registration and antifraud provisions of the Federal securities laws. In its complaint the Commission alleged that, in connection with the sale of interests in limited partnerships, Heller, personally and through corporations under his control, misappropriated substantial amounts of investors' funds. The complaint also alleged that false and misleading statements were made concerning, among other things: the commingling of the assets of the different partnerships; the amount of the tax deductions to which the investors would be entitled; the economic viability of the partnerships' operations; and the use of assets of partnerships created in earlier years. On October 15, 1980, a Temporary Restraining Order was entered freezing defendants' assets, and appointing a special agent to take control and manage corporate assets, and perform an accounting.

On November 10, 1980, the court entered a final judgment of permanent injunction against the defendants, and imposed other equitable relief. A special agent was appointed to manage the defendant companies. Heller was barred from association with a broker, dealer or investment adviser, and ordered, among other things, to provide the Commission with 20 days notice before participating in any offer or sale of tax shelter securities to which the Federal securities laws would apply.

In addition, the Commission brought an action on November 5, 1980, against Robert M. Adler, who acted as tax counsel for the various limited partnerships syndicated by Heller. This action alleged that in his tax opinions, which were contained in the offering circulars, Adler violated the registration and antifraud provisions of the Federal securities laws The court entered a final judgment of permanent injunction barring him from rendering opinions on securities and tax issues, and from practicing before the Commission, with a right to apply for relief after five years. The court's order further required Adler, on receiving inquiries from investors, to furnish them with all court papers filed in the action and to inform the investors that his tax opinions cannot be relied upon.[187]

Related Party Transactions

Adequate disclosure to investors requires that investors be fully apprised of the use of corporate funds. Fundamental to the relationship between an investor and management is the expectation that an issuer's assets will be used for the benefit of the issuer and not for the personal enrichment of the manager.

Use of the issuer's assets in transactions with management or other related parties,

however reasonable and appropriate, must be fully disclosed. Though issuers are generally aware of the requirements to fully disclose related-party matters, problems have arisen in instances in which members of management have attempted to conceal their personal enrichment resulting from such transactions.

SEC v. Crown Cork & Seal Co., Inc.[188]—The Commission filed a complaint against Crown Cork & Seal Co., Inc. alleging violations of the antifraud, reporting and record-keeping provisions of the Exchange Act in connection with payments of cash and loans to and for the benefit of Herbert G. Paige, an officer of General Cinema Corporation, responsible for can and bottle cap purchases from Crown Cork and other suppliers. The alleged transactions included payments totalling about $5.9 million, loans totalling $1.75 million, and the financing of the purchase of an airplane. The Commission alleged, among other things, that Crown Cork, which recorded certain payments as payments to General Cinema for competitive allowances, should have known, and was reckless in not knowing, that the payments were for the benefit and use of Paige.

The court entered a final judgment of permanent injunction, and ordered Crown Cork to comply with undertakings regarding the maintenance of certain procedures relating to: verification of the status of recipients of competitive allowances or similar payments; authority of the recipient to receive the payments; receipt and form of delivery of the payments; and customer approval of loans or extensions of credit to officers, directors, employees or agents of the customer. Crown Cork also made undertakings concerning, among other things, the composition of the audit committee of its board of directors, and a review and investigation to be conducted by the audit committee of matters alleged in the complaint.

In a separate action, the Commission filed a complaint against Paige and Pasha Service Corporation, which was allegedly formed and controlled by Paige, alleging violations of the antifraud reporting and reporting provisions of the Exchange Act in connection with these transactions. As of the close of the fiscal year, this action remained in litigation.[189]

SEC v. Herbert F. Hewett[190]—The Commission filed a complaint against Herbert F. Hewett of Oklahoma City, Oklahoma, alleging violations of the antifraud provisions of the Federal securities laws. Specifically, the complaint alleged that Hewett, in his IRA and Keogh accounts, owned certain certificates of deposit issued by Guaranty Trust Company, Ponca City, Oklahoma, and that he sold those certificates of deposit to Guaranty with knowledge of Guaranty's precarious financial condition and prior to the disclosure of such information to Guaranty's other investors. The court ordered Hewett to comply with his undertaking not to violate the antifraud provisions of the Securities Act and to pay to Guaranty's court-appointed trustee the sum of $12,155.84, representing the proceeds that he received from the sales of the certificates of deposit.

In the Matter of Michigan National Corporation[191]—The Commission instituted a public administrative proceeding, pursuant to Section 15(c)(4) of the Exchange Act, to determine whether Michigan National Corporation (MNC) had violated the reporting provisions of the Exchange Act in connection with the disclosure of sale and leaseback transactions with related parties since MNC became a public company in 1972. The Commission found, among other things, that MNC had failed adequately to disclose all of the circumstances under which its subsidiaries engaged in the practice of selling bank premises to, and leasing them back from, certain officers and directors of MNC including its president and chief executive officer and MNC subsidiary banks and their affiliates.

The Commission found that none of the disclosures over the years conveyed adequate information concerning the circumstances involved in the transactions.

The Commission also found that in certain years MNC failed adequately to disclose: the terms of the purchases and leases; that certain properties were bought from the MNC banks; that almost all were sold either to related parties or persons who had prior business relationships with MNC subsidiary banks; and that other MNC banks financed several of the purchases. MNC's disclosures did not adequately discuss the benefits to the related parties in these transactions, including the customary consequences of sale-leaseback transactions to the MNC banks or to the related parties. Further, the Commission found that MNC indicated that the terms of the transactions were comparable to arm's-length transactions when, in fact, there was no evidence that the MNC banks made any attempt to determine whether the related parties received terms more favorable to them than the MNC banks would have had to give had they made an effort to market the sale-leaseback packages to unaffiliated persons. Also, while MNC disclosed that the banks engaged in leasebacks to avoid fixed assets limitations, it did not disclose that other options were available to the banks to avoid the limitations but were not pursued.

The Commission ordered MNC to comply with various undertakings, including the establishment of a committee of the board of directors to review these transactions and to direct an independent consultant to prepare a report concerning them; to publish a summary of the report and the review committee's recommendations in MNC's next proxy statement; and to review disclosures concerning related party transactions over the next five years.

The Foreign Corrupt Practices Act

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

In fiscal 1981, five injunctive actions brought by the Commission included allegations of violations of Section 13(b)(2) of the Exchange Act (the recordkeeping and internal controls provisions) in addition to violations of the antifraud provisions of that Act. Three of these actions (*SEC v. Crown Cork and Seal, SEC v. El Dorado International, Inc.*, and *SEC v. World-Wide Coin Investments, Ltd.*) are discussed elsewhere in this report. Summarized below is an action brought by the Commission alleging violations of the antibribery provisions.

SEC v. Sam P. Wallace Company, Inc., et al.[192]—The Commission filed a complaint against Sam P. Wallace Company, Inc., Robert D. Buckner, Chairman of the Board and Chief Executive Officer of Wallace, Alfonso A. Rodriguez, Executive Vice President and a director of Wallace, alleging violations of the antifraud, reporting, proxy and antibribery provisions of the Exchange Act. The complaint alleged that, for a period from about April 1980 to April 1981, Wallace, Buckner and Rodriguez made payments from corporate funds of at least $1.391 million to a foreign official to aid Wallace in procuring and maintaining a contract in a foreign country. The court entered judgments of permanent injunction against Wallace and Rodriguez. The court also ordered certain ancillary relief, including the appointment of a special committee to investigate and report on matters alleged in the complaint and other matters. As of the close of the fiscal year, the action was pending against Buckner.

Criminal Reference and Co-ordination with Other Authorities

As demonstrated in various actions discussed above, the Commission both maintains its own intelligence capabilities and works closely with other Federal agencies and foreign and local authorities in order to share information and co-ordinate activities of mutual concern.

The Commission maintains particularly close liaison with the Department of Justice, the various U.S. Attorney's offices throughout the country, other law enforcement authorities, as well as certain state regulatory agencies such as the Gaming Commissions for the States of Nevada and New Jersey in dealings with organized crime, a major focus of the Commission's enforcement activities. Such matters involve entities and areas in which persons reputed to be associated with organized crime are believed to be involved, and may involve persons who have committed prior violations of the Federal securities laws or situations in which the suspected violative conduct is particularly egregious.

An example of this co-ordination was the conviction, this past year, of a witness in a private Commission investigation for giving perjured testimony to the Commission staff.[193] Subsequent to his testimony, but prior to the indictment, the Commission had instituted a civil injunctive action alleging that this witness and others had manipulated the market price of the stock of Micro-Therapeutics, Inc. As of the close of the fiscal year, the injunctive action remained in litigation.[194]

In fiscal 1981, the Commission referred investigative files, or granted access to them, to the Department of Justice and other agencies in over 80 cases.

In the area of civil cooperation, along with numerous other actions resulting from the co-operative efforts of various civil law enforcement officials and the self-regulatory organizations, in fiscal 1981, the Commission brought its first injunctive action jointly with the Commodities Futures Trading Commission (CFTC). This case is discussed further below.

SEC & CFTC v. T&D Management Company, et al[195]—The Commission, acting jointly with the CFTC, filed a complaint against T&D Management Company, a registered commodity trading advisor and commodity pool operator in Provo, Utah, and the principals and sales manager of T&D.

The Commission's complaint alleged that the defendants violated the registration and antifraud provisions of the Federal securities laws in connection with the issuance of notes and investment contracts of T&D to raise funds for T&D's trading in commodities futures contracts. The CFTC alleged that defendants engaged in a course of business in violation of the antifraud provisions of the Commodity Exchange Act applicable to commodity pool operators and commodity trading advisors.

The complaint alleged that the defenddants made/numerous misrepresentations to investors, including: false statements of the combined assets of T&D and its principals, and false statements that one T&D principal had experienced profits averaging 65 to 70 percent for each of the last eight years; that a portion of investor funds would be held separately in money market funds; that investments in T&D did not involve a high degree of risk and were guaranteed against loss; and that the investors' returns would be paid from trading profits, when in fact there were no profits and interest payments to investors came from, money currently being invested.

Final judgments of permanent injunction were entered against the defendants.

Other Litigation and Legal Work

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

Scope of the Antifraud Provisions

The antifraud provisions of the Federal securities laws are the principle statutory basis through which the Commission seeks to protect the public against deception in securities transactions. The proper scope of these statutory provisions is a matter of continuing importance to the Commission's litigation efforts.

During the past year, the Supreme Court decided *Rubin* v. *United States*, a criminal case in which the Commission worked closely with the Department of Justice. In *Rubin*, the Court held that a pledge of securities is a sale under Section 17(a) of the Securities Act of 1933 (Securities Act), which is the general antifraud provision of the Act. Thus, the Court held that Section 17(a) affords protection against deception which occurs in the pledge of securities. The Court noted that this result is consistent with the purpose of Section 17(a)—to protect against fraud and aid the flow of information in the public dissemination of securities.

The question of what instruments are securities within the meaning of the Federal securities laws is critical to the Commission's enforcement and regulatory programs because the existence of a security is an essential predicate to the Commission's jurisdiction. Accordingly, during the past year, the Commission participated as *amicus curiae* in several private actions involving issues with respect to the scope of the definition of a security. Two of these cases, *Weaver* v. *Marine Bank*, and *Schutte* v. *Bank of Miami*, raised the issue of whether a certificate of deposit may be a security subject to the antifraud provisions of the Federal securities laws.

Schutte involved certificates of deposit issued by an off-shore bank that was operating illegally in the United States. The district court had ruled that they were not securities within the meaning of the Federal securities laws because they offered only a fixed return. In its brief before the United States Court of Appeals for the Fifth Circuit, the Commission urged that the district court erred in focusing on the presence of a fixed versus variable return, and that debt-type instruments like those in *Schutte* are subject to the Federal securities laws if they are offered to the public as investments. The Fifth Circuit, accepting the Commission's position, reversed the decision of the district court and remanded for a determination of whether the certificates of deposit were issued in an investment context.

Unlike the situation in *Schutte*, where Federal banking regulation was not present, the certificate of deposit at issue in *Weaver* was issued by a State chartered bank that was insured by the Federal Deposit Insurance Corporation. The United States Court of Appeals for the Third Circuit had ruled that the certificate of deposit was a security because it was the functional equivalent of a long-term bond or note issued by the bank. The Commission participated in a joint *amicus* brief before the Supreme Court with Federal bank regulatory agencies urging that, where a certificate of deposit is issued by a federally regulated and insured bank, the context of the transaction requires that the antifraud provisions of the Federal securities laws not apply. At the close of the fiscal year, this case was awaiting oral argument before the Supreme Court.

Securities and Exchange Commission v. The International Mining Exchange, a Commission enforcement action brought in the United States District Court for the District of Colorado, also involved the scope of the definition of security. The Commission alleged that the defendants were violating the registration and antifraud provisions of the Federal securities laws in connection with the sale of gold investment programs, which the complaint alleged were securities in the form of investment contracts. The programs, which purportedly involved the sale of interests in Alaskan gold mining claims in conjunction with contracts to arrange for the financing and development of those claims, were represented as providing profits both from gold mining and from related tax deductions amounting to 500 percent of the investor's out-of-pocket investment. The district court granted the Commission's motion for summary judgment, concluding that the interests involved are securities and that the promised tax benefits may be viewed as giving rise to an expectation of profits where they result from the promoter's managerial efforts.

In another case involving the definition of a security, the Commission filed a brief *amicus curiae* in *Newkirk* v. *General Electric Corporation*. The district court had ruled that an employee's interest in a voluntary, contributory, defined benefit pension plan was not a security. The Commission on appeal urged that such an interest was a security subject to the antifraud provisions. The case was settled, however, prior to oral argument before the United States Court of Appeals for the Ninth Circuit.

In *Pittsburg Terminal Corp.* v. *Baltimore & Ohio R.R.*, the Commission submitted a brief as *amicus curiae* to the United States Court of Appeals for the Third Circuit, addressing several significant legal issues under the antifraud provisions. The Commission took the position that a holder of a convertible debenture, although not actually selling or purchasing that debenture during the relevant time period, nevertheless had standing to bring a damage action for violations of Section 10(b) of the Securities Exchange Act of 1934 (Exchange Act), which prohibits the use of manipulative or deceptive devices in connection with the purchase or sale of a security. The Commission based its position on the ground that a convertible debentureholders' right to convert into another security is a contract to purchase a security subject to the protections of Section 10(b).

The Commission also took the position in *Pittsburgh Terminal* that a company with publicly traded convertible debentures has a duty under its listing agreement with the New York Stock Exchange to give holders of those debentures advance notice that a dividend will be paid on its common stock, even though the common stock is privately held, because the convertible debentureholders would share in the dividend if they converted their debentures to stock prior to the time the dividend is declared. Finally, the Commission took the position that, while a defendant's reliance on advice of counsel may, under some circumstances, be a relevant factor in

determining whether a defendant acted with the requisite *scienter* or constitute a mitigating factor which the court may consider in determining the appropriate remedy for a violation of Section 10(b), such reliance does not negate the violation or preclude a finding that the defendant acted with *scienter* where the evidence shows that the defendant knew that his deceptive conduct would mislead investors. At the close of the fiscal year, this case was pending before the Third Circuit.

Finally, in *SEC* v. *Sheldon Moss*, the United States Court of Appeals for the Fourth Circuit affirmed the Middle District of North Carolina's order holding Sheldon Moss in civil contempt for failure to comply with a consent decree entered in a Commission injunctive action alleging that Moss and others had violated the antifraud and registration provisions of the Federal securities laws, and requiring disgorgement of $4,500,000 of Moss' ill-gotten gains. Moss failed to deposit the $4,500,000 in the registry of the district court for distribution to those who invested in his schemes, and sold assets without prior court approval, contrary to the terms of the consent judgment. The district court, not believing Moss' claim that he was indigent at the time, held him in civil contempt and ordered him committed until he complied with the disgorgement order. The Fourth Circuit affirmed the contempt order, agreeing with the Commission that there was no merit to Moss' claim of indigency, and that the district court did not abuse its discretion in ordering that Moss be committed until he purges himself of contempt by complying with the terms of the judgment. When Moss completes his present criminal sentence, he will be entitled to a fresh review of the issue of his ability to comply with the consent order

Standard of Culpability Under the Antifraud Provisions

In a related area, the issue of *scienter* continued to play an important role in the Commission's litigation during the past year. This issue was presented in the proceedings on remand in *Aaron* v. *SEC*, in which the Supreme Court had ruled in 1980 that the Commission must prove *scienter* under Section 17(a)(1) of the Securities Act, and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, but not under Sections 17(a)(2) and 17(a)(3) of the Securities Act. The Supreme Court, while reserving a decision on the question of whether *scienter* encompasses reckless behavior, remanded the case to the United States Court of Appeals for the Second Circuit for a determination of whether an injunction was properly entered by the district court.

On remand, the Commission urged that the *scienter* standard should be construed to include reckless conduct, but that the district court's finding of *scienter* was fully supported by the record even under a knowledge or intent standard The Second Circuit did not decide whether recklessness sufficed to establish *scienter*, holding that there was no basis for disturbing the finding of the district court that Mr. Aaron's misconduct was intentional.

Private Rights of Action

An important aspect of the Commission's *amicus curiae* participation is that of assuring availability to injured parties of private causes of action under various provisions of the Federal securities laws. Such actions provide a vehicle through which injured investors can obtain redress for violations of the securities laws. Moreover, since the Commission can bring only a limited number of enforcement actions, and normally does not recoup investor losses in those actions, private actions must serve as a necessary supplement to Commission enforcement actions.

The Commission has long recognized that derivative actions—the private actions brought on behalf of a corporation by one of its shareholders—are an important means by which investors protect them-

selves from violations of the Federal securities laws. Accordingly, the Commission participated *amicus curiae* in three cases last year in which derivative actions had been terminated as a result of determinations by a corporation's directors that it was not in the best interest of the corporation for the shareholder suit to be maintained. In each case the district court deferred to the business judgment of the directors and dismissed the suit.

In *Grossman* v. *Johnson*, the plaintiff, an investment company shareholder, brought suit under Section 36(b) of the Investment Company Act of 1940 (Investment Company Act), which provides an express cause of action against an investment company's investment adviser and others for breaches of fiduciary duty that result from the charging of excessive advisory fees. The plaintiff also alleged that the adviser and the company's directors had violated other provisions of the Act by failing to recapture excessive underwriting commissions, discounts and spreads paid by the company.

Based on the language of the statute, the purposes underlying Section 36(b), the legislative history of the provision, the structure of the Investment Company Act, and prior cases which had considered the issue, the Commission urged the United States Court of Appeals for the First Circuit to hold that an action brought under Section 36(b) may not be terminated by a business judgment determination made by the investment company's board of directors. The Commission argued that a contrary result would destroy the mechanism which Section 36(b) provides for shareholders to challenge the determination made by these same directors as to whether the advisory fee is appropriate.

With respect to the plaintiff's allegations of violations of other provisions of the Act, the Commission argued that, under the Supreme Court's decision in *Burks* v. *Lasker*, a court may give effect to the directors' business judgment decision to terminate the action only if such a result would not be inconsistent with the purposes of the Investment Company Act. Accordingly, the Commission urged that the Court should not defer to the directors' business judgment unless the corporation meets the burden of showing that: the directors were truly independent and capable of rendering an unbiased decision on behalf of the corporation; they were fully informed of the facts relevant to their decision; and their decision was objectively reasonable. At the close of the fiscal year, this case was pending before the First Circuit.

In *Abramowitz* v. *Posner* and *Maldonado* v. *Flynn*, the Commission urged that the same three tests (independence, fully informed and objectively reasonable) should be applied in evaluating business judgment decisions by directors to terminate derivative actions alleging violations by directors of Sections 10(b) and 14(a) of the Exchange Act, and Rules 10b-5 and 14a-9 thereunder. Both cases were pending before the United States Court of Appeals for the Second Circuit at the close of the fiscal year.

Secondary liability under the antifraud provisions of the Federal securities laws is another important area which the Commission addressed as *amicus curiae* during the past year. In *Sharp* v. *Coopers & Lybrand*, an action under Section 10(b) of the Exchange Act, the Commission filed a brief in the United States Court of Appeals for the Third Circuit urging that an accounting firm may be held liable in a private action for damages, pursuant to the common law principle of *respondeat superior*, for the fraudulent conduct of an employee. The Third Circuit had previously indicated that this common law principle of secondary liability would generally be inapplicable in securities fraud actions, but had held that the principle was applicable in cases involving broker-dealer firms in view of the strict duty of supervision imposed on those firms. The Third Circuit in *Sharp* extended its broker-dealer exception to accounting

firms on the ground that accounting firms, like broker-dealers, are under a duty to supervise their employees.

Another area addressed by the Commission as *amicus curiae* involved the issue of whether remedies available under Sections 10(b) and 18(a) of the Exchange Act are mutually exclusive. In *Wachovia Bank & Trust Co.* v. *National Student Marketing Corporation*, the United States Court of Appeals for the District of Columbia Circuit agreed with the Commission's position that these remedies are not mutually exclusive. The Court rejected defendants' arguments that the implied remedy under Section 10(b) is not available to purchasers of securities and that this remedy does not apply to initial offerings of securities The Court relied on a decision in *Ross* v. *A. H. Robins Co.*, in which the Commission previously participated *amicus curiae*, arguing that Congress could not have intended that express remedies for particular misconduct would have such a broad preclusive effect.

Federal Court Jurisdiction Over Foreign Defendants

The Commission participated *amicus curiae* in *Lebman* v. *ASEA*, which involved the circumstances under which a foreign individual or entity may be subject to suit under the securities laws in a Federal district court. This issue is of significance to private parties and the Commission's own enforcement program where securities transactions involve both foreign and domestic elements.

In *Lebman*, a United States Magistrate had ruled that a foreign corporation was not subject to suit unless the corporation had certain minimum contacts with the state in which the district court is located. The Commission filed a brief in the United States District Court for the Western District of Texas urging that a Federal court has jurisdiction over alien defendants in a securities law action if the defendant has the requisite contacts with the United States as a whole, regardless of the defendant's contacts with a particular state. The district court adopted the Commission's position

Standard of Proof in Enforcement Proceedings

The question of which standard of proof should be utilized in Commission injunctive actions and administrative proceedings—the higher "clear and convincing evidence" standard or the "preponderance of the evidence" standard—was another important subject of litigation during the last year. In February 1981, the Supreme Court handed down its decision in *Steadman* v *SEC*, in which it held, in accordance with the Commission's argument, that the standard of proof for adjudicating administrative proceedings before the Commission is prescribed by Section 7(c) of the Administrative Procedure Act (APA), and that that standard is the one traditionally utilized in civil court cases—a preponderance of the evidence. Because the Court based its decision upon the language and legislative history of the APA, which governs administrative proceedings before all Federal agencies, its reasoning should apply with equal force to a wide variety of adjudicatory proceedings before the Commission and other agencies. In support of its decision, the Supreme Court in *Steadman* also cited the Commission's long-standing practice of imposing sanctions in administrative proceedings on the basis of the preponderance of the evidence standard.

In addition, the Court stated that, in prescribing standards for adjudicatory proceedings in Section 7(c) of the APA, as in prescribing standards for rulemaking proceedings in Section 4 of the APA, Congress had established the "maximum procedural requirements" that it was willing to have courts impose upon agencies, citing its earlier decision in *Vermont Yankee Nuclear Power Corp.* v. *Natural Resources Defense Council, Inc.* The Court's explicit extension of the *Vermont*

Yankee principle is likely to have a significant impact on court review of administrative adjudications made by the Commission and other agencies.

Subsequent to the Supreme Court's decision in *Steadman*, the United States Court of Appeals for the Fifth Circuit, in *Huddleston* v. *Herman & MacLean*, held, among other things, that the standard of proof in private damage actions for violations of Section 10(b) of the Exchange Act and Rule 10b-5 should be that of clear and convincing evidence rather than the preponderance of the evidence. The Commission, concerned that the ruling might be extended to Commission injunctive actions, filed a brief *amicus curiae* in the *Huddleston* case urging rehearing on that issue, as well as certain other issues. Subsequent to the filing of the Commission's brief in *Huddleston*, the Fifth Circuit decided *SEC* v. *First Financial Group of Texas, Inc.*, holding that the Commission need prove an injunctive case under Section 10(b) and Rule 10b-5 only by the preponderance of the evidence. Also of note in this case, although not related to the issue of the proper standard of proof, was the Fifth Circuit's rejection of First Financial's arguments concerning the lack of jurisdiction of the district court to appoint a receiver because of the prior filing of a petition in bankruptcy. The court held that appointment of a receiver was necessary ancillary relief to the Commission's injunctive action to enforce its regulatory powers and thus was exempted from the automatic stay provisions of the Bankruptcy Reform Act.

Scope of Commission's Investigatory and Enforcement Authority

The proper scope of the Commission's investigative and enforcement authority has been litigated in the past year. For example, in *SEC* v. *McGoff* certain persons engaged in the publishing business challenged the Commission's authority to enforce a subpoena issued in a Commission investigation. The district court had upheld the subpoena, but permitted the defendants to withhold documents relating solely to editorial policy or news gathering.

The Court of Appeals for the District of Columbia Circuit rejected the respondents' contention that the Commission's subpoenas impinged on their First Amendment freedoms as newspaper publishers and should therefore be judged under the strict scrutiny standard. Instead, the Court noted that newspaper publishers, like other business enterprises, are subject to laws of general applicability such as the Federal securities laws. The Court cited the traditional standard that administrative subpoenas should be enforced where the subpoena demands are reasonably relevant to an inquiry within the lawfully authorized powers of the agency, pointing out that the Commission had shown a "substantial relationship" between the information it sought and a significant governmental interest. The Court concluded that appropriate accommodation of the respondents' First Amendment interests was achieved by the district court's order.

The Court also ruled that the respondents were not entitled to discovery into the Commission's deliberative process in conducting the investigation because they had failed to demonstrate extraordinary circumstances which would justify a departure from the usual rule that subpoena enforcement proceedings are summary in nature. The decision of the Court was left standing by the Supreme Court, which denied a petition for a writ of *certiorari*.

In SEC v. *Zale Corporation*, the United States Circuit Court of Appeals for the Fifth Circuit ruled, in accordance with the position urged by the Commission, that the district court erred in granting the defendants' motion for summary judgment in a Commission injunctive action on the ground that there was no reasonable likelihood of future violations by those individuals. The district court had assumed,

for the purposes of its ruling, that the defendants had committed the alleged violations, and only a change in employment by one of the defendants and an outstanding consent decree against a corporation had been offered to demonstrate that it was unlikely that the defendants would commit further violations of the securities laws.

In reversing the district court, the Fifth Circuit stated that these factors did not entitle the defendants "to judgment as a matter of law given the court's assumption that both engaged in serious, recurrent wrongdoing and that triable issues of fact remain[ed]...." Moreover, the Court pointed out that "the Commission is entitled to prevail when the inferences flowing from the defendants' prior illegal conduct, viewed in light of present circumstances betoken a 'reasonable likelihood' of future transgressions." Accordingly, the Court reversed and remanded the case to the district court for further proceedings.

In *SEC* v. *Wheeling-Pittsburg Steel Corp.*, a divided *en banc* Court of Appeals for the Third Circuit, overturning a decision by a three-judge panel of that Court, determined that the district court had made inconsistent findings when it held that the Commission was acting in good faith in investigating Wheeling-Pittsburg, but declined to enforce the Commission's subpoena on other grounds. The case was remanded for further factual findings concerning the events surrounding the commencement of the investigation and whether it was initiated at the request of a politically motivated United States Senator or based upon an independent evaluation of the facts by the Commission. After the case was returned to the district court, the Commission advised the court that it was withdrawing the subpoena, and the action was dismissed as moot.

Scope of Commission's Authority Under The Holding Company Act

Two similar cases, both entitled *Herring* v. *SEC*, challenged the Commission's authorization of the sale of securities by a holding company or its subsidiaries. The cases were brought by the same persons in the United States Courts of Appeals for the District of Columbia Circuit and the Eleventh Circuit, seeking to overturn the Commission orders involved on the basis of challenges to certain aspects of a holding company's construction program. In its briefs, the Commission urged that the Holding Company Act does not confer upon the Commission authority to prevent a holding company or its subsidiaries from selling their securities because the company's construction program is alleged to be excessive in light of the anticipated consumer demand for electric power. In addition, the Commission urged that it had no obligation under the National Environmental Policy Act to prepare an environmental impact statement before permitting a holding company or its subsidiaries to sell securities. At the close of the fiscal year, these cases were pending.

Reporting Violations

In *Hinkle Northwest, Inc.* v. *SEC*, a broker-dealer contested sanctions imposed by the Commission upon findings of violations of the recordkeeping, net capital and reporting provisions of the Federal securities laws. Hinkle was the purchaser in two reverse repurchase agreements in which it used the credit of one of its clients, a bank. On appeal, Hinkle claimed that it did not own the securities, but rather that the bank did. Thus, it would not have been under any recordkeeping, net capital or reporting obligations related to these securities. The United States Court of Appeals for the Ninth Circuit affirmed the Commission's order, holding that Hinkle had the right to sell the securities and that it took the risk for profit or loss; this, it found, constituted ownership. The Ninth Circuit also held that it was not necessary to demonstrate evil intent to prove willfulness (a prerequisite to the imposition by the Commission of a sanction in an admin-

istrative proceeding), but that such standard would be satisfied by a showing of conscious, intentional action.

Exhaustion of Remedies

Important policy considerations support judicial non-interference with pending administrative proceedings, since such intervention can deny an agency the opportunity to correct its own mistakes, apply its expertise, prove to be unnecessary in the long run, or delay resolution of the question in issue. In *SEC* v. *G.C. George Securities, Inc.*, the United States Court of Appeals for the Ninth Circuit disagreed with these considerations and ruled that the district court had erred as a matter of law when it concluded that it had no jurisdiction to enjoin a pending Commission administrative proceeding. The respondents in the administrative proceeding had been defendants in a concluded civil action previously filed by the Commission, in which the parties had entered into a stipulation providing, in part, that any stipulation and undertaking approved and ordered by the district court would not be used as the basis for an administrative action affecting any of the defendants. The Ninth Circuit based its determinations on its conclusion that: when the Commission filed its injunctive action, it conferred jurisdiction on the Court; in its order the court retained jurisdiction to enforce the stipulation; and the district court had authority to consider the appellants' request under the All Writs Act, which allows Federal courts to issue writs necessary or appropriate to their jurisdiction.

Tender Offer Litigation

In 1981, the Commission has continued a high level of participation in litigation concerning the effect of the Commission's tender offer rules on state takeover statutes. The Commission has participated *amicus curiae* or as a party in a number of these lawsuits, which generally arise in the context of hostile takeover attempts. Some of these suits focus upon the preemptive effect of Commission Rule 14d-2(b) under the Exchange Act (the rule concerning the early commencement date of a tender offer) on state law provisions requiring extended precommencement delay. Rule 14d-2(b) requires a tender offer to commence shortly after a public announcement of its material terms. It was designed to thwart a developing practice by which bidders would make public announcements about their offers without actually commencing these offers for purposes of the Williams Act, which contains various provisions designed to afford investors protection in tender offer situations.

The Commission recognized when it adopted Rule 14d-2(b) that it might conflict with certain state laws, and in litigation the Commission has supported the position of tender offerors challenging these laws as unconstitutional when they do conflict. However, the Commission has also recognized that states may have a valid interest in regulating tender offers for truly local companies, and it has therefore supported the efforts of state securities laws administrators to harmonize the operation of their statutes with Rule 14d-2(b).

In actions in which the Commission has participated and where a court has reached the merits of the substantive preemption issue, the results have been uniformly favorable for the Commission. In particular, in *Canadian Pacific Enterprises (U.S.), Inc.* v. *Krouse*, the United States District Court for the Southern District of Ohio held that Rule 14d-2(b) was a valid exercise of the Commission's broad rulemaking power and preempted the provisions of the Ohio takeover statute requiring public announcement of a takeover bid at least 20 days before it is made.

In *James Edgar* v. *MITE Corp.*, the Commission submitted a brief *amicus curiae* before the United States Supreme Court raising the question of whether state law provisions, which require advance disclosure of tender offers and empower a

state securities administrator to pass on the substantive fairness of the terms of a tender offer, violate the Supremacy and Commerce Clauses of the United States Constitution by, respectively, conflicting with the purposes of the Williams Act and imposing a burden on interstate commerce not outweighed by local interests.

The Commission also submitted a brief *amicus curiae* in *Kennecott Corp.* v. *Smith*, before the United States Court of Appeals for the Third Circuit. *Kennecott* involves the issues of whether the hearing, withdrawal, and proration provisions of the New Jersey takeover law frustrate the Federal scheme for tender offer regulation and thus violate the Supremacy Clause, and impose impermissible burdens on interstate commerce in violation of the Commerce Clause. Noting that the New Jersey withdrawal and proration provisions differ from those prescribed by other states as well as the Federal periods set by the Commission, the Commission contended, among other things, that exposure to divergent state proration and withdrawal periods encumbers the planning and execution of tender offers, constituting a burden on interstate commerce. The Commission further argued that the existence of differing State withdrawal and proration periods precludes the application of a single national standard to transactions that are nation-wide in scope

Finally in *Osofsky* v. *Zipf*, the Commission participated *amicus curiae* before the United States Court of Appeals for the Second Circuit. This case presented the issue of whether shareholders, who ceded control of their company as a result of alleged misrepresentions concerning the value of the consideration they would obtain in a merger to take place after successful completion of a tender offer, had stated a claim for damages under the Exchange Act. The defendant in the case, the successful tender offeror, had represented that shareholders would receive a certain price in the merger, but the plaintiffs alleged that the defendant intentionally paid a lesser amount upon consummation of the merger.

The district court held that the shareholders were precluded by the "actual damage" limitations of Section 28(a) of the Exchange Act from recovering any damages because they had not alleged that the shares they gave up were worth more than the consideration they received. It also ruled that the shareholders may not obtain damages amounting to the difference between what it was represented they would receive in the merger and what they actually received.

The Commission was concerned that the district court's ruling would insulate from private redress certain types of proxy and tender offer violations, particularly in those situations where a substantial premium is offered over market value. In its brief, the Commission urged reversal of the district court's decision. The Second Circuit agreed with the Commission's position, holding that, under the actual damages limitation of Section 28(a), shareholders may recover non-speculative damages based upon the value of the consideration that was represented as coming to them in the merger, when those damages can be established with reasonable certainty.

Regulatory Litigation

Chicago Board of Trade v. *SEC*, pending in the United States Court of Appeals for the Seventh Circuit, raises significant issues of jurisdictional allocation between the Commission and the Commodity Futures Trading Commission (CFTC). This case challenges the authority of the Commission to approve and supervise the trading of options on securities guaranteed by the Government National Mortgage Association (GNMA), when such trading takes place on a national securities exchange. In its brief, the Commission stated that a national securities exchange is authorized to provide a market for trading of all types of securities and that the Com-

mission is empowered under the Exchange Act to oversee such trading. The Commission urged that GNMA securities, although exempted from registration requirements under the Exchange Act and the Securities Act, are nonetheless securities, and that options on GNMA securities are, themselves, separate securities. The Commission further urged that nothing under the Commodity Exchange Act (CEA) diminishes its authority under the securities laws over the trading of GNMA options, even though the CEA may permit the trading of futures on GNMAs on boards of trade subject to the oversight of the CFTC.

The Commission explained in its brief that options and futures are legally distinct forms of trading, and that the limited grant of jurisdiction to the CFTC extends to futures trading, not options trading, of GNMA securities. The Commission contended that this conclusion is reinforced by provisions in the CEA which explicitly preserve the jurisdiction of the Commission over securities trading (except to the extent that futures trading is involved) and which expressly remove "government securities" and "security rights" from the coverage of the CEA, except to the extent that they are the subject of futures trading on a board of trade

The Commission also participated *amicus curiae* in the United States District Court for the District of Columbia in *A. G. Becker* v. *Board of Governors of the Federal Reserve System*, which raised the question of whether a bank may underwrite "third party" (i.e. non-bank) commercial paper, in view of the ban under the Glass-Steagall Act against bank underwriting of "securities." The Commission in its *amicus* memorandum urged that the Glass-Steagall Act and the securities laws should be viewed as complementary pieces of legislation, and that undefined terms in the Glass-Steagall Act should generally be construed together with the definitions contained in the contemporaneously enacted Securities Act. Because commercial paper is encompassed by the definition of "security" under the latter statute, the Commission asserted that commercial paper should be deemed to be a "security" for purposes of the Glass-Steagall Act as well. If any of the restrictions under the Glass-Steagall Act are to be revised (including the strict prohibition against bank underwriting of corporate securities), the Commission urged that this task, which raises fundamental public policy issues, is better left to the Congress, not the courts. The district court in *A. G. Becker* found that commercial paper is a "security" under the Glass-Steagall Act, and, although not deciding what activity would constitute "underwriting," agreed that any easing in the strict statutory limitations against bank underwriting must be left for Congress to decide.

Public Utility Holding Companies

Composition

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

There are presently 13 registered holding companies with aggregate assets, as of June 30, 1981, of $57 billion. Total holding company system assets increased $4.5 billion in the twelve-month period ended June 30, 1981. Total operating revenues, as of June 30, 1981, were $26.5 billion, a $4.5 billion increase over the previous year. In the 13 systems, there are 58 electric and/or gas utility subsidiaries, 61 nonutility subsidiaries and 19 inactive companies, or a total of 155 system companies, including the top parent and subholding companies Table 38 in the Appendix lists the systems and Table 39 lists their aggregate assets and operating revenues

Financing

During fiscal year 1981, approximately $3.3 billion of senior securities and common stock financing of the 13 registered systems was approved by the Commission. Of this amount, approximately $2.3 billion was long-term debt financing, and over $1 billion was for equity financing. These amounts represent a 12.4 percent decrease in long-term financing over fiscal year 1980, and an 11.1 percent increase in the sale of common and preferred stock. In addition, the Commission approved over $7.1 billion of short-term debt financing and $278 million of pollution control financing for the registered holding company systems. The short-term debt amounted to approximately 45 percent more than the $4.9 billion authorized in fiscal year 1980. Table 40 in the Appendix presents the amount and types of securities issued by holding company systems pursuant to the Holding Company Act.

Exemptive Rules Adopted

The Commission, through the exercise of its statutory rulemaking power, has attempted to allay the concerns expressed by gas and electric utilities that their participation in certain types of joint ventures would make their activities subject to the Holding Company Act. On November 19, 1980, the Commission adopted Rule 16[196] to facilitate participation of registered gas systems with companies not subject to the Holding Company Act in gas-related joint ventures It exempts certain nonutility subsidiaries of registered holding companies, primarily engaged in the production, manufacture, transmission or storage of gas, from those provisions of the Holding Company Act that would otherwise render them "subsidiary companies," provided that no more than 50 percent of the voting interests are owned by one or more registered holding company systems. In order to facilitate jointly owned generating facilities among electric companies not subject to the Holding Company Act, the Commission, on January 13, 1981, adopted Rules 14 and 15[197] which exempt certain acquisitions by electric utility companies from Commission regulation.

Reorganizations and Acquisitions

Colonial Gas Energy System Reorganization—Prior to September 9, 1977, for many years Colonial Gas Energy System (Colonial) was an exempt holding company under Section 3(a)(1) of the Holding Company Act, pursuant to Rule 2. The filing under Rule 2 exempted Colonial and its subsidiaries until it was notified, pursuant to Rule 6, that a substantial issue existed as to its claimed exemption. Notification was given because reports filed with the Commission under the Federal securities laws disclosed complexities in the financial structure of the system which impaired Colonial's ability to raise needed capital and adversely affected its operating subsidiaries. In order to bring the Colonial system into compliance with the financial standards of the Holding Company Act, Colonial and the Commission entered into a stipulation under which Colonial and its subsidiaries agreed that their financings would comply with Sections 6, 7 and 12(b) of the Holding Company Act until disposition of the exemption application. Colonial's capitalization improved substantially, and on July 30, 1981, the Commission authorized mergers which would result in the termination of Colonial's corporate existence, the combination of two operating subsidiaries into one operating utility company and the elimination of the holding company.

Columbia Gas System, Inc.—On November 3, 1980, The Columbia Gas System, Inc. (Columbia), a registered holding company, filed an application seeking authorization to merge with Commonwealth Natural Resources, Inc. (Commonwealth), a holding company exempt from the Holding Company Act pursuant to Rule 2. Columbia will be the surviving corporation, and Commonwealth's subsidiaries will be retained as subsidiaries of Columbia. The City of Richmond, Virginia, intervened in the proceeding, essentially requesting that merger of the transmission subsidiaries of Columbia and Commonwealth be made a condition to merger of the holding companies. The Commission denied the City's request.[198]

Northern States Power Company—Northern States Power Company (Northern States), a utility company and an exempt holding company under Section 3(a)(2) of the Holding Company Act, has applied for authorization on behalf of itself and its subsidiaries, pursuant to Sections 9 and 10 of the Holding Company Act, to acquire the shares of outstanding common stock of Lake Superior District Power Company (Lake Superior), a Wisconsin corporation. The acquisition would be accomplished through an offer to shareholders of Lake Superior to exchange 0.48 shares of Northern States common stock for each share of Lake Superior common stock. Northern States also requested an exemption pursuant to Section 3(a)(2) of the Holding Company Act. Public hearings were ordered and have been concluded. At the close of the fiscal year, a decision was pending.

Fuel Programs

During fiscal year 1981, the Commission authorized approximately $1 billion for fuel exploration and development activities for the holding company systems. This represents a 72 percent increase over fiscal year 1980 fuel expenditures. Table 42 in the Appendix lists the authorization by holding company system for each fuel program.

Largely as a result of radical changes in cost and availability of fuel, utilities have embarked on major programs to acquire control over part of their fuel supply. Generally, the arrangements involve the formation of subsidiaries or entry into joint ventures for the production, transportation and financing of fuel supplies or the supply of capital for the exploration and the development of reserves with a right to share in any discovered reserves. Since 1971, the Commission has authorized expenditures of over $4.2 billion for fuel pro-

grams of holding companies subject to the Holding Company Act.

Service Company Operations

At the end of calendar year 1980, there were 12 subsidiary service companies providing managerial, accounting, administrative and engineering services to 11 of the 13 holding companies registered under the Holding Company Act. The billings for services rendered to the holding company systems amounted to $608.4 million or 2.30 percent of the total revenues generated by the electric and gas operating utilities. The subsidiary service companies are heavily labor-intensive, employing over 13,000 people, and have assets of over $303 million. Table 41 in the Appendix lists the subsidiary service companies with billings, total assets, and total personnel.

General Public Utilities Corporation/Three Mile Island

During fiscal year 1981, the Commission continued to monitor the financial and operational impact to the General Public Utilities (GPU) system of the March 28, 1979, nuclear accident at Three Mile Island Unit No. 2 (TMI-2). The GPU system has estimated the cost to decontaminate and restore TMI-2 at $1.6 billion over the next six years. As of June 30, 1981, approximately $235 million of this amount had been expended. The GPU system has $300 million of property insurance coverage for TMI-2.

Corporate Reorganizations

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

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

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

During the past fiscal year, 65 debtors with publicly issued securities outstanding entered Chapter 11 reorganization proceedings. The Commission entered its appearance in 18 of these cases, with aggregate assets of $2.5 billion and 130,000 public investors. (A list of these proceedings is set forth in Table 44 in the Appendix to this Report) In these cases the Commission presented its views, in court and informally in consultation with other participants, on a variety of issues including: (1) conflicts of interests of members of creditors' and equity security holders' committees; (2) issues concerning the debtor's operations and sales of assets; (3) the need for appointment of a trustee or examiner to conduct an investigation into the debtor's affairs, and to answer questions concerning the validity and effect of the terms of the securities held by public investors, the classification of their claims, and proposed treatment in reorganization plans; (4) the adequacy of disclosure in the disclosure statement required to be transmitted to public investors when their votes on a plan are being solicited; (5) the reasonableness of fees sought by counsel and other professionals, and (6) interpretive questions concerning the Bankruptcy Code's exemption from the securities laws.

The Commission continues to play a similar role in pending reorganization cases under Chapter X of the prior Bankruptcy Act. A list of these cases is set forth in Table 43 in the Appendix to this report.

Administration and Management

General Management and Program Developments

As part of a continuing effort to maximize the use of available resources, the Office of the Executive Director provided technical assistance to several divisions and offices during 1981. The most significant undertaking in this area was a joint effort with the Division of Enforcement to upgrade management. One track of the project addressed the operational problems which arose in the investigation and litigation of alleged security law violations. The second track focused on policy tools designed to enable managers to track and analyze the progress of cases and resource allocations. Early results of this effort have been most evident in the increased accuracy and utility of management reports. Weekly, monthly and quarterly reports are now available which analyze Division operations from a number of perspectives (e.g., by organization, by case classification, changes over time, resource utilization, etc.). Technical assistance was also provided to the Office of the Comptroller (in their effort to modernize financial and cash management activities), the Office of the General Counsel (to assist in development of a case tracking system), the Office of the Secretary (in the development of an automated system to track Commission minutes), the Office of Administrative Services (on plan for a new building and word processing equipment specifications), the Division of Corporation Finance (in development of a capacity to automatically identify delinquent filings), the Office of Applications and Reports Services (on several records management projects), the regional offices (on projects involving automated management information systems) and to the Commission's principal program divisions in their effort to comply with the Paperwork Reduction Act.

In addition, as reported to Congress in the first quarter of fiscal 1981, a major support office reorganization was implemented by the Office of the Executive Director. The reorganization moved positions and functions to new offices, thus preserving operating functions while achieving the primary goal of consolidating like tasks in specifically dedicated organizations. The expanded Office of Consumer Affairs and Information Services handles all public contacts for complaints, Freedom of Information Act requests, forms distribution, and public reference services. The newly delineated Office of Applications and Reports Services receives, indexes, stores, and distributes all filings and investigative materials and also reviews, denies, or makes effective all applications by broker-dealers, investment advisors, transfer agents, and municipal securities dealers. Using computers and micrographics technology, in 1981 this group indexed some 270,000 documents of all types, filed approximately 200,000 archival microfiche, and reviewed over 12,000 broker-dealer and investment advisor filings. Finally, all administrative, mail, and messenger services were consolidated in the Office of Administrative Services, and the program support and review capabilities of the Offices of the Executive Director and Information Systems Management were upgraded.

The Paperwork Reduction Act of 1980 made a significant impact on the Commission during fiscal 1981. In April, the Office of the Executive Director organized the Commission's effort to comply with the Office of Management and Budget

(OMB) directives issued under the Act. The Chairman, Executive Director, and Deputy Executive Director were designated to administer the Act for the Commission. During the last half of the year, the rule-making and legal staffs of the program divisions produced 200 packages of materials for OMB, covering some 375 individual rules, forms, and records requirements.

Although the substantive work of the Commission has significantly expanded in the past several years with the growth of the economy and under Congressional impetus, the Commission has used technology and improved management practices to cope with these changes without increased staffing. Overall, 1981 witnessed a turning point as the Commission began to take fuller advantage of computer and micrographics technology in program offices beyond the support office areas, where such resources were initially and most widely applied. It has been the Commission's experience, however, that efficiencies generated by technology and improved organizational structures have been offset by the increased complexity and volume of the Commission's workload. Accordingly, continued great care will need to be exercised to seek, lead, and encourage the personnel resources of the Commission, which in the final analysis are the heart of the agency.

Information Systems Management

Fiscal year 1981 ended the Commission's first five year plan for its automatic data processing (ADP) program. All basic goals were met, including the acquisition of an IBM 370 computer and a modern teleprocessing system and the consolidation or creation of central data files in support of certain major agency programs. During 1981, attention swung to upgrading computer software to utilize more efficiently the new IBM 370 computer reported in 1980. Specifically, six new information systems were implemented, and qualitative enhancements and modifications were made to five others. In addition, certain standards and procedures in the Office of Information Systems Management (ISM) were consolidated, and several Commission ADP facilities were upgraded as outlined below.

The new facilities include a new operating system for the IBM 370 computer, faster regional office access to headquarters files, improved data file storage, and newer keyboards and printers in user offices. Security passwords were initiated to gain control over the cost and usage of the automated legal research service obtained under contract by the Commission, as well as to restrict access to sensitive investigatory and management files on the Commission's computer. Additionally, the Commission made an agreement with another agency to obtain contingency computer support if the Commission's system should be unable to function when it is absolutely needed, for example, to process payroll data or to process statistical or investigatory information.

Finally, a new five year plan was announced to lay the groundwork for continuing to enhance the utilization of the new computer, including modernizing program software, upgrading user involvement in the design and retrival of automated data files, and planning for future equipment needs. In recognition of the broad role of ADP, and to encourage the ADP staff to work more closely with program divisions in order to better meet Commission goals, during 1981 the Office of Data Processing was renamed the Office of Information Systems Management, a user relations unit was created in ISM, and an ISM support unit was dedicated to the Commission's new market oversight and surveillance activity.

The five information systems enhanced during 1981 were upgraded in response to urgent user needs in those areas where the new IBM 370 computer and related data management techniques could most

rapidly make a major difference to certain computer progams that had become seriously unresponsive due to age. The revised systems include several that support the Commission's data base of company names, addresses, and filings. The data base tracks the availability of filings on microfiche as well as the status of filings reviews; it also detects companies that have failed to file required reports. The computer programs that detect missing reports had to be completely re-written to use the new data files and to take advantage of other computerized information in order to produce complete profiles of delinquent firms. In addition, the Commission's revised filings and registrant files on the IBM 370 mainframe computer were designed to be updated off-line by daily tapes containing registrant and filings index data captured and edited by a TI 990 minicomputer. Finally, two management systems were upgraded with on-line capabilities to support and track preliminary investigations and public complaints about registrants, while the Commission's Payroll Data Entry System was given on-line capabilities as well.

The new computer system so enhanced the efficiency of the software programming staff, that six new system applications were implemented in 1981 in addition to the five major revisions outlined above. The six new applications include an on-line retrieval of index information concerning Commission releases published in the SEC Docket, an analytic system to facilitate the selective review of corporate filings under the Securities Act of 1933 (Securities Act) and the Securities Exchange Act of 1934, and several systems supporting matters such as merit pay, processing of filing fees, corporate governance analyses, and invoice and voucher tracking and payment.

In early 1981, the Commission signed a major new contract to obtain micrographics and dissemination services in a manner that serves the needs of both the public and the Commission. Public reference rooms in the Office of Consumer Affairs and Information Services and in the three major regional offices are supported by the contractor, as are the Commission's archival files in the Office of Applications and Reports Services. The latter office also supplies all documents filmed by the contractor and acts as the Commission's technological agent with respect to the contract. As a result of the new contract, the Commission now films all major categories of filings, applications, notices, and amendments through a contractor who disseminates film and paper copies to the public for set fees while also supplying the agency with indexed archival and public reference microfiche. The public film files in headquarters and major regional offices include 30 percent more kinds of documents than were previously available to the public on film, the archival files for staff use necessarily cover virtually every type of document filed with the Commission.

Both the micrographics program and the Commission's document control staff require specialized computer index update and editing support to maintain accurate and timely processing of filings throughout each workday and during evenings and weekends when necessitated by registrant filing patterns. Accordingly, the Office of Applications and Reports Services, after 18 months of development and independent of the mainframe computer, implemented during early 1981 a document indexing system built around a minicomputer dedicated to capturing and editing filings index data as part of the document receipt and distribution process administered by that office. The TI 990 minicomputer interfaces with the micrographics contractor through the Commission's mainframe computer, to which the minicomputer provides off-line daily tapes for professional staff use. As a result, local and remote terminals linked to the IBM 370 mainframe computer can respond to queries about filings and can also be used to request that microfiche copies of filmed documents be

sent anywhere in the Commission, including regional offices.

Finally, early in the second quarter of fiscal 1981, a computer-indexed microfiche file of all General Counsel briefs and selected motions from 1969 forward was produced and furnished to the Commission's legal staff. The case names of the legal briefs and the topics they include were made part of a special index system resident on the agency's TI 990 minicomputer. In the future it is expected that the index will be moved to the IBM 370 mainframe computer to facilitate regional staff access. The computerized index is used by the legal staff to determine which briefs share any legal topic of interest. Alternatively, of course, the staff can access the microfiche directly if the identity of a desired brief is already known. Regional offices, the Office of the General Counsel, and the Division of Enforcement cooperated in review and extracting topics from approximately 900 cases to build the initial computerized topic file. Under the aegis of the Office of the Executive Director, the Office of Applications and Reports Services designed the computerized topic research index, furnished the minicomputer, microfilmed the briefs, generally managed the project. The Office of the General Counsel will maintain the topic file on the minicomputer now that the basic legal brief conversion has occurred.

Financial Management

In fiscal year 1981, the Commission collected $65.3 million in fees from the registration of securities, securities transactions on national securities exchanges, and miscellaneous fees for filings, reports and applications. The fees collected represented approximately 81 percent of the total funds appropriated by Congress for Commission operations.

The Office of the Comptroller continued the implementation of an automated integrated financial management system. During the year, a new system was implemented to charge commercial long distance telephone calls to each organization. This system eliminated the need for each staff member to prepare a report to the Comptroller for each individual telephone call, which in turn eliminated thousands of reports that had to be reconciled annually with the telephone bill. In addition, this system resulted in a marked decrease in the cost of commercial calls. In a separate matter, the Office of the Comptroller and the Office of Legislative Affairs shared the acquisition and use of a timeshare package called "Legislate" to track the status of Commission-related legislation pending in Congress. Finally, the position/employee reporting and tracking system (PERTS), implemented in fiscal 1980, was enhanced to produce detailed organization charts and summary strength reports of the Commission, thereby significantly enhancing the Commission's ability to manage the allocation of specific staff resources across programs and organizations.

Initiatives intended to improve or conserve resources completed in fiscal year 1981 included issuing a comprehensive voucher audit handbook, microfiching one million documents, establishing procedures to implement cash management policies for Treasury deposits and accounts receivable and payable, and developing new performance criteria for employees of the Office of the Comptroller. Finally, in an effort to reduce travel costs and save time in obtaining airline, train and other common carrier tickets, the Commission is one of five agencies participating in a test to use travel agents to procure travel arrangements at no cost to the Government. A request for proposals from interested travel agents was issued in September, 1981. Work on the automated integrated financial management system will continue to fiscal year 1982.

Internal Audit

The Office of Internal Audit within the Office of the Chairman completed its first full year of operation in fiscal 1981, during which the Office reached its authorized strength of a director, two auditors, and a secretary. The audit staff provides independent feedback to the Chairman on internal controls and the progress of operations in achieving the Commission's long-term management goals. During the year, the Office issued six reports covering such diverse topics as data processing risk assessment and a review of the imprest fund. In addition, a major audit of the Commission's equal employment opportunity complaint processing system was initiated and largely completed in fiscal 1981. The audit was intended to identify strengths and weaknesses in the complaint handling system and to correct whatever deficiencies were noted. At year's end, major reports in process include reviews of the payroll system, telecommunications, and cash management.

Personnel Management

During fiscal 1981, the Commission continued to devote substantial efforts to the implementation of the Civil Service Reform Act. The new performance appraisal system, described in last year's annual report, was approved by the Office of Personnel Management and implemented by the Commission. Merit pay employees, comprising about 25 percent of the Commission's workforce, were the first to be brought under the new system; by March 1981 all such employees were covered. Simultaneously, work was begun on the task of implementing performance appraisals for the approximately 1,400 employees not covered by merit pay. The performance appraisal system was implemented for non-merit pay employees on July 1, and all employees are now operating under the new system. Evaluation of the performance appraisal system will begin upon completion of the first rating cycle in October of 1981.

Another major undertaking concerns the merit pay program developed by the Commission, approved by the Office of Personnel Management, and modified Government-wide by the General Accounting Office. Upon becoming operational in October 1981, the first actual performance ratings made under the new performance appraisal system will be used as the basis for pay adjustments, and will link pay, other than cost of living allowances, to the performance of each covered employee. Approximately 450 Commission employees will be covered by merit pay: specifically, 97 percent of grade GS-15 employees, 90 percent of grade GS-14 employees, and 10 percent of grade GS-13 employees.

Computer programs were developed to calculate merit pay pools as well as individual merit pay adjustments for each employee covered by merit pay. Additionally, computer support will monitor the operation of the system, evaluate its effectiveness as a management tool, and ensure compliance with legal requirements.

The merit pay effort underwrote other improvements to the Commission's management of personnel resources. In particular, ment promotion procedures and documentation were dovetailed with the Commission's incentive award program so that merit pay measures and appraisals of employee performance and contributions could be used to provide for greater flexibility, accuracy, and speed in recognizing valuable employees.

The Commission's upward mobility program (INTERSECT) continued to be a very successful program with a high degree of management support and acceptance. Over the past three years, twenty-two interns have moved into the mainstream of their organizations in a varity of occupations, including paralegals, financial analysts, compliance examiners, and computer programmers. There are five interns in the 1981 INTERSECT program, all of

whom are scheduled to complete their developmental assignments within the next year.

Other initiatives begun in previous years were carried foreward and expanded. An aggressive attorney recruitment program remains one of major significance, particularly as salary levels offered in the private sector continue to rise more rapidly than those in the Federal service. A Job Fair, concentrating on recruitment of minority attorneys, generated substantial interest and resulted in 13 persons being hired during the year. An affirmative action program for the 87 persons at the Commission who have identified themselves as having some degree of handicap also continued to be of major interest. The program includes sign language classes and TDY telephones for the deaf, braille in halls and elevators for the blind, ramps and other aides for wheelchairs, and orientation sessions for managers in the Commission and other agencies. Finally, similar to its earlier authority for accountants and securities compliance examiners, the Commission obtained from the Office of Personnel Management (OPM) the authority to recruit and hire financial analysts without screening by OPM.

Equal Employment Opportunity

The Equal Employment Opportunity Office (EEOO), also within the Office of the Chairman, developed an affirmative action plan under guidelines promulgated by the Equal Employment Opportunity Commission's (EEOC) Management Directive 705 and as mandated by Section 717 of Title VII of the Civil Rights Act of 1964, as amended.

In part, because of this effort, the total number of female and minority employees in the work force at the Commission increased 6.36 percent, even though a hiring freeze existed during the greater part of fiscal year 1981.

The Director of Equal Employement Opportunity continues to chair the SEC Securities Industry Committee for Equal Employment Opportunity, organized in 1976. The Committee meets quarterly to promote equal employment opportunities for minorities and females in the securities industry. During fiscal year 1981, the Committee again awarded four $1,000 one-time scholarships and one, four year scholarship in the amount of $6,600 to minority students interested in pursuing a career in the securities field. This is the fifth year for the scholarship program.

Annual observations and programs within the Commission were developed and conducted for Asian and Pacific American Heritage Week, National Secretaries Week, Women's Week and Hispanic Week.

A sexual harassment training program was also developed as part of the Commission's prevention of sexual harassment in the work force plan. Approximately 125 employees in the Washington, D.C. area completed an eight hour program during May and June. This program will be continued during fiscal year 1982, and most regional offices will be included.

Consumer Affairs and Information Services

During the 1981 fiscal year, the Freedom of Information Act (FOIA) and Privacy Act (PA), public reference and publications functions were merged into the Office of Consumer Affairs, which was redesignated as the Office of Consumer Affairs and Information Services. The organizational change was made to provide one-stop service for public inquiries, investor complaints, requests for publications, reproductions of filings and FOIA and PA requests. The new office spearheaded several important projects during 1981. Working with the Office of Information Systems Management, it implemented a direct input capability for the computerized complaint handling system so that more accurate and timely information can be used in the regulatory and enforcement programs of the Commission.

Regarding the Freedom of Information Act and the Privacy Act, in early 1981 the Commission formalized a procedure whereby parties submitting information to the Commission can request confidential treatment in the event an FOIA request for the submitted material is subsequently filed. This procedure seeks to ensure that providers of information have an opportunity to appeal to the Commission any determination to release such information. While this procedure existed informally for a number of years, the advent of a Commission rule and attendant publicity caused the volume of confidential treatment requests to increase by 100 percent over prior years. The Office of Consumer Affairs and Information Services worked closely with the Divisions of Enforcement and Corporation Finance, the Office of the General Counsel and the regional offices to implement the new procedure and related innovations necessary in managing confidential requests and FOIA matters.

In addition to the new treatment of confidential data, and apart from a 10 percent increase in the volume of FOIA and PA requests received in 1981 over 1980, the complexity of requests grew very noticably. The increase in complexity is a serious development resulting primarily from more sophisticated utilization of the Acts by parties experienced in their usage, especially law firms involved in litigation, proxy contest or other adversary situations.

Finally, the Office of Consumer Affairs and Information Services processed approximately 165,000 inquiries in the Public Reference Branch in 1981, including 12,000 publications requests and 86,000 telephone requests. The office installed an automatic phone sequencer in the Public Reference Branch to end the loss of over 30 percent of telephone inquiries experienced in prior years.

Facilities Management

In fiscal 1981, following approval of the House and Senate Public Works Committees, the General Services Administration (GSA) issued a solicitation for proposals in order to acquire a consolidated heaquarters building for the Commission. The new headquarters is planned to accommodate Commission staff currently distributed among three buildings in Washington, D.C. The GSA received a number of responses, selected a building now under construction at Judiciary Square, and signed a lease with the building owner on August 13, 1981. Fiscal 1982 appropriations for the lease and move were pending in Congress as of the end of fiscal 1981. Predicated on anticipated approval by the House and Senate Appropriations Committees, determination of floor plans and building details began in the fall of 1981 with the expectation of moving in the summer of 1982. The consolidation will enable the Commission to save considerable expenses for shuttle vehicles, drivers, and duplicate copying and serving facilities. More importantly, it is expected that the work of the professional staff will be significantly facilitated due to the proximity of corporate filings records and library resources, adequate office and conference space, centralized support services, and greater interaction between program units that need to work together.

Footnotes

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

[2]Securities Exchange Act Release No. 18062 (August 25, 1981), 23 SEC Docket 650.

[3]The ITS was authorized by the Commission, on a provisional basis, as a national market system facility pursuant to Section 11A(a)(3)(B) of the Exchange Act.

[4]Securities Exchange Act Release No. 17744 (April 21, 1981), 22 SEC Docket 845.

[5]Securities Exchange Act Release No 17531 (February 10, 1981), 21 SEC Docket 1746, Securities Exchange Act Release No 17532 (February 10, 1981), 21 SEC Docket 1747

[6]Securities Exchange Act Release No 17704 (April 9, 1981), 22 SEC Docket 709.

[7]Securities Exchange Act Release No. 17549 (February 17, 1981), 22 SEC Docket 22

[8]Securities Exchange Act Release No 18131 (October 1, 1981), 23 SEC Docket 1013

[9]Securities Exchange Act Release No. 17850 (February 26, 1981), 22 SEC Docket 195

[10]Securities Exchange Act Release No. 17583 (February 27, 1981), 22 SEC Docket 269

[11]SEC 1980 Annual Report at 7.

[12]Securities Exchange Act Release No. 18062 (August 25, 1981), 23 SEC Docket 650

[13]590 F 2d 1085 (D.C. Cir. 1978).

[14]Securities Exchange Act Release No. 17562 (February 20, 1981), 22 SEC Docket 129

[15]Securities Exchange Act Release No. 17343 (November 26, 1980), 21 Sec Docket 708

[16]Securities Exchange Act Release No. 17660 (March 27, 1981), 22 SEC Docket 649

[17]Securities Exchange Act Release No. 18034 (August 14, 1981), 23 SEC Docket 579.

[18]Securities Exchange Act Release No 18015 (August 6, 1981), 23 SEC Docket 253

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

[20]Securities Exchange Act Release No. 17263 (October 22, 1980), 21 SEC Docket 260

[21]Securities Exchange Act Release No. 17237 (October 22, 1980), 21 SEC Docket 262 *See also* Securities Exchange Act Release No. 17452 (January 15, 1981), 21 SEC Docket 1386 (NASD).

[22]Securities Exchange Act Release No. 17238 (October 22, 1980), 21 SEC Docket 265.

[23]Securities Exchange Act Release No. 18096 (September 14, 1981), 23 SEC Docket 795.

[24]Securities Exchange Act Release No 17244 (October 24, 1980), 21 SEC Docket 691 (Amex), Securities Exchange Act Release No. 17382 (December 16, 1980), 21 SEC Docket 976 (PSE); Securities Exchange Act Release No. 18078 (September 3, 1981), 23 SEC Docket 761 (Phlx).

[25]Securities Exchange Act Release No 17577 (February 26, 1981), 22 SEC Docket 186

[26]Securities Exchange Act Release No. 16601 (May 12, 1980), 19 SEC Docket 756; Securities Exchange Act Release No. 17005 (July 24, 1980), 20 SEC Docket 784

[27]Securities Exchange Act Release No 17577 (February 26, 1981), 22 SEC Docket 186 (File No. SR-CBOE-80-7)

[28]*Board of Trade of the City of Chicago v SEC*, No 81-1660 (7th Cir., Filed April 24, 1981).

[29]Securities Exchange Act Release No. 17578 (February 26, 1981), 22 SEC Docket 193.

[30]Securities Exchange Act Release No 17632 (March 16, 1981), 22 SEC Docket 481 (Amex), Securities Exchange Act Release No 17325 (November 21, 1980), 21 SEC Docket 691 (CBOE), Securities Exchange Act Release No 17631 (March 16, 1981), 22 SEC Docket 480 (NYSE)

[31]Securities Exchange Act Release No 17666 (March 27, 1981), 22 SEC Docket 655

[32]Securities Exchange Act Release No 17795 (May 11, 1981), 22 SEC Docket 1034.

[33]File Nos SR-PSE-81-12 and SR-Amex-81-17

[34]Registration Statement No 2-69458 (filed October 9, 1980)

[35]Securities Exchange Act Release No. 17609 (March 6, 1981), 22 SEC Docket 394

[36]Securities Exchange Act Release No 17222 (October 17, 1980), 21 SEC Docket 212.

[37]Securities Exchange Act Release No. 18050 (August 21, 1981), 23 SEC Docket 632; Securities Exchange Act Release No 14157

(November 9, 1977), 13 SEC Docket 663.

[38]Securities Exchange Act Release No. 17556 (February 17, 1981), 22 SEC Docket 14.

[39]Pub. L. No. 96-354, 94 Stat. 1164 (September 19, 1980)

[40]Securities Exchange Act Release No 17645 (March 20, 1981), 22 SEC Docket 544

[41]Securities Exchange Act Release No 17534 (February 11, 1981), 21 SEC Docket 1750.

[42]Securities Exchange Act Release No. 18073 (August 31, 1981), 23 SEC Docket 729.

[43]Exchange Act Rule 15c3-1.

[44]Securities Exchange Act Release No 11497 (June 26, 1975), 7 SEC Docket 241

[45]Securities Exchange Act Release No. 17208 (October 9, 1980), 21 SEC Docket 139

[46]Securities Exchange Act Release No. 17209 (October 9, 1980), 21 SEC Docket 162.

[47]Securities Exchange Act Release No 17927 (July 9, 1981), 23 SEC Docket 34

[48]Securities Exchange Act Release No 17383 (December 17, 1980), 21 SEC Docket 977.

[49]Securities Exchange Act Release No. 18046 (August 20, 1981), 23 SEC Docket 585.

[50]15 U.S.C §§78aaa-78*lll*, *as amended* by the Securities Investor Protection Act Amendments of 1978, Pub. L. No 95-283, 92 Stat. 249.

[51]Securities Investor Protection Act, Pub L. 96-433, §1, 94 Stat. 1855 (1980)

[52]Securities Exchange Act Release No. 17410 (December 30, 1980), 21 SEC Docket 1166

[53]*Report of the Senate Committee on Banking, Housing, and Urban Affairs to Accompany S. 2465*, S. Rep No 96-752, 96th Cong., 2d Sess (1980); *Report of the House Committee on Interstate and Foreign Commerce to Accompany H. R 6830,* H. Rep No 96-961, 96th Cong. 2d Sess (1980).

[54]Securities Exchange Act Release No. 17584 (February 27, 1981), 22 SEC Docket 283.

[55]Securities Exchange Act Release No. 17216 (October 14, 1980), 21 SEC Docket 171, Securities Exchange Act Release No 17227 (October 17, 1980), 21 SEC Docket 254

[56]Securities Exchange Act Release No 17818 (May 27, 1981), 22 SEC Docket 1162

[57]Securities Exchange Act Release No. 17704 (April 9, 1981), 22 SEC Docket 709.

[58]Securities Exchange Act Release No. 17568 (February 24, 1981), 22 SEC Docket 167.

[59]Securities Exchange Act Release No 17569 (February 24, 1981), 22 SEC Docket 171.

[60]Securities Exchange Act Release No. 17473 (January 21, 1981), 21 Sec Docket 1396

[61]Securities Exchange Act Release No. 17975 (July 27, 1981), 23 SEC Docket 172.

[62]Securities Exchange Act Release No 17371 (December 12, 1980), 21 SEC Docket 930.

[63]Securities Exchange Act Release No. 17599 (March 4, 1981), 22 SEC Docket 329.

[64]Securities Exchange Act Release No. 18054 (August 21, 1981), 23 SEC Docket 643.

[65]Securities Exchange Act Release No 18150 (October 5, 1981), 23 SEC Docket 1100

[66]Securities Exchange Act Release No. 17870 (June 16, 1981), 22 SEC Docket 1286.

[67]Securities Exchange Act Release No. 17615 (March 10, 1981), 22 SEC Docket 405.

[68]Securities Exchange Act Release No. 18094 (September 11, 1981), 23 SEC Docket 793

[69]Securities Exchange Act Release No 17302 (November 14, 1980), 21 SEC Docket 627.

[70]Securities Exchange Act Release No. 17994 (July 31, 1981), 23 SEC Docket 238.

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

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

[73]Securities Act Release No. 6276 (December 23, 1980), 21 SEC Docket 1052.

[74]Securities Act Release No. 6288 (February 9, 1981), 21 SEC Docket 1719.

[75]Securities Act Release No. 6331 (August 6, 1981), 23 SEC Docket 288

[76]Securities Act Release No 6332 (August 6, 1981), 23 SEC Docket 311.

[77]Securities Act Release No. 6333 (August 6, 1981), 23 SEC Docket 357.

[78]Securities Act Release No. 6334 (August 6, 1981), 23 SEC Docket 387

[79]Securities Act Release No 6335 (August 6, 1981), 23 SEC Docket 401.

[80]Securities Act Release No. 6336 (August 6, 1981), 23 SEC Docket 410.

[81]Securities Act Release No. 6337 (August 6, 1981), 23 SEC Docket 415.

[82]Securities Act Release No 6338 (August 6, 1981), 23 SEC Docket 428.

[83]Pub. L. No. 96-477 (October 21, 1980).

[84]Securities Act Release No 6274 (December 23, 1980), 21 SEC Docket 1013.

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

[87]Securities Act Release No. 6299 (March 19, 1981), 22 SEC Docket 466.

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

[89]Securities Exchange Act Release No. 18189 (October 20, 1981), 23 SEC Docket 1238.

[90]Securities Act Release No. 6275 (December 23, 1980), 21 SEC Docket 1024.

[91]Securities Act Release No. 6340 (August 7, 1981), 23 SEC Docket 482.

[92]Securities Act Release No. 6256 (November 7, 1980), 21 SEC Docket 523.

[93]Securities Act Release No. 6301 (March 19, 1981), 22 SEC Docket 474.

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

[95]Securities Act Release No. 6300 (March 19, 1981), 22 SEC Docket 473.

[96]Securities Act Release No. 6321 (June 11, 1981), 22 SEC Docket 1234.

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[101]Securities Exchange Act Release No. 17517 (February 5, 1981), 21 SEC Docket 1533

[102]Division of Corporation Finance, Securities and Exchange Commission Staff Report on Corporate Accountability, 96th Cong., 2d Sess. (Comm. Print 1980) (Senate Comm. on Banking, Housing and Urban Affairs).

[103]Securities Act Release No. 6338 (August 6, 1981), 23 SEC Docket 428.

[104]Securities Exchange Act Release No 17518 (February 5, 1981), 21 SEC Docket 1551

[105]Securities Exchange Act Release No 17707 (April 10, 1981), 22 SEC Docket 770.

[106]Securities Act Release No. 6252 (October 24, 1980), 21 SEC Docket 316.

[107]Securities Act Release No 6286 (February 6, 1981), 21 SEC Docket 1711

[108]Securities Act Release No 6309 (April 13, 1981), 22 SEC Docket 757.

[109]Securities Act Release No. 6315 (May 4, 1981) 22 SEC Docket 946.

[110]Securities Act Release No 6322 (June 19, 1981), 22 SEC Docket 1318.

[111]Securities Act Release No. 6347 (September 24, 1981), 23 SEC Docket 846

[112]Securities Act Release No. 6354 (October 7, 1981), 23 SEC Docket 1075.

[113]Securities Act Release No 6346 (September 21, 1981). 23 SEC Docket 830

[114]Securities Act Release No 6281 (January 15, 1981), 21 SEC Docket 1372.

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

[116]Securities Exchange Act Release No. 17719 (April 13, 1981), 22 SEC Docket 783

[117]Securities Exchange Act Release No 18114 (September 24, 1981), 23 SEC Docket 856.

[118]Securities Act Release No. 6351 (September 25, 1981), 23 SEC Docket 1000

[119]Securities Act Release Nos. 6253 and 6269 (October 28 and December 5, 1980), 21 SEC Docket 320 and 839

[120]Securities Act Release No 6279 (January 8, 1981), 21 SEC Docket 1244.

[121]Securities Exchange Act Release No 17424 (January 7, 1981), 21 SEC Docket 1266.

[122]Securities Act Release No 6297 (March 6, 1981), 22 SEC Docket 394

[123]Public Oversight Board, Annual Report (1980-1981) at 14

[124]Supra at 20.

[125]Supra at 19

[126]Accounting Series Release No 300 (October 8, 1981), 23 SEC Docket 1162.

[127]Accounting Series Release No. 296 (August 20, 1981)

[128]Accounting Series Release No. 297 (August 20, 1981).

[129]Securities Act Release No 6263 (November 17, 1980), 21 SEC Docket 618.

[130]Securities Act Release No. 6326 (July 8, 1981), 23 SEC Docket 6.

[131]Investment Company Act Release No 11551 (January 14, 1981), 21 SEC Docket 1352

[132]Investment Company Act Release No 11552 (January 14, 1981), 21 SEC Docket 1357.

[133]Investment Company Act Release No 11553 (January 14, 1981), 21 SEC Docket 1360

[134]Investment Company Act Release No 11676 (March 10, 1981), 22 SEC Docket 446.

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

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

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

[138]Securities Act Release No 6247 (October 14, 1980), 22 SEC Docket 132.

[139]Investment Company Act Release No. 11675 (March 9, 1981), 22 SEC Docket 444.

[140]Investment Company Act Release No. 11675 (March 9, 1981), 22 SEC Docket 444

[141]Investment Company Act Release No. 11703 (March 26, 1981), 22 SEC Docket 602.

[142]Investment Company Act Release No 11818 (June 17, 1981), 22 SEC Docket 1308

[143]Investment Advisers Act Release No 750 (February 20, 1981), 22 SEC Docket 257.

[144]Investment Advisers Act Release No. 767 (July 21, 1981), 23 SEC Docket 156.

[145]Investment Advisers Act Release No. 766 (July 21, 1981), 23 SEC Docket 145

[146]Investment Advisers Act Release No. 769 (August 7, 1981), 23 SEC Docket 556

[147]*SEC v FinAmerica Corporation and Jorge E Carnicero,* Civ. Act. No. 81-0553 (D D.C), Litigation Release No. 9317 (March 8, 1981), 22 SEC Docket 461

[148]*SEC v Banca Della Svizzera Italiana, et al.,* Civ Act. No 81-1836 (S.D.N Y), Litigation Release No. 9421 (August 18, 1981), 23 SEC Docket 628.

[149]*SEC v Daniel H O'Connell, Arthur D Tanner,* Civ Act. No. 80-6183 (S D.N Y.), Litigation Release No. 9222 (October 30, 1980), 21 SEC Docket 410.

[150]*SEC v Howard L. Davidowitz,* Civ. Act No 81-4857 (S D.N Y), Litigation Release No. 9413 (August 6, 1981), 23 SEC Docket 284.

[151]*SEC v Frank H Wyman,* Civ. Act. No 81-1025 (S D N Y), Litigation Release No 9311 (March 17, 1981), 22 SEC Docket 391. *SEC v Frederick Wyman, II,* Civ. Act. No. 81-1026 (S.D.N.Y), Litigation Release No. 9312 (March 17, 1981), 22 SEC Docket 391

[152]*SEC v Carlo M. Florentino,* Civ Act. No. 81-5903 (S.D N Y), Litigation Release No 9456 (September 23, 1981), 23 SEC Docket 958

[153]*SEC v El Dorado International, Inc*, Deil O. Gustafson, et al, Civ Act. No 81-0532 (D D C), Litigation Release No 9314 (March 5, 1981), 22 SEC Docket 392

[154]*SEC v C&R Clothiers, Inc*, Civ Act. No 80-2517 (D.D.C), Litigation Release No. 9194 (October 2, 1980), 21 SEC Docket 65.

[155]*SEC v Cooper Industries, Inc.,* Civ Act. No 80-7310 (S D N.Y.), Litigation Release No. 9260 (December 22, 1980), 21 SEC Docket 1153.

[156]*SEC v Diagnostic Data, Inc , et al*, Civ. Act. No 81-1627 (D.D.C), Litigation Release No 9394 (July 15, 1981), 23 SEC Docket 113.

[157]*In the Matter of Tidelands Capital Corporation,* Securities Exchange Act Release No. 1764 (March 19, 1981), 22 SEC Docket 489.

[158]*SEC v World-Wide Coin Investments, Ltd., et al*, Civ. Act. No. 81-1642A (N D. Ga.), Litigation Release No. 9443 (September 9, 1981), 23 SEC Docket 787.

[159]*SEC v World Wide Coin Investment, Ltd., et al.,* Civ Act. No. 81-1642A (N.D. Ga.), Litigation Release No 9449 (September 17, 1981), 23 SEC Docket 823.

[160]*SEC v. Tesoro Petroleum Corporation,* Civ. Act. No. 80-2961 (D.D C), Litigation Release No 9236 (November 20, 1980), 21 SEC Docket 679.

[161]*In the Matter of CGA Computer Associates, Inc.,* Securities Exchange Act Release No. 6328 (July 16, 1981), 23 SEC Docket 78.

[162]*SEC v. McLouth Steel Corp*, Civ. Act. No 81-1373 (D.D.C.), Litigation Release No 9375 (June 17, 1981), 22 SEC Docket 1314.

[163]*SEC v Litton Industries, Inc.,* Civ Act. No. 81-0589 (D.D.C.), Litigation Release No. 9321 (March 12, 1981), 22 SEC Docket 463.

[164]*SEC v. WACO Financial, Inc and J Jerome Prevatte,* Civ. Act No. 81-152 (W.D Mich), Litigation Release No. 9409 (July 29, 1981), 23 SEC Docket 232

[165]*SEC v. WACO Financial, Inc. and J. Jerome Prevatte,* Civ. Act No. 80-6070 (W.D Mich.), Litigation Release No 9257 (December 12, 1980), 21 SEC Docket 1007

[166]*In the Matter of Paine, Webber, Jackson & Curtis, Inc.,* Securities Exchange Act Release No. 17384 (December 17, 1980), 21 SEC Docket 979.

[167]*SEC v Barclay Financial Corp*, Civ Act. No 81-708 (S.D. Fla.) Litigation Release No. 9374 (June 15, 1981), 22 SEC Docket 1314

[168]*SEC v Gallagher, Boyland & Cook, Inc., and Michael J Roylan,* Civ. Act. No 81-1287 (C D. Cal.), Litigation Release No. 9329 (March 31, 1981), 22 SEC Docket 688

[169]*In the Matter of Reserve Management Corporation,* Investment Company Act Release No. 11394 (October 10, 1980), 21 SEC Docket 190.

[170]*SEC v First Independent Stock Transfer Agent, Inc , and Terry E Kirchner,* Civ. Act. No 81-1645 (D.C Col), Litigation Release No. 9452 (September 22, 1981), 23 SEC Docket 956.

[171]*SEC v. America Birthright Trust Management Co , Inc., et al*, Civ. Act. No. 80-3306 (D.D.C.), Litigation Release No. 9266 (December 30, 1980), 21 SEC Docket 1241.

[172]*In the Matter of Government Securities Management Co.*, Investment Company Act Release No. 11583 (January 26, 1981), 21 SEC Docket 1495. *In the Matter of Fundlink Information Services*, Investment Advisers Act Release No. 747 (January 26, 1981), 21 SEC Docket 1495.

[173]*In the Matter of Synthetic Fuels, Inc*, Securities Act Release No. 6319 (June 2, 1981), 22 SEC Docket 1198.

[174]*SEC v. The Investment Bankers, Inc., et al.*, Civ. Act. No. 81-1203 (D. Col.), Litigation Release No. 9402 (July 23, 1981), 23 SEC Docket 166.

[175]*In the Matter of Ferrovanadium Corporation, N.L.*, Securities Exchange Act Release No. 17720 (April 13, 1981), 22 SEC Docket.

[176]*SEC v. Sam S. Brown, Jr. and Heritage Investment Group, Inc.*, Civ. Act. No. 81-0881 (D.D.C.), Litigation Release No. 9340 (April 15, 1981), 22 SEC Docket 826.

[177]*SEC v. Calhoun County Medical Facility, Inc., et al.*, Civ. Act. No. 81-61 (N.D. Miss.), Litigation Release 9366 (June 1, 1981), 22 SEC Docket 1230.

[178]*In the Matter of Bullington-Schas & Co., Inc.*, Securities Exchange Act Release No. 17832 (June 1, 1981), 22 SEC Docket 1204

[179]Securities Exchange Act Release No. 17831 (June 1, 1981), 22 SEC Docket 1200.

[180]*In the Matter of Bevill, Bresler & Schulman, Inc., et al.*, Securities Exchange Act Release No. 17654 (March 25, 1981), 21 SEC Docket 965.

[181]*SEC v. Cantor Fitzgerald Agency Corp., et al.*, Civ. Act. No. 80-6137 (S.D.N.Y.), Litigation Release No. 9325 (March 18, 1981), 22 SEC Docket 540.

[182]*SEC v. Bishop Investment Corporation, et al.*, Civ. Act. No. 81-609 (N.D. Tex.), Litigation Release No. 9351 (April 27, 1981), 22 SEC Docket 942.

[183]*SEC v. Gerald L. Rogers, et al.*, Civ. Act. No. 80-4841 (C.D.Cal.), Litigation Release No. 9244 (November 24, 1980), 21 SEC Docket 770.

[184]*SEC v. Cable/Tel Corporation., et al*, Civ. Act. No. 80-7170 (S.D.N.Y.), Litigation Release No. 9258 (December 17, 1980), 21 SEC Docket 1007.

[185]*SEC v. Herman B. Rothbard, et al.*, Civ. Act. No. 81-0176 (D Hawaii), Litigation Release No. 9427 (August 26, 1981), 23 SEC Docket 722.

[186]*SEC v. Edward G. Heller et al.*, Civ. Act. No. 80-2608 (D.D.G.), Litigation Release No. 9231 (November 10, 1980), 21 SEC Docket 586

[187]*SEC v. Robert M. Adler*, Civ. Act. No. 80-2830 (D.D.C.), Litigation Release No. 9229 (November 5, 1980), 21 SEC Docket 520.

[188]*SEC v. Crown Cork & Seal Co., Inc.*, Civ. Act. No 81-2065, (D.D.C.), Litigation Release No. 9437 (September 2, 1981), 23 SEC Docket 757.

[189]*SEC v. Herbert G. Paige and Pasha Service Corporation*, Civ. Act. No. 81-2066 (D D C), Litigation Release No. 9436 (September 2, 1981), 23 SEC Docket 756.

[190]*SEC v Herbert F. Hewett*, Civ. Act. No 81-127 (D.C. Okla.), Litigation Release No 9290 (February 10, 1981), 21 SEC Docket 1788.

[191]*In the Matter of Michigan National Corporation*, Securities Exchange Act Release No. 17902 (June 30, 1981), 22 SEC Docket 1424.

[192]*SEC v Sam P. Wallace Company, Inc, et al.*, Civ. Act. No. 81-1915 (D.D.C.), Litigation Release No. 9414 (August 13, 1981), 23 SEC Docket 564.

[193]*U S. v. Steven G Weil*, Crim. Act. No. 81-57 (S.D.N.Y.), Litigation Release No. 9438 (September 2, 1981), 23 SEC Docket 758.

[194]*SEC v. Micro-Therapeutics, Inc., et al.*, Civ. Act. No. 80-6611 (D.D.C.), Litigation Release No. 8072 (August 17, 1977), 12 SEC Docket 1562.

[195]*SEC & CFTC v. T&D Management Company, et al*, Civ. Act. No. 81-0633 (D. Utah), Litigation Release No 9428 (August 26, 1981), 23 SEC Docket 723.

[196]Holding Company Act Release No. 21797 (November 19, 1980), 21 SEC Docket 656.

[197]Holding Company Act Release No. 21881 (January 13, 1981), 21 SEC Docket 1324.

[198]Holding Company Act Release No. 22166 (August 20, 1981), 23 SEC Docket 596.

Appendix

Appendix

THE SECURITIES INDUSTRY

Income, Expenses and Selected Balance Sheet Items

Registered broker-dealers earned total revenues of $20,715 million in 1980, a 43 percent increase over the 1979 level. Securities commissions continued to be the industry's most important source of revenues, accounting for 33 percent of total revenues in 1980. Revenues from this source increased 42 percent over 1979, rising to $6,876 million in 1980. This reflects the 42 percent increase in the number of shares, rights and warrants traded on all exchanges and the 84 percent increase in NASDAQ volume.

Trading profits rose 48 percent in 1980 and comprised 23 percent of total revenues. Revenues from underwriting showed the most marked growth. Fueled by the 85 percent increase in gross proceeds from primary corporate equity offerings and the 36 percent increase in such for debt offerings, underwriting profits increased 72 percent in 1980 to $1,627 million. These revenues accounted for eight percent of total revenues in 1980.

Total expenses for registered broker-dealers rose by 37 percent to $17,573 million in 1980. Interest expense increased 26 percent over the 1979 level, although it fell as a component of total expenses to 22 percent from 24 percent in 1979. Labor related costs rose significantly, a reflection of the high trading activity. "All employee compensation and benefits", which includes compensation to all employees except registered representatives, rose 36 percent. Registered representatives' compensation is included in the "all other expenses" category and generally accounts for over half of the expenses in this category. This item, "all other expenses", rose 46 percent to $8,236 million in 1980 compared to $5,655 million in 1979. As a result, pre-tax income rose 84 percent over last year's level, reaching $3,142 million.

Total assets grew by $34,085 million in 1980, and total liabilities grew from $81,004 million to $112,952 million. During the same period aggregate equity capital rose by $2,137 million to $8,416 million.

Table 1

FINANCIAL INFORMATION FOR BROKER-DEALERS
1975-1980

(Millions of Dollars)

	1975	1976	1977 R	1978	1979 R	1980 P
A Revenues						
1 Securities Commissions	$ 3,378	$ 3,657	$ 3,334	$ 4,498	$ 4,825	$ 6,876
2 Gain (Loss) in Trading	1,202	1,828	1,691	2,053	3,183	4,717
3 Gain (Loss) in Investments	132	269	353	394	740	797
4 Profit (Loss) From Underwriting and Selling Groups	930	1,035	991	949	943	1,627
5 Revenue from Sale of Investment Company Securities	140	165	161	162	197	278
6 All Other Revenues	1,591	1,961	2,401	3,637	4,640	6,420
7 Total Revenues	$ 7,373	$ 8,915	$ 8,931	$ 11,197	$ 14,528	$ 20,715
B Expenses						
8 All Employee Compensation and Benefits (Except Registered Representatives' Compensation)	$ 1,413	$ 1,664	$ 1,769	$ 2,143	$ 2 488	$ 3,388
9 Commissions and Clearance Paid to Other Brokers	524	535	585	804	868	1,087
10 Interest Expense	668	900	1,246	1,967	3,060	3,866
11 Regulatory Fees and Expenses	76	81	69	74	76	101
12 Compensation to Partners and Voting Stockholder Officers	488	572	553	616	678	895
13 All Other Expenses (Including Registered Representatives' Compensation)	3,084	3,658	4,118	4 984	5,655	8,236
14 Total Expenses	$ 6,253	$ 7,410	$ 8,340	$ 10 587	$ 12,825	$ 17,573
15 Pre-Tax Income	$ 1 120	$ 1 505	$ 591	$ 1,106	$ 1,703	$ 3,142
C Assets, Liabilities and Capital						
16 Total Assets	$ 31,851	$ 48,983	$54,670	$ 69,571	$ 87,283	$121,368
17 Liabilities						
a Total liabilities (excluding subordinated debt)	26,352	42,842	48,794	62 700	79,701	110,776
b Subordinated debt	836	858	948	1,170	1,303	2,176
c Total liabilities (17a + 17b)	$ 27,188	$ 43,700	$ 49,743	$ 59,884	$ 81,004	$112,952
18 Ownership Equity	$ 4,663	$ 5,283	$ 4,927	$ 5,701	$ 6,279	$ 8,416
19 Total Liabilities and Ownership Equity	$ 31,851	$ 48,983	$ 54,670	$ 69,571	$ 87,283	$121,368
Number of Firms	4,079	4,315	4,484	4,998	4,875	5,102

R = Revised
P = Preliminary
Sources FORM X-17A-10 and FOCUS Reports

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

Aggregate revenues of broker-dealers having securities-related revenues of $500,000 or more increased 51 percent in 1980 on a 42 percent rise in share volume. All sources of revenues contributed to this rise with profits from underwriting activity increasing the greatest percentage. Revenues from securities commissions, gains on trading accounts, revenues from investment company shares and commodities activities each grew over 50 percent from their 1979 level. Pre-tax income nearly doubled, rising to $2,907 million in 1980.

Firms that reported securities-related revenues of $500,000 or more comprised 24 percent of all firms, held approximately 92 percent of the industry's assets and reported 92 percent of all revenue in 1980. Balance sheet data for the most recent four years are not comparable with earlier years because of changes made in the broker-dealer reporting system.

Table 2

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

(Millions of Dollars)

	1972	1973	1974	1975	1976	1977	1978	1979 R	1980 P
Revenues									
1 Securities Commissions	$3,404	$2,816	$2,438	$3,220	$3,516	$2,984	$3,964	$4,134	$6,362
2 Gain (Loss) on Firm Securities Trading and Investment Accounts									
a Gain (loss) in trading	994	590	722	1,143	1,757	1,512	1,773	2,795	$4,230
b Gain (loss) in investments	209	-3	55	131	253	326	356	695	723
c Total gain (loss)	1 203	587	777	1 274	2 010	1 838	2 129	3 490	4 953
3 Profit (Loss) from Underwriting and Selling Groups	914	494	496	914	1,021	929	838	845	1,526
4 Revenue from Sale of Investment Company Securities	151	149	79	120	146	138	138	161	252
5 Fees for Account Supervision, Investment Advisory and Administrative Services	99	83	85	156	207	176	232	248	362
6 Commodity Revenue	125	178	168	187	236	266	346	409	715
7 All Other Revenues	833	943	1,022	1,142	1,441	1,901	2,476	3,376	4 946
8 Total Revenues	$6,729	$5,250	$5,065	$7,013	$8,577	$8,232	$10,123	$12,663	$19,116
Expenses									
9 All Employee Compensation and Benefits (Except Registered Representatives' Compensation)	$1,392	$1 184	$1,097	$1,376	$1,668	$1,593	$1 925	$2,168	$3,051
10 Commissions Paid to Other Brokers[1]	186	188	151	209	168	530	707	746	981
11 Interest Expense	634	796	750	582	839	1,149	1,787	2,764	3,586
12 All Other Expenses (Including Registered Representatives' Compensation)	3,153	2,703	2,657	3,796	4,487	4,274	4,762	5,511	8,591
13 Total Expenses	$5,365	$4,871	$4,655	$5,963	$7,162	$7,546	$9,181	$11,189	$16,209
Pre-Tax Income									
14 Pre-Tax Income	$1,365	$ 378	$ 410	$1,050	$1,415	$ 686	$ 942	$1,474	$2,907
Number of Firms	817	652	609	770	932	857	962	1,030	1,214

[1]Includes clearance paid to others beginning in 1977

R = Revised
P = Preliminary

Sources Form X-17A-10 and FOCUS Reports

Table 3

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

(Millions of Dollars)

	1972	1973	1974	1975	1976	1977[1]	1978	1979[R]	1980[P]
A *Assets*									
1 Cash, clearing funds and other deposits	$ 1,281	$ 1,139	$ 940	$ 925	$ 1,135	$ 979	$ 1,108	$ 1,587	$ 2,868
2 Receivables from other broker-dealers and non-customers	4,314	3,270	3,014	3,883	5,399	5,364	6,131	7,924	13,112
3 Receivables from customers	13,373	9,056	7,450	8,464	12,804	13,728	15,431	14,534	22,707
4 Market value or fair value of long positions in securities and commodities	11,870	9,722	10,789	12,901	21,392	28,521	33,036	47,837	65,612
5 Exchange memberships at market value	208	123	101	118	142	117	121	172	240
6 Other assets	1,704	1 879	1,493	4,535	7,203	3,038	3,488	4,384	6,742
7 Total assets	$32,750	$25,189	$23,787	$30,826	$48,075	$51,747	$59,315	$76,438	$111,281
B *Liabilities*									
8 Money borrowed	$14,398	$ 9,878	$10,421	$ 9,488	$11,802	$26,503	$27,565	$34,267	$ 42,969
9 Payables to other broker-dealers and non-customers	4,370	2,936	2,919	3,568	4,785	5,460	5,481	6,975	12,650
10 Payables to customers	5,228	4,978	3,986	4,696	6,174	5,158	7,691	8,326	14,486
11 Short positions in securities and commodities	1,525	1,158	1,038	1,165	2,555	4,834	7,097	14,344	22,007
12 Subordinated borrowings	774	642	594	767	799	840	973	1,066	1,666
13 Other liabilities	2,505	2,550	2,099	7,203	17,178	4,837	5,849	6,355	10,302
14 Total Liabilities	28,802	22,142	21,056	26,887	43,293	47,632	54,656	71,333	$104,080
C *Ownership Equity*									
15 Ownership equity	3,948	3,047	2,731	3 939	4,782	4 115	4,659	5,105	$ 7,201
16 Total liabilities and capital	$32,750	$25,189	$23,787	$30,826	$48,075	$51,747	$59,315	$76 438	$111,281
Number of Firms	817	652	609	770	932	857	962	1,030	1,214

R = Revised
P = Preliminary

[1]The balance sheet for 1977 is not comparable with previous years' data because of changes in the reporting form

Sources Form X-17A-10 and FOCUS Reports

Securities Industry Dollar In 1980 For Carrying/Clearing Firms

Data for carrying/clearing firms only are presented here to allow for more detail, as reporting requirements for introducing and carrying/clearing firms differ and data aggregation of these two types of firms necessarily results in loss of detail. The 86 percent of industry revenues earned by carrying/clearing firms in 1980 suggests that this group is a suitable proxy for the industry.

Securities commissions accounted for 33.3 cents of each revenue dollar earned in 1980. Trading gains and margin interest contributed 21.9 cents and 12.1 cents, respectively. Together these three items accounted for 67.3 cents of each revenue dollar earned, a slight decline from the

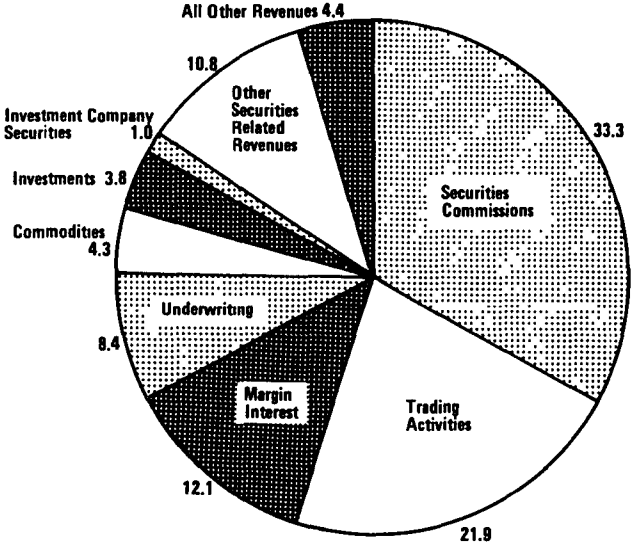
1979 level of 67.7 cents. In terms of dollars, these three items accounted for $11,973 million of the $17,783 million of total revenues earned by carrying/clearing firms.

Total expenses consumed 85.2 cents of every revenue dollar generated, a decrease from 89.0 cents in 1979, as the industry's pre-tax profit margin increased from 11.0 cents per revenue dollar to 14.8 cents. Interest expenses accounted for 21.1 cents in 1980, compared to 24.0 cents in 1979. Registered representatives' compensation amounted to 19.7 cents, and clerical and administrative employees' expenses consumed 15.7 cents of each revenue dollar. These two employee-related items comprised 35.4 cents of the revenue dollar, a decrease of one cent from the 1979 level. In dollar terms, registered representatives' compensation rose 58% to $3,506 million, and clerical and administrative employees' expenses rose 35 percent to $2,792 million in 1980. Together they consumed $6,298 million of the $17,783 million in total revenues. The "all other expense" category, which includes promotional costs, regulatory fees and expenses and miscellaneous items, accounted for 12.3 cents of the revenue dollar, compared to 11.4 cents in 1979.

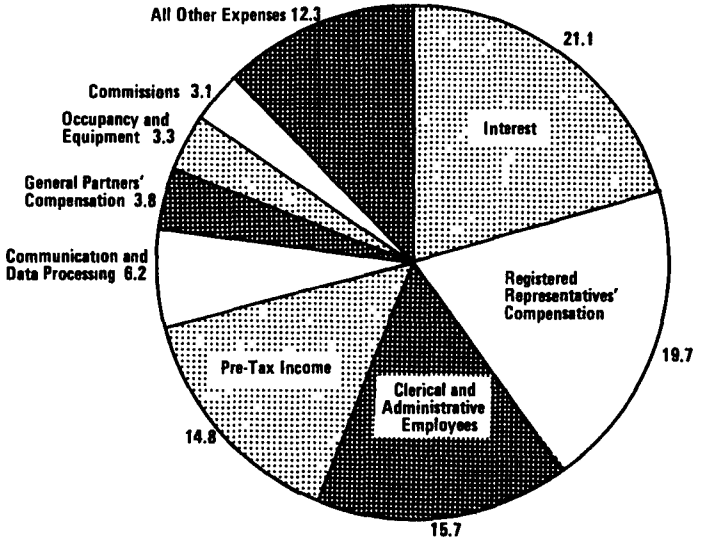
Securities Industry Dollar In 1980

For Carrying/Clearing Firms

SOURCES OF REVENUE



EXPENSES AND PRE-TAX INCOME



NOTE Includes information for firms that carry customer accounts or clear securities transactions

SOURCE X-17A-5 FOCUS REPORTS

Table 4

REVENUES AND EXPENSES OF BROKER-DEALERS CARRYING/CLEARING CUSTOMER ACCOUNTS

(Millions of Dollars)

	1980		1979		1979-1980
	Dollars	Percent of Total Revenue	Dollars	Percent of Total Revenue	Percent Increase
Revenues					
1 Securities Commissions	$ 5,923	33 3	$ 4,091	32 9	44 8
2 Gain (Loss) in Trading	3,900	21 9	2,631	21 1	48 2
3 Gain (Loss) in Investments	676	3 8	664	5 3	1 8
4 Profit (Loss) From Underwriting and Selling Groups	1,492	8 4	872	7 0	71 1
5 Revenue from Sale of Investment Company Securities	180	1 0	125	1 0	44 0
6 Margin Interest Income	2,150	12 1	1,705	13 7	26 1
7 Commodity Revenue	758	4 3	510	4 1	48 6
8 Other Revenue Related to Securities Business	1,917	10 8	1,344	10 8	42 6
9 Revenue from All Other Sources	$ 787	4 4	$ 513	4 1	53 4
10 Total Revenues	$17,783	100 0	$12,455	100 0	42 8
Expenses					
11 Registered Representatives' Compensation	$ 3,506	19 7	$ 2,216	17 8	58 2
12 Clerical and Administrative Employees' Expenses	2,792	15 7	2,070	16 6	34 9
13 Commissions and Clearance Paid to Others	556	3 1	501	4 0	11 0
14 Interest Expense	3,756	21 1	2,984	24 0	25 9
15 Communication and Data Processing	1,108	6 2	893	7 2	24 1
16 Occupancy and Equipment	581	3 3	481	3 9	20 8
17 Compensation to Partners and Voting Stockholder Officers	675	3 8	523	4 2	29 1
18 All Other Expenses	$ 2,173	12 3	$ 1,417	11 4	53 4
19 Total Expenses	$15,147	85 2	$11,085	89 0	36 6
Pre-Tax Income					
20 Pre-Tax Income	$ 2,636	14 8	$ 1,370	11 0	92 4

Note Includes information for firms that carry customer accounts or clear securities transactions
Percentages may not add due to rounding

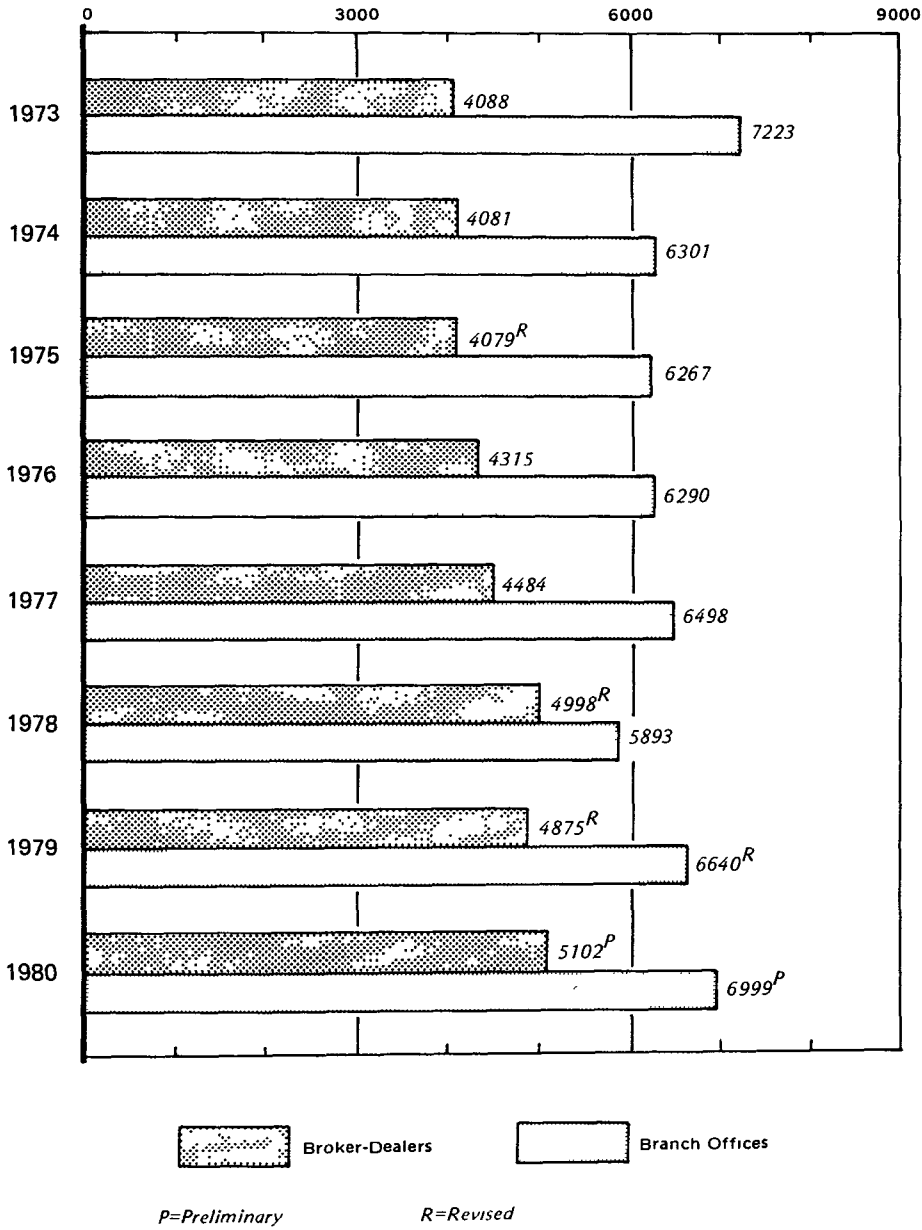
Source FOCUS Reports

Broker-Dealers, Branch Offices, Employees

The number of broker-dealers increased from 4,875 in 1979 to 5,102 in 1980. During the same period, the number of branch offices increased from 6,640 to 6,999.

At the end of 1980, 53,388 full-time registered representatives were associated with members of the New York Stock Exchange ("NYSE") and 76,781 full-time registered representatives were employed in the securities industry. The total of full-time personnel employed in the securities business rose 19 percent from 165,948 at the end of 1979 to 197,722 at the end of 1980. NYSE member firms accounted for 80 percent of the industry's full-time employees.

Broker-Dealers and Branch Offices



P=Preliminary *R=Revised*

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

Table 5

BROKERS AND DEALERS REGISTERED UNDER THE SECURITIES EXCHANGE ACT OF 1934—EFFECTIVE REGISTRANTS AS OF SEPTEMBER 30, 1981 CLASSIFIED BY TYPE OF ORGANIZATION AND BY LOCATION OF PRINCIPAL OFFICE

	Number of Registrants				Number of Proprietors Partners, Officers, Etc [1] [2]			
	Total	Sole Proprietorships	Partnerships	Corporations[3]	Total	Sole Proprietorships	Partnerships	Corporations
Alabama	27	4	0	23	127	4	0	123
Alaska	0	0	0	0	0	0	0	0
Arizona	28	3	2	23	101	3	7	91
Arkansas	22	2	0	20	113	2	0	111
California	693	218	65	410	2,484	218	289	1,977
Colorado	108	3	3	102	575	3	59	513
Connecticut	84	10	12	62	460	10	98	352
Delaware	10	1	0	9	33	1	0	32
District of Columbia	38	2	7	29	304	2	30	272
Florida	203	9	11	183	663	9	31	623
Georgia	70	3	6	61	380	3	17	350
Hawaii	22	1	1	20	85	1	2	82
Idaho	9	2	0	7	30	2	0	28
Illinois	2,177	1,485	213	479	4,285	1,486	1,071	1,723
Indiana	50	7	1	42	258	7	2	249
Iowa	34	3	0	31	180	3	0	177
Kansas	31	2	2	27	156	2	9	145
Kentucky	10	1	0	9	62	1	0	61
Louisiana	37	6	5	26	209	6	20	183
Maine	10	0	3	7	45	0	19	25
Maryland	49	5	3	41	266	5	70	191
Massachusetts	177	28	14	135	1 053	28	94	931
Michigan	71	7	5	59	464	7	166	291
Minnesota	84	1	0	83	597	1	0	596
Mississippi	20	1	3	16	88	1	7	80
Missouri	67	1	3	63	712	1	64	647
Montana	4	0	0	4	25	0	0	25
Nebraska	14	0	0	14	121	0	0	121
Nevada	4	1	1	2	8	1	2	5
New Hampshire	7	1	0	6	27	1	0	26
New Jersey	202	30	17	155	727	30	51	646
New Mexico	7	1	0	6	41	1	0	40
New York (excluding NY City)	306	77	25	204	1,902	78	263	1,561
North Carolina	35	3	0	32	145	3	0	142
North Dakota	3	0	0	3	9	0	0	9
Ohio	90	5	11	74	660	5	198	457
Oklahoma	49	5	0	44	219	5	0	214
Oregon	35	1	0	34	138	1	0	137
Pennsylvania	271	24	71	176	1,350	24	258	1,068
Rhode Island	18	5	2	11	45	5	8	32
South Carolina	9	1	1	7	29	1	2	26
South Dakota	2	0	0	2	14	0	0	14
Tennessee	53	2	2	49	293	2	6	285
Texas	212	15	8	189	1 328	15	33	1,280
Utah	36	3	2	31	135	3	7	125
Vermont	5	1	1	3	39	1	2	35
Virginia	34	4	6	26	367	4	15	348
Washington	76	5	1	70	360	5	6	349
West Virginia	8	2	0	6	25	2	0	23
Wisconsin	57	7	1	49	425	7	2	416
Wyoming	5	1	0	4	15	1	0	14
Total (excluding NY City)	5,673	1,999	506	3,163	22,177	2,001	2,908	17,268
New York City	1,729	646	270	813	9,102	646	2,371	6,085
Subtotal	7,402	2,645	776	3,981	31,279	2,647	5,279	23,353
Foreign[4]	21	0	2	19	142	0	9	133
Grand Total	7,423	2,645	778	4,000	31,421	2,647	5,288	23,485

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

Table 6

PRINCIPAL BUSINESS OF SECO BROKER-DEALERS

	Fiscal year-end		
	1979	*1980*	*1981*
Exchange member primarily engaged in exchange commission business	6	1	13
Exchange member primarily engaged in floor activities	8	5	5
Broker or dealer in general securities business	33	41	37
Mutual fund underwriter	7	8	5
Mutual fund distributor	2	2	1
Broker or dealer selling variable annuity contracts	8	9	7
Solicitor of savings and loan accounts	5	4	5
Real estate syndicator and mortgage broker and dealer	32	32	30
Real estate condominium interests	1	3	3
Limited partnership interests	71	89	116
Broker or dealer selling oil and gas interests	19	27	23
Put and call broker or dealer or option writer (non-exchange options)	4	8	7
Broker or dealer selling securities of only one issuer or associated issuers (other than mutual funds)	33	27	25
Broker or dealer selling church securities	9	10	8
Government bond dealer (other than municipal)	0	1	1
Broker or dealer in municipal bonds	4	6	5
Broker or dealer in other securities business	38	42	47
No securities business	25	28	22
Totals	*305	**352	***360

* Based on data provided by 305 of the 387 broker-dealers
** Based on data provided by 353 of the 400 broker-dealers
*** Based on data provided by 360 of the 450 broker-dealers

Table 7

APPLICATIONS AND REGISTRATIONS OF BROKERS AND DEALERS AND INVESTMENT ADVISERS

Fiscal Year 1981

BROKER-DEALER APPLICATIONS		
Applications pending at close of preceding year		-0-
Applications received during fiscal 1981		1,738
Total applications for disposition		1,738
Disposition of Applications		
Accepted for filing	1,379	
Returned	359	
Withdrawn	0	
Denied	0	
Total applications disposed of		1,738
Applications pending as of September 30, 1981		-0-
BROKER-DEALER REGISTRATIONS		
Effective registrations at close of preceding year		6,751
Registrations effective during fiscal 1981		1,379
Total registrations		8,130
Registrations terminated during fiscal 1981		
Withdrawn	677	
Revoked	30	
Cancelled	0	
Total registrations terminated		456
Total registrations at end of fiscal 1981		7,423
INVESTMENT ADVISER APPLICATIONS		
Applications pending at close of preceding year		-0-
Applications received during fiscal 1981		1,150
Total applications for disposition		1,150
Disposition of applications		
Accepted for filing	879	
Returned	271	
Withdrawn	0	
Denied	0	
Total applications disposed of		1,150
Applications pending as of September 30, 1981		-0-
INVESTMENT ADVISER REGISTRATIONS		
Effective registrations at close of preceding year		5,680
Registrations effective during fiscal 1981		879
Total registrations		6 559
Registrations terminated during fiscal 1981		
Withdrawn	286	
Revoked	0	
Cancelled	8	
Total registrations terminated		294
Total registrations at end of fiscal 1981		6,265

Table 8

APPLICATIONS AND REGISTRATIONS OF MUNICIPAL SECURITIES DEALERS AND TRANSFER AGENTS

Fiscal Year 1981

MUNICIPAL SECURITIES DEALERS APPLICATIONS		
Applications pending at close of preceding year		-0-
Applications received during fiscal 1981		12
Total applications for disposition		12
Disposition of Applications		
Accepted for filing	11	
Returned	1	
Denied	0	
Total applications disposed of		12
Applications pending as of September 30, 1981		0
MUNICIPAL SECURITIES DEALERS REGISTRATIONS		
Effective registrations at close of preceding year		350
Registrations effective during fiscal 1981		11
Total registrations		361
Registrations terminated during fiscal 1981		
Withdrawn	0	
Cancelled	0	
Suspended	0	
Total registrations terminated		0
Total registrations at end of fiscal 1981		361
TRANSFER AGENTS APPLICATIONS		
Applications pending at close of preceding year		-0-
Applications received during fiscal 1981		58
Total applications for disposition		58
Disposition of applications		
Accepted for filing	53	
Returned	5	
Withdrawn	0	
Denied	0	
Total applications disposed of		58
Applications pending as of September 30, 1981		-0-
TRANSFER AGENTS REGISTRATIONS		
Effective registrations at close of preceding year		935
Registrations effective during fiscal 1981		53
Total registrations		988
Registrations terminated during fiscal year 1981		
Withdrawn	0	
Cancelled	0	
Suspended	0	
Total registrations terminated		0
Total registrations at end of fiscal 1981		988

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

From a financial perspective, most Self-Regulatory Organizations (SROs) and their subsidiaries fared well in 1980, due in large part to increased trading volume. The sole exception, the ISE, experienced negative pre-tax income for the second year in succession. Total revenue of SROs amounted to $368.5 million, an increase of 24 percent over the level of 1979. Total expenses increased by only 13 percent, from $271.7 million to $307.6 million. As a result, aggregate pre-tax income soared last year, up $35.1 million to $60.9 million.

Revenues obtained from volume-related activities are an important component of SROs' income. For example, commission fees accounted for $90.7 million in 1980, or 25 percent of total SROs' revenues. Listing and communication fees contributed another $57.8 million (16 percent) and $52.2 million (14 percent), respectively. The largest increase in revenues occurred in the "other" revenues category, which grew 138 percent to $92.0 million. As a result of this growth "other" revenues became the most important revenue source. This category consists primarily of income from interest and investments, and its growth could be reflective of increasing equity prices and bond yields in 1980.

Although increasing only marginally during the year (0.5 percent), employee costs continued to represent the largest component of expenses for SROs last year. Such costs aggregated $132.8 million during the year, or 43 percent of total SROs' expenses. Communication, data processing and collection costs rose by 10 percent to $70.6 million, while occupancy costs declined by $3.3 million to $15.3 million. The greatest increase in expenses was in "all other expenses," which rose by 94 percent to $50.1 million, or 16 percent of the total.

The individual organizations are quite different in the pattern of their income statements and balance sheets. Financial information for individual SROs is presented on the accompanying tables.

Aggregate pre-tax income of SROs expanded by 136 percent in 1980, although this growth was not spread evenly. In dollar terms the NYSE accounted for $15.4 million (or 44 percent) of the aggregate increase, followed by the ASE and the CBOE, which experienced increases of $5.3 million and $5.9 million in pre-tax income, respectively.

The NYSE, with assets of slightly less than $168.6 million at the end of 1980 has the largest asset base among SROs. The NYSE was followed by the MSE ($155.5 million) and the PHLX ($44.0 million). To a large extent, the differences in cost structure and asset distribution among SROs are a function of the market served. For example, the NYSE is a large "auction" market, where members of the exchange gather in a central location to effect transactions. Because of this, the NYSE incurs relatively large fixed overhead costs and makes substantial investments in plant and equipment. In contrast, the nature of the "dealer" market served by the NASD is such that large fixed cost outlays for business-related property are not required. However, no matter what the form of the market served by an SRO, the chief component of liabilities is accounts payable.

At the end of 1980 the net worth (or members' equity) of SROs totalled $211.1 million, an increase of 19 percent over 1979. The NYSE, with $102.5 million, accounted for nearly 49 percent of total SROs' net worth last year. The next largest SROs in terms of net worth, the ASE and the NASD, had 14 percent and 13 percent shares, respectively. Since 1975 the total net worth of SROs has grown at an average annual rate of 10 percent.

Clearing agency revenues increased approximately $30 million during 1980. A large portion of this increase can be attributed to an $18.4 million increase in the "Interest and Other Revenues" category. This category, which consists primarily of interest income, increased due to

an over-all rise in interest rates as compared to the previous year. Revenues from clearing and depository services also increased during 1980; each rising $6.6 million and $4.9 million, respectively. The growth in revenue from these services is due, in large part, to an expansion of trading volume which occurred during the year. The additional depository revenues can also be attributed to increased bank participation. Another factor in the rise of clearing agency revenues was the removal of the two and one-half year Commission moratorium on expansion of option listings. In particular, Options Clearing Corporation experienced a 35 percent growth in revenues as a consequence of increased option trading resulting from the termination of the moratorium.

Aggregate clearing agency expenses increased by $28.2 million during the year. Generally, these cost increases occurred in categories which are sensitive to the volume of transactions processed. For example, "Employee Costs" which includes labor costs and associated expenses, increased $10.8 million.

In conclusion, 1980 was a year of stable growth in clearing and depository services, with increases in aggregate clearing agency expenses offset by increases in revenues.

Table 9

ASSETS, LIABILITIES AND NET WORTH OF SELF-REGULATORY ORGANIZATIONS 1975-1980

(Thousands of Dollars)

	ASE[1]	BSE[2]	CBOE[3]	CSE[4]	ISE[1]	MSE[1,5]	NASD[2,6]	NYSE[1]	PSE[1]	PHLX[1]	SSE[1]	Total
Total Assets												
1975	$ 20,062	$ 4,215	$ 20,060	$ 218	$ 36	$ 76,209	$ 34,037	$ 252,567	$ 4,536	$ 28,779	$ 11	$ 440,730
1976	22,554	8,608	21,991	374	39	63,871	39,997	404,203	5,330	23,112	11	590,090
1977	26,996	10,627	23,331	383	39	53,149	31,195	107,465	5,493	30,514	10	289,202
1978	30,084	9,413	25,605	320	43	76,192	38,214	124,674	7,607	34,627	12	346,791
1979	31,855	18,186R	28,944R	405R	37	74,560	33,425R	125,089	5,984R	35,886R	16	354,387R
1980	41,943	20,176	33,998	424	30	155,500	36,346	168,571	12,122	44,016	16	513,142
Total Liabilities												
1975	2,487	2,356	1,450	40	1	67,556	23,444	185,108	2,741	26,334	—	311,517
1976	3,591	6,950	2,328	256	2	56,465	26,696	331,736	2,195	20,363	—	450,582
1977	5,729	6,424	1,632	124	1	47,636	15,506	30,540	2,238	27,814	*	137,644R
1978	7,234	7,368	2,331	57	2	69,849	13,534	41,568	4,189	31,196	1	177,329
1979	7,710	16,145R	6,024R	176R	6	67,007	9,051R	38,074	1,416R	31,414R	1	177,024R
1980	12,465	18,034	9,750	265	2	146,505	7,948	66,035	5,145	35,940	1	302,090
Net Worth												
1975	17,575	1,859	18,610	178	35	8,653	10,593	67,459	1,795	2,445	11	129,213
1976	18,963	1,658	19,663	118	37	7,406	13,301	72,467	3,135	2,749	11	139,508
1977	21,267	4,203	21,699	259	38	5,513	15,689	76,925	3,255	2,700	9	151,557
1978	22,850	2,045	23,274	263	41	6,343	24,680	83,106	3,418	3,431	11	169,462
1979	24,145	2,041R	22,920R	229R	31	7,553	24,374R	87,015	4,568R	4,472	16	177,364R
1980	$ 29,478	$ 2,142	$ 24,248	$ 159	$ 28	$ 8,995	$ 28,398	$ 102,536	$ 6,977	$ 8,076	$ 15	$ 211,052

R = Revised
* = Less than $500

[1]Fiscal year ending December 31
[2]Fiscal year ending September 30
[3]Fiscal year ending June 30
[4]Fiscal year ending April 30
[5]Includes MST System balances
[6]Includes data for NASDAQ

Source Survey of Self-Regulatory Organizations

Table 10

REVENUES AND EXPENSES OF SELF-REGULATORY ORGANIZATIONS 1975-1980

(Thousands of Dollars)

	1975R	1976R	1977R	1978R	1979R	1980R
REVENUES						
Commission Fees/Transaction Revenues	$ 32,844	$ 38,601	$ 37,231	$ 52,087	$ 57,699	$ 90 733
Listing Fees	31,769	40,792	42,277	43,109	47,137	57,846
Communication Fees	25,947	39,817	54,485	54,208	47,666	52 218
Clearing Fees	35,450	41,218	8,886	10,331	11,707	14,657
Depository Fees	27,792	36,227	37,934	46,585	54,747	11,511
Tabulation Services	13,554	16,536	16,029	5,430	3,123	3,503
All Other Revenues	38,482	42,788	52,632	62,929	75,426	138,025
Membership Dues	11,267	13,057	14,437	15,553	16,572	20,351
Registration Fees	5,130	4,234	4,361	6,245	7,649	10,757
Floor Usage Revenues	6,966	9,022	10,653	11,073	11,229	12,123
Corporate Finance Fees	1,121	1,033	922	1,127	1,236	2,759
Other	13,998	15,442	22,259	28,931	38,740	92,035
Total Revenues	$ 205,838	$ 255,979	$ 249,474	$ 274,679	$ 297,505	$ 368,493
EXPENSES						
Employee Costs	$ 84,275	$ 99,967	$ 103,021	$ 110,109	$ 132,160	$ 132,773
Occupancy Costs	12,885	14 714	15 929	15,101	18,618	15,289
Equipment Costs	3,504	4,373	3,243	3,365	3,405	5,553
Professional and Legal Services	8,001	8,564	9 374	9,806	12,670	14,485
Depreciation and Amortization	4,822	9,063	8,489	8,755	8,941	10,547
Advertising, Printing and Postage	3,339	3,442	3,551	4,202	5,940	8,265
Communication, Data Processing and Collection	58,847	77,708	73 199	68,256	64,104	70,592
All Other Expenses	15,854	25,029	18 036	22,100	25,841	50,092
Total Expenses	$ 191,527	$ 242,860	$ 234,842	$ 241,694	$ 271,679	$ 307,596
PRE-TAX INCOME	$ 14,311	$ 13,119	$ 14,632	$ 32,985	$ 25,826	$ 60,897

R = Revised

Note Figures represent unaudited financial data Figures for 1980 exclude Depository Trust Company

Source Survey of Self-Regulatory Organizations

Table 11

USES OF SELF-REGULATORY ORGANIZATION FUNDS
1975-1980 [R]

(Thousands of Dollars)

	ASE	BSE	CBOE	CSE	ISE	MSE	NASD	NYSE[1]	PSE	PHLX	SSE	Total
Employee Costs												
1975	$ 8,584	$1,565	$ 2,780	$ 36	$ 9	$ 9,271	$ 9,088	$44,751	$ 6,069	$2,115	$ 7	$ 84,275
1976	10,168	1,897	4,294	33	10	12,293	10,467	50,632	7,718	2,449	6	99,967
1977	11,502	1,935	5,600	37	9	13,073	10,452	51,822	5,984	2,601	6	103,021
1978	13,834	2,279	6,469	31	10	7,372	11,503	59,895	5,809	2,901	6	110,109
1979	15,602	2,917	8,480	66	10	7,742	14,133	72,120	7,732	3,351	7	132,160
1980	18,614	3,938	13,314	89	7	8,956	17,977	54,332	10,640	4,896	10	132,773
Occupancy Costs												
1975	1,839	212	651	14	9	1,468	1,098	6,836	573	182	3	12,885
1976	1,917	250	985	16	12	1,682	1,219	7,631	705	294	3	14,714
1977	1,739	276	1,167	25	9	1,993	1,241	8,498	684	293	4	15,929
1978	1,677	288	1,283	36	10	898	1,328	8,627	642	307	5	15,101
1979	1,983	295	1,284	19	4	1,285	1,327	11,245	798	373	5	18,618
1980	2,267	460	1,600	15	4	956	1,395	6,807	1,245	535	5	15,289
Equipment Costs												
1975	379	113	826	21	—	76	—	437	1,552	98	2	3,504
1976	500	138	747	17	—	153	—	652	2,048	115	3	4,373
1977	547	93	691	18	—	286	—	878	577	149	4	3,243
1978	858	164	477	15	—	368	—	1,154	131	194	4	3,365
1979	972	272	169	310	1	203	—	1,101	173	200	4	3,405
1980	1,161	309	194	488	*	72	—	2,857	228	237	7	5,553
Professional and Legal Services												
1975	819	74	438	5	1	507	732	5,029	284	111	1	8,001
1976	1,246	172	600	12	2	766	677	4,543	449	95	2	8,564
1977	1,410	280	1,019	16	2	1,014	785	4,111	600	135	2	9,374
1978	1,275	364	1,098	32	2	932	951	4,387	627	137	1	9,806
1979	1,304	315	1,628	38	1	618	1,472	6,097	934	262	1	12,670
1980	1,972	239	2,169	29	2	233	1,680	6,842	929	389	1	14,485
Depreciation and Amortization												
1975	1,057	100	429	—	—	274	338	2,388	178	58	—	4,822
1976	1,107	148	1,032	—	—	373	3,703	2,394	243	63	—	9,063
1977	1,127	121	1,138	—	2	489	2,616	2,617	258	121	—	8,489
1978	1,977	144	1,284	—	2	325	1,620	2,976	202	224	1	8,755
1979	1,353	215	1,676	—	1	243	1,560	3,345	267	281	—	8,941
1980	2,045	198	2,502	—	*	496	260	3,855	353	838	—	10,547

Table 11—Continued

USES OF SELF-REGULATORY ORGANIZATION FUNDS
1975-1980[R]

(Thousands of Dollars)

	ASE	BSE	CBOE	CSE	ISE	MSE	NASD	NYSE[1]	PSE	PHLX	SSE	Total
Advertising, Printing and Postage												
1975	925	107	797	5	1	43	24	994	316	123	4	3,339
1976	1,008	122	742	7	1	122	34	868	427	105	6	3,442
1977	982	128	739	6	1	336	—	868	393	92	6	3,551
1978	1,214	260	532	4	—	259	—	1,460	387	80	6	4,202
1979	1,663	246	1,046	6	—	262	—	2,103	491	116	7	5,940
1980	2,260	232	1,205	10	*	414	—	3,177	764	194	9	8,265
Communication, Data Processing and Collection												
1975	9,950	524	335	10	*	7,667	6,478	31,960	1,498	425	*	58,847
1976	15,490	580	741	13	*	8,436	12,276	37,206	2,432	534	*	77,708
1977	17,313	657	1,163	14	*	9,642	5,652	31,289	6,842	627	*	73,199
1978	17,513	707	1,533	12	*	1,266	6,072	32,116	8,374	663	*	68,256
1979	7,299	877	2,911	10	—	1,218	6,312	36,886	7,902	685	4	64,104
1980	8,690	1,136	4,134	11	*	3,567	6,540	38,881	6,814	819	*	70,592
All Other Expenses												
1975	594	237	615	3	1	2,179	2,427	7,618	1,579	599	2	15,854
1976	690	500	1,239	4	2	2,552	3,998	13,701	1,622	721	*	25,029
1977	935	482	1,357	10	5	1,843	3,701	8,133	743	827	—	18,036
1978	2,474	782	1,264	78	6	2,533	3,957	8,647	999	1,352	8	22,100
1979	2,074	1,033	1,232	18	1	3,459	3,920	11,404	1,202	1,487	11	25,841
1980	2,260	1,385	2,420	16	2	22,366	5,113	12,195	1,870	2,451	14	50,092
Total Expenses												
1975	24,147	2,932	6,871	94	21	21,485	20,185	100,013	12,049	3,711	19	191,527
1976	32,126	3,807	10,380	102	27	26,377	32,374	117,627	15,644	4,376	20	242,860
1977	35,552	3 972	12,874	126	28	28,676	24,447	108,216	16,081	4,845	22	234,842
1978	40,822	4,988	13,940	208	30	13,953	25,431	119,262	17,171	5,858	31	241,694
1979	32,250	6,170	18,426	467	18	15,030	28,724	144,301	19,499	6,755	39	271,679
1980	$39,269	$7,897	$27,538	$658	$15	$37,060	$32,965	$128,946	$22,843	$10,359	$46	$307,596

R = Revised
* Less than $500

[1]Real estate and occupancy taxes were included in Equipment Costs for 1978 through 1980 In prior years, these costs are reported under the "All Other Expenses" category Figures for 1980 exclude Depository Trust Company

Note Figures represent unaudited financial data

Source Survey of Self-Regulatory Organizations

Table 12

SOURCES OF SELF-REGULATORY ORGANIZATION FUNDS 1975-1980 [R]

(Thousands of Dollars)

	ASE	BSE	CBOE	CSE	ISE	MSE	NASD	NYSE[1]	PSE	PHLX	SSE	Total
Commission Fees/ Transaction Revenues												
1975	$ 4,016	$ 362	$ 4,853	$ 11	$ *	$ 1,437	$ —	$ 20,518	$ 991	$ 656	$ —	$ 32,844
1976	6,517	494	6,765	—	*	1,765	—	20,204	1,590	1,266	—	38,601
1977	6,514	468	6,502	—	1	1,844	—	18,094	2,265	1,543	—	37,231
1978	10,183	747	10,407	—	1	2,908	—	22,587	3,118	2,136	—	52,087
1979	11,848	825	12,111	—	—	2,358	—	23,822	3,596	3,139	—	57,699
1980	19,317	791	24,932	—	—	3,399	—	32,391	4,997	4,906	—	90,733
Listing Fees												
1975	4,898	90	—	10	4	532	2,581	22,688	882	82	2	31,769
1976	5,298	70	—	13	3	603	2,797	31,002	901	103	2	40,792
1977	5,027	87	—	11	6	640	2,644	32,770	958	132	2	42,277
1978	5,905	67	—	16	3	699	2,961	32,392	958	99	9	43,109
1979	6,163	64	—	13	5	712	3,298	35,811	934	126	11	47,137
1980	7,534	108	—	18	4	790	4,594	43,520	1,126	140	12	57,846
Communication Fees												
1975	11,082	—	840	8	—	3,474	—	10,543	—	—	—	25,947
1976	15,980	—	1,370	6	—	3,892	6,482	11,987	59	41	—	39,817
1977	21,580	—	1,637	13	—	4,157	12,192	13,922	787	197	—	54,485
1978	23,329	—	1,582	59	—	283	12,960	14,943	821	231	—	54,208
1979	11,796	—	1,341	394	—	503	14,496	17,800	953	383	—	47,666
1980	14,190	—	1,389	627	—	627	12,826	20,637	1,303	619	—	52,218
Clearing Fees												
1975	2,103	1,316	—	—	—	2,646	8,166	16,023	3,012	2,184	—	35,450
1976	3,181	1,456	—	—	—	3,180	9,494	18,650	3,000	2,257	—	41,218
1977	—	1,150	—	—	—	3,050	—	—	2,559	2,127	—	8,886
1978	—	1,402	—	—	—	3,163	—	—	2,683	3,083	—	10,331
1979	—	1,622	—	—	—	3,486	—	—	3,195	3,404	—	11,707
1980	—	2,025	—	—	—	4,998	—	—	5,013	2,621	—	14,657
Depository Fees												
1975	—	—	—	—	—	1,393	—	25,259	1,133	7	—	27,792
1976	—	109	—	—	—	3,838	—	30,190	2,050	40	—	36,227
1977	—	639	—	—	—	3,948	—	31,198	2,063	86	—	37,934
1978	—	925	—	—	—	4,470	—	37,907	3,055	228	—	46,585
1979	—	1,007	—	—	—	5,074	—	44,546	3,748	372	—	54,747
1980	—	1,338	—	—	—	3,506	—	0	4,684	1,983	—	11,511

Table 12—Continued

SOURCES OF SELF-REGULATORY ORGANIZATION FUNDS 1975-1980 [R]

(Thousands of Dollars)

	ASE	BSE	CBOE	CSE	ISE	MSE	NASD	NYSE[1]	PSE	PHLX	SSE	Total
Tabulation Services												
1975	36	676	—	3	—	9,197	—	—	3,642	—	—	13,554
1976	—	866	—	10	—	11,133	—	—	4,524	—	3	16,536
1977	—	808	—	19	—	11,168	—	—	4,030	—	4	16,029
1978	—	1,173	287	30	—	—	—	—	3,937	—	3	5,430
1979	—	1,196	258	19	—	—	—	—	1,647	—	3	3,123
1980	—	1,436	1,339	20	—	—	—	—	677	25	6	3,503
All Other Revenues												
1975	2,431	845	2,464	98	23	3,787	10,748	14,918	2,274	876	18	38,482
1976	2,648	961	3,583	55	26	2,711	11,950	17,103	2,835	900	16	42,788
1977	3,680	854	4,156	103	26	2,831	13,459	22,979	3,634	892	18	52,632
1978	4,237	1,006	4,222	96	29	3,148	13,799	30,229	5,172	967	24	62,929
1979	5,053	1,581	4,611	56	9	3,684	16,274	36,329	6,732	1,070	27	75,426
1980	6,173	2,244	5,712	40	9	26,853	22,294	61,765	11,146	1,758	31	138,025
Total Revenues												
1975	24,566	3,289	8,157	130	27	22,466	21,495	109,949	11,934	3,805	20	205,838
1976	33,624	3,956	11,718	84	29	27,122	30,723	129,136	14,959	4,607	21	255,979
1977	36,801	4,006	12,295	146	33	27,638	28,295	118,963	16,296	4,977	24	249,474
1978	43,654	5,320	16,498	201	33	14,671	29,720	138,058	19,744	6,744	36	274,679
1979	34,860	6,295	18,321	482	14	15,817	34,068	158,308	20,805	8,494	41	297,505
1980	47,214	7,942	33,372	705	13	40,173	39,714	158,313	28,946	12,052	49	368,493
Pre-Tax Income												
1975	419	357	1,286	36	6	981	1,310	9,936	(115)	94	1	14,311
1976	1,498	149	1,338	(18)	2	745	(1,651)	11,509	(685)	231	1	13,119
1977	1,246	34	(579)	20	5	(1,038)	3,848	10,747	215	132	2	14,632
1978	2,832	332	2,558	(7)	3	718	4,289	18,796	2,573	886	5	32,985
1979	2,610	125	(105)	15	(4)	787	5,344	14,007	1,306	1,739	2	25,826
1980	$ 7,945	$ 45	$ 5,834	$ 47	$(2)	$ 3,113	$ 6,749	$ 29,367	$ 6,103	$ 1,693	$ 3	$ 60,897

R = Revised
*Less than $500

[1]Figures for 1980 exclude Depository Trust Company

Note Figures represent unaudited financial data

Source Survey of Self-Regulatory Organizations

Table 13

SELF-REGULATORY ORGANIZATIONS—CLEARING AGENCIES REVENUES AND EXPENSES[1]—FISCAL YEAR 1980

(Thousands of Dollars)

	Boston Clearing Corporation 9/30/80	Bradford Securities Processing Services Inc 12/31/80	Depository Trust Company 12/31/80	Midwest Clearing Corporation 12/31/80	Midwest Securities Trust Company 12/31/80	National Securities Clearing Corporation 12/31/80	New Eng Securities Depository Trust Company 9/30/80	Options Clearing Corporation 6/30/81	Pacific Clearing Corporation 12/31/80[2]	Pacific Securities Depository Trust Company 12/31/80	Philadelphia Depository Trust Company 12/31/80	Stock Clearing Corporation of Philadelphia 12/31/80	Total
Revenues													
Clearing services[3]	$ 1,924	$ 9,965		$ 4,707		$ 28,816		$ 5,160	$ 5,911			$ 2,507	$ 59,990
Depository services[3]			$ 39,817		$ 7,128		$ 1,253			$ 5,068	$ 2,025		55,291
Interest and other revenue	1,331	5,265	19,325	1,452	2,670	1,324	414	4,548	668	1,595	73	343	39,008
Total revenues[4]	$ 3,255	$15,230	$ 59,142	$ 6,159	$ 9,798	$ 30,140	$ 1,667	$ 9,708	$ 6,579	$ 6,663	$ 2,098	$ 2,850	$153,289
Expenses													
Employee costs	$ 1,268	$ 7,093	$ 35,296	$ 567	$ 4,511	$ 1,580	$ 905	$ 4,189	$ 3,031	$ 2,294	$ 811	$ 1,418	$ 62,963
Data processing and communication costs	511	520	10,491	751	1,250	17,886	249	2,668	1,169	1,696	449	643	38,283
Occupancy costs	139	1,445	4,475	298	1,174		80	701	262	102	67	158	8,901
Contracted services cost						3,741							3,741
Regulatory fee[5]						4,844							4,844
All other expenses	844	2,669	8,502	3,225	2,644	1,969	607	2,070	2,019	1,567	728	399	27,243
Total expenses	$ 2,762	$ 11,727	$ 58,764	$ 4,841	$ 9,579	$ 30,020	$ 1,841	$ 9,628	$ 6,481	$ 5,659	$ 2,055	$ 2,618	$145,975
Excess of revenues over expenses[6]	$ 493	$ 3,503	$ 378	$ 1,318	$ 219	$ 120	$ (174)	$ 80	$ 98	$ 1,004	$ 43	$ 232	$ 7,314

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

[2]Interest of $5,133,000 was earned on excess Clearing and Securities Collection Funds and was recorded as income by the Pacific Stock Exchange. This interest income is not included in Pacific Clearing Corporation's revenues.

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

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

[5]This figure represents amounts billed by the New York and American Stock Exchanges and the National Association of Securities Dealers ($3,000,000, $550,000 and $1,294,000 respectively) for services provided to the National Securities Clearing Corporation. These services consisted principally of examination, monitoring and investigation of financial and operating conditions of existing and prospective clearing members and, notification of unusual market conditions which may affect securities cleared.

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

Table 14

REVENUE AND EXPENSES OF MUNICIPAL SECURITIES RULEMAKING BOARD

	Years Ended September 30 1981	1980*
Revenues		
Assessment Fees	$ 1,257,786	$484,391
Annual Fees	178,294	190,202
Initial Fees	12,200	15,900
Interest Income	48,635	36,833
Other	16 018	17,386
	1,512,933	744,712
Expenses		
Salaries and employee benefits	460,236	431,373
Board and Committee	325,153	315,363
Operations	138,663	141,947
Education and communication	166,043	137 432
Professional services	42,508	58,705
Depreciation and amortization	10,977	11,366
	1,143,580	1,096,186
Revenues over (under) expenses	369,353	(351,474)
Fund balance, beginning of year	281 349	632,823
Fund balance, end of year	$ 650,702	$281,349

*Reclassified for comparative purposes

EXEMPTIONS

Section 12(h) Exemptions

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

For the year beginning October 1, 1980, 15 applications were pending, and an additional 13 applications were filed during the year. Of these 28 applications, 13 were granted and 6 were withdrawn. Nine applications were pending at the close of the year.

The decrease in the number of applications from previous years may have resulted from the wider use of general exemptive rules.

Exemptions for Foreign Private Issuers

Rule 12g3-2 provides various exemptions from the registration provisions of Section 12(g) of the Exchange Act for the securities of foreign private issuers. Perhaps the most important of these is that contained in subparagraph (b) which provides an exemption for certain foreign issuers which submit on a current basis material specified in the rule. Such material includes that information about which investors ought reasonably to be informed and which the issuer: (1) has made public pursuant to the law of the country of domicile or in which it is incorporated or organized; (2) has filed with a foreign stock exchange on which its securities are traded and which was made public by such exchange and/or (3) has distributed to its security holders. Periodically, the Commission publishes a list of those foreign issuers which appear to be current under the exemptive provision. The most current list is as of September 30, 1981 and contains a total of 360 foreign issuers.

Section 15(a) Exemptions

The Commission received two requests for exemption from the broker-dealer registration requirement of Section 15(a) of the Exchange Act. The Commission denied

one applicant's exemption request but granted an exemption to the National Association of Investment Clubs (NAIC) in connection with its stock purchase program. The Commission determined that an exemption for NAIC would be consistent with the public interest and the protection of investors.

Rule 10b-6 Exemptions

Exchange Act Rule 10b-6 imposes certain prohibitions upon trading in securities by persons interested in a distribution of such securities. During the fiscal year, the Commission granted approximately 350 exemptions pursuant to paragraph (f) of Rule 10b-6 under circumstances indicating that proposed purchase transactions did not appear to constitute manipulative or deceptive devices or contrivances comprehended within the purposes of the rule.

FINANCIAL INSTITUTIONS

Stock Transactions of Selected Financial Institutions

Private noninsured pension funds, open-end investment companies, life insurance companies and property-liability insurance companies purchased $103.0 billion of common stock and sold $93.1 billion in 1980. During 1979 gross purchases and sales by these institutions were $59.7 billion and $55.1 billion, respectively. These levels represent an increase of about 70 percent over 1979. An increase of similar magnitude, 60 percent, was exhibited in the market value of stock purchased on U.S. Securities Exchanges. Net purchases rose sharply to $9.9 billion up from $4.6 billion in 1979. The common stock activity rate rose from 29.8 percent in 1979 to 43.1 percent in 1980. (Activity rate is defined as the average of gross purchases and sales, annualized, divided by the average market value of holdings.)

Open-end investment companies again had the highest activity rate for the year, 59.3 percent, increasing from 44.5 percent in 1979. The second highest activity rate, 49.4 percent, was exhibited by separate accounts of life insurance companies. Separate accounts are held apart from general accounts of life insurance companies, and investments of up to 100 percent in equities are allowed by law.

Purchases and sales by foreign investors established new highs in 1980, rising to $40.3 billion and $35.0 billion, respectively, and resulted in net acquisitions of $5.4 billion. These figures compare to year earlier purchases of $22.6 billion, sales of $21.0 billion, and net acquisitions of $1.6 billion.

Revisions have been made in the methodology by which estimates are obtained for common stock transactions of private noninsured pension funds and property-liability insurance companies. Revisions have been made to the 1979 and 1980 data and are presented along with unrevised data for 1973-1977. Due to these revisions, data for 1979 and 1980 are not comparable with the data for earlier years.

Table 15

COMMON STOCK TRANSACTIONS AND ACTIVITY RATES OF SELECTED FINANCIAL INSTITUTIONS

(Millions of Dollars)

	1973	1974	1975	1976	1977	1978	1979r	1980r
Private Noninsured Pension Funds[1]								
Purchases	20,324	11,758	17,560	20,329	20,147	24,173	32,586	62,689
Sales	14,790	9,346	11,846	13,089	15,625	18,947	26,523	53,048
Net Purchases (Sales)	5,534	2,412	5,714	7,240	4,522	5,226	6,063	9,641
Activity Rate	17 2	14 1	18 2	16 4	17 3	21 0	25 5	40 9
Open-End Investment Companies[2]								
Purchases	15,561	9,085	10,949	10,633	8,704	12,833	13,089	19,894
Sales	17,504	9,372	12,144	13,279	12,210	14,454	15,923	21,721
Net Purchases (Sales)	(1,943)	(287)	(1,195)	(2,646)	(3,506)	(1,621)	(2,834)	(1,827)
Activity Rate	38 9	30 4	35 8	32 4	32 2	43 9	44 5	59 3
Life Insurance Companies—Total								
Purchases	6,492	3,930	4,920	6,158	5,473	6,307	8,382	12,704
Sales	4,216	2,439	3,630	3,924	4,703	6,473	8,914	12,403
Net Purchases (Sales)	2,276	1,491	1,290	2,234	770	(171)	(532)	296
Activity Rate	25 9	18 7	22 3	21 0	20 9	26 1	32 8	42 0
Life Insurance Co —General Accts								
Purchases	3,079	1,770	1,963	2,839	2,716	2,943	4,040	5,252
Sales	2,053	1,286	1,758	1,840	2,240	3,054	3,993	5,782
Net Purchases (Sales)	1,026	484	205	999	476	(111)	47	(530)
Activity Rate	20 6	15 0	17 4	18 6	19 0	22 5	28 1	35 3
Life Insurance Co —Separate Accts								
Purchases	3,413	2,160	2,957	3,319	2,757	3,364	4,342	7,452
Sales	2,163	1,153	1,872	2,084	2,463	3,424	4,921	6,626
Net Purchases (Sales)	1,250	1,007	1,085	1,235	294	(60)	(579)	826
Activity Rate	33 7	24 1	28 5	23 6	23 1	30 3	38 5	49 4
Property-Liability Insurance Companies								
Purchases	4,519	2,400	2,193	3,446	2,605	4,369	5,682	7,739
Sales	2,856	3,223	3,196	2,836	1,955	2,785	3,750	5,912
Net Purchases (Sales)	1,663	(823)	(1,003)	610	650	1,584	1,932	1,827
Activity Rate	20 8	21 2	24 0	24 7	17 1	24 6	25 9	32 4

Table 15—Continued

COMMON STOCK TRANSACTIONS AND ACTIVITY RATES OF SELECTED FINANCIAL INSTITUTIONS

Total Selected Institutions								
Purchases	46 896	27 173	35,622	40 566	36 929	47 682	59 739	103 026
Sales	39 366	24 380	30 816	33 128	34 493	42 664	55 110	93 089
Net Purchases (Sales)	7 530	2 793	4 806	7 438	2 436	5 018	4 629	9 937
Activity Rate	23 6	19 0	23 2	21 0	20 6	26 1	29 8	43 1
Foreign Investors[3]								
Purchases	12 768	7 634	15 316	18 228	14 139	20 060	22 640	40 319
Sales	9 977	7 094	10 637	15 475	11 475	17 700	21 016	34 962
Net Purchases (Sales)	2 791	540	4 679	2 753	2 664	2 360	1 624	5 357

r = revised

[1]Includes deferred profit sharing and pension funds of corporations, unions, multiemployer groups and nonprofit organizations
[2]Mutual funds reporting to the Investment Company Institute, a group whose assets constitute about ninety percent of the assets of all open-end investment companies
[3]Transactions of foreign individuals and institutions in domestic common and preferred stocks Activity rates for foreign investors are not calculable

NOTE Activity rate is defined as the average of gross purchases and sales divided by the average market value of holdings
SOURCE Pension funds and property-liability insurance companies, SEC, investment companies, Investment Company Institutes, life insurance companies, American Council of Life Insurance, foreign investors, Treasury Department

Stockholdings of Institutional Investors and Others

At year-end 1980, the ten major categories of institutional investors listed in the accompanying table held a combined total of $519.9 billion in total corporate stock outstanding (common and preferred stock combined). This represented a 27.9 percent gain from the $406.4 billion in stocks held a year earlier by these investors compared to the 33.6 percent growth of stock held by all investors. Thus, the share of total stock outstanding that was held by these institutional investors dropped from 34.5 percent to 33.0 percent during calendar 1980. The value of stockholdings of other domestic investors (primarily individuals but also including broker-dealers and other institutional investors not shown separately) rose 38.2 percent in 1980. At $938.9 billion, stockholdings of other domestic investors accounted for 59.7 percent of total stock outstanding at year-end 1980, compared to 57.7 percent a year earlier. Foreign investors held 7.3 percent of total stock outstanding as of December 31, 1980, down from 7.8 percent a year earlier.

Table 16

MARKET VALUE OF STOCKHOLDINGS OF INSTITUTIONAL INVESTORS AND OTHERS

(Billions of Dollars, End of Year)

	1973	1974	1975	1976	1977	1978	1979	1980
1 Private Noninsured Pension Funds	90 5	63 4	88 6	109 7	101 9	107 9	123 7	175 8
2 Open-End Investment Companies	43 3	30 3	38 7	43 0	36 2	34 1	34 8	44 5
3 Other Investment Companies	6 6	4 7	5 3	5 9	3 1	2 7	1 8	2 3
4 Life Insurance Companies	25 9	21 9	28 1	34 2	32 9	35 7	40 5	52 9
5 Property-Liability Insurance Compnies[1]	19 7	12 8	14 2	16 9	17 1	19 4	24 8	32 3
6 Personal Trust Funds[2]	101 3	72 0	86 9	100 8	97 1	95 1	106 1R	132 9
7 Mutual Savings Banks	4 2	3 7	4 4	4 4	4 8	4 8	4 7	4 2
8 State and Local Retirement Funds	20 2	16 4	24 3	30 1	30 0	33 3	37 1	44 3
9 Foundations	24 5	18 4	22 7	27 1	26 1	27 0	31 2R	32 9
10 Educational Endowments	9 6	6 7	8 8	10 4	9 8	10 2	10 2	10 4
11 Subtotal	345 8	250 2	322 0	382 5	359 0	370 2	414 9	532 5
12 Less Institutional Holdings of Investment Company Shares[3]	6 7	6 5	8 6	10 0	10 5	10 3	8 5	12 6
13 Total Institutional Investors	339 1	243 7	313 4	372 5	348 5	359 9	406 4R	519 9
14 Foreign Investors[4]	37 0	28 4	52 6	63 9	67 7R	80 0R	92 0R	114 5
15 Other Domestic Investors[5]	525 3	369 6	483 5	569 2	529 6R	548 2R	679 2R	938 9
16 Total Stock Outstanding[6]	901 4	641 7	849 5	1,005 6	945 8	988 1	1,177 6R	1,573 3

R = Revised

[1]Excludes holdings of insurance company stock
[2]Includes Common Trust Funds
[3]Excludes institutional holdings of money market funds
[4]Includes estimate of stock held as direct investment
[5]Computed as residual (line 15=16-14-13) Includes both individuals and institutional groups not listed above
[6]Includes both common and preferred stock Excludes investment company shares but includes foreign issues outstanding in the United States

Table 17

COMPANIES REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940 AS OF SEPTEMBER 30, 1981

	Number of Registered Companies			Approximate Market Value of Assets of Active Companies (Millions)
	Active	Inactive[1]	Total	
Management open-end ("Mutual Funds")	996	34	1,030	$166,918
Variable annuity-separate accounts	56	2	58	1,346
All other load funds	940	32	972	165,572
Management closed-end	161	51	212	7,067
Small business investment companies	36	6	42	351
All other closed-end companies	125	45	170	6,716
Unit investment trust	413	20	433	19 345[2]
Variable annuity-separate accounts	80	1	81	2,364
All other unit investment trusts	333	19	352	16,981
Face-amount certificate companies	4	4	8	32
Total	1,574	109	1,683	$193,362

[1] Inactive refers to registered companies which as of September 30, 1981, were in the process of being liquidated or merged, or have filed an application pursuant to Section 8(f) of the Act for deregistration, or which have otherwise gone out of existence and remain only until such time as the Commission issues order under Section 8(f) terminating their registration

[2] Includes about 3 8 billion of assets of trusts which invest in securities of other investment companies, substantially all of them mutual funds

Table 18

COMPANIES REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940

Fiscal year ended September 30	Registered at beginning of year	Registered during year	Registration terminated during year	Registered at end of year	Approximate market value of assets of active companies (millions)
1941	0	450	14	436	$ 2,500
1942	436	17	46	407	2,400
1943	407	14	31	390	2,300
1944	390	18	27	371	2,200
1945	371	14	19	366	3,250
1946	366	13	18	361	3,750
1947	361	12	21	352	3,600
1948	352	18	11	359	3,825
1949	359	12	13	358	3 700
1950	358	26	18	366	4,700
1951	366	12	10	368	5,600
1952	368	13	14	367	6,800
1953	367	17	15	369	7,000
1954	369	20	5	384	8,700
1955	384	37	34	387	12,000
1956	387	46	34	399	14,000
1957	399	49	16	432	15,000
1958	432	42	21	453	17,000
1959	453	70	11	512	20,000
1960	512	67	9	570	23,500
1961	570	118	25	663	29,000
1962	663	97	33	727	27,300
1963	727	48	48	727	36,000
1964	727	52	48	731	41,600
1965	731	50	54	727	44,600
1966	727	78	30	775	49,800
1967	755	108	41	842	58,197
1968	842	167	42	967	69,732
1969	967	222	22	1,167	72,465
1970	1,167	187	26	1,328	56,337
1971	1,328	121	98	1,351	78,109
1972	1,351	91	108	1,334	80,816
1973	1,334	91	64	1,361	73,149
1974	1,361	106	90	1,377	62,287
1975	1,377	88	66	1,399	74,192
1976	1,399	63	86	1,376	80,564
1977*	1,403	91	57	1,437	76,904
1978	1,437	98	64	1,471	93,921
1979	1,471	83	47	1,507	108,572
1980	1,507	136	52	1,591	155,981
1981	1,591	172	80	1,683	193,362

*Began Fiscal Year Ending September 30, 1977

Table 19

NEW INVESTMENT COMPANY REGISTRATIONS

	1981
Management open-end	
Variable Annuities	3
All others	128
Sub-total	131
Management closed-end	
SBIC's	1
All others	10
Sub-total	11
Unit investment trust	
Variable annuities	16
All others	14
Sub-total	30
Face amount certificates	0
Total Registered	172

Table 20

INVESTMENT COMPANY REGISTRATIONS TERMINATED

	1981
Management open-end	
Variable annuities	0
All others	54
Sub-total	54
Management closed-end	
SBIC's	0
All others	18
Sub-total	18
Unit investment trust	
Variable annuities	0
All others	7
Sub-total	7
Face amount certificates	1
Total terminated	80

Private Noninsured Pension Fund Assets

At the end of 1980, total assets of private noninsured pension funds were $256.9 billion at book value and $297.2 billion at market value. These figures represent increases of $33.4 billion and $72.0 billion, respectively, over totals at the end of 1979.

The most important explanatory factor in the growth of pension fund assets during the year was a large increase in holdings of common stock. At book value, common stock holdings rose by $17.5 billion to $128.5 billion, an increase of 15.8 percent. The market value of common stock holdings grew to $174.4 billion, gaining $51.7 billion or 42.1 percent. (It should be borne in mind that common stock prices rose considerably during 1980. *E.g.,* the Standard & Poor's 500 Index and the New York Stock Exchange Composite Index increased by 23.8 percent and 24.2 percent, respectively.) Other categories of assets which grew substantially during 1980 were U.S. Government securities (increasing by $5.8 billion at book value and $4.8 billion at market value), and Corporate and Other Bonds (increasing by $4.4 billion at book and $8.7 at market).

The composition of assets of private noninsured pension funds has changed considerably in the past seven years. Viewed at book value, the most important shift has occurred with respect to common stock holdings. In 1973, common stock holdings accounted for 63.7 percent of total assets; however, this percentage declined steadily, reaching a trough of 49.1 percent in the second quarter of 1979. Since that time common stocks have gradually increased in importance, to 50 percent of total assets. U.S. Government securities have grown significantly as a percentage of the aggregate portfolio, from 3.5 percent in 1973 to 11.0 percent in 1980. The importance of Other Assets has virtually doubled since 1973 to 8.4 percent of total assets, perhaps an indication of diversification into newer forms of investments.

Table 21

ASSETS OF PRIVATE NONINSURED PENSION FUNDS

(Millions of Dollars)

	1973	1974	1975	1976	1977	1978	1979	1980
	Book Value, End of Year							
Cash and Deposits	2,336	4,286	2,962	2,199	3,721	8,110	8,609	9,290
U S Government Securities	4,404	5,533	10 764	14,713	20,138	19,695	22,459	28,312
Corporate and Other Bonds	30,334	35,029	37,809	39,070	45,580	53,824	59,537	63,910
Preferred Stock	1,258	1,129	1,188	1,250	1,168	1,274	1,350	1,322
Common Stock	80,593	79,319	83,654	93,359	96,984	100,424	110,943	128,473
Own Company	4,098	4,588	5,075	N A	N A	N A	N A	N A
Other Companies	76,495	74,731	78,579	N A	N A	N A	N A	N A
Mortgages	2,377	2,372	2,383	2,369	2,497	2,789	3,091	4,085
Other Assets	5,229	6,063	6,406	7,454	11,421	16,121	17,476	21 506
Total Assets	126 531	133,731	145,166	160,414	181,509	202,237	223,465	256,898
	Market Value End of Year							
Cash and Deposits	2,336	4,286	2,962	2,199	3,721	8,110	8,609	9,290
U S Government Securities	4,474	5,582	11,097	14,918	20,017	18,767	21,516	26,334
Corporate and Other Bonds	27,664	30,825	34,519	37,858	42,754	48,633	51,261	59,987
Preferred Stock	985	703	892	1,212	1,009	1,162	1,099	1,367
Common Stock	89,538	62,582	87,669	108,483	100,863	106,732	122,703	174,437
Own Company	6,947	5,230	6,958	N A	N A	N A	N A	N A
Other Companies	82,591	57,352	80,711	N A	N A	N A	N A	N A
Mortgages	2,108	2,063	2,139	2,160	2,362	2,554	2,664	3,814
Other Assets	5,140	5,681	6,341	7,073	10,383	15,585	17,336	21,980
Total Assets	132,247	111,724	145,622	173,906	181,564	201,545	225,188	297,209

N A = Not Available

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

SECURITIES ON EXCHANGES

Market Value and Share Volume

In 1980 the total market value of all equity securities transactions on registered exchanges totaled $522.2 billion. Of this total, $475.8 billion or 91.1 percent represented market value in stocks and $45.8 billion or 8.8 percent in market value for options. The remainder represents market value for warrants and rights. The market value of the New York Stock Exchange transactions was $398 billion in 1980, which increased 58.2 percent from the previous year. The market value of the American Stock Exchange transactions was $47.4 billion, which increased 73.9 percent. Total market value of equity securities on regional exchanges amounted to $76.8 billion, an increase of 70.8 percent.

The Chicago Board Options Exchange contract volume for 1980 was 52.9 million, up 50.3 percent from 35.2 million in 1979. The American Stock Exchange contract volume was 29.2 million in 1980, an increase from 1979 of 67.1 percent. Philadelphia Stock Exchange contract volume for 1980 was 7.7 million (up 55.9 percent), while Pacific Stock Exchange contract volume for 1980 was 5.5 million, (up 33.1 percent). Midwest Stock Exchange contract volume was 1.5 million, (a decrease of 41.8 percent). In June 1980, Midwest Stock Exchange discontinued trading in options. The market value of option contracts traded in 1980 was $45.8 billion and the number of contracts traded was 96.8 million.

Table 22
MARKET VALUE AND VOLUME OF SALES ON REGISTERED SECURITIES EXCHANGES[1]

(All data are in thousands)

			STOCKS[2]		OPTIONS[3]		WARRANTS		RIGHTS	
		TOTAL MARKET VALUE (Dollars)	Market Value (Dollars)	Number of Shares	Market Value (Dollars)	Number of Contracts	Market Value (Dollars)	Number of Units	Market Value (Dollars)	Number of Units
All Registered Exchanges for past six years										
Calendar Year	1975	163,978,938r	157,260,586r	6,231,516r	6,423,469	14,428	285,859	97,225	9,024	52,928
	1976	206,959,037r	194,969,057r	7,035,755r	11,734,222	31,425	248,124	53,603	7,634	35,843
	1977	198,291,919r	187,202,557r	7,023,101r	10,899,135	39,622	184,435	67,841	5 792	43,940
	1978	269,266,174r	249,216,929r	9,483,907r	19,703,198r	61,336r	343,724r	68,074r	2,323	13 889
	1979	323,364,620r	299,749,680r	10,849,825r	22,060,058r	64,347r	747,948r	76,902r	6,934r	38,184r
	1980	522,205,543	475,849,870	15,485,686	45,789,163	96,828	559,601	61,434	6,909	37,089
Breakdown of 1980 Data by Registered Exchange										
All Registered Exchanges										
*American Stock Exchange		47,430,694	34,697,201	1,658,840	12,523,691	29,208	205,857	18,472	3,945	4,458
*Boston Stock Exchange		2,468,765	2,468,765	88,743	0	0	0	0	0	0
*Cinncinati Stock Exchange		1,927,036	1,927,036	49,902	0	0	0	0	0	0
Midwest Stock Exchange		21,207,265	20,624,315	598,018	582,950	1,519	0	0	0	0
*New York Stock Exchange		398,008,723	397,670,479	12,389,871	0	0	335,389	39,524	2,855	31,118
Pacific Stock Exchange		12,710,314	10,830,624	434,699	1,870,567	5,466	9,015	896	108	1,513
*Philadelphia Stock Exchange		10,514,232	7,585,769	234,171	2,919,123	7,738	9,340	2,542	0	0
Intermountain Stock Ex		3,152	3,152	2,439	0	0	0	0	0	0
Spokane Stock Exchange		42,529	42,529	29,003	0	0	0	0	0	0
*Chicago Board Options		27,892,832	0	0	27,892,832	52,897	0	0	0	0

*Reports of those exchanges marked with an asterisk cover transactions cleared during the calendar month, clearances occur for the most part on the fifth day after that on which the trade actually was effected Reports for other exchanges cover transactions effected on trade dates of calendar month

[1]Data on the value and volume of equity securities sales are reported in connection with fees paid under Section 31 of the Securities Exchange Act of 1934 as amended by the Securities Acts Amendments of 1975 They cover odd-lot as well as round-lot transactions

[2]Includes voting trust certificates, certificates of deposit for stocks, and American Depository Receipts for stocks, but excludes rights and warrants

[3]Exercises are not included in these totals

r = Revised

Source SEC Form R-31

NASDAQ (Volume and Market Value)

NASDAQ share volume and market value information for over-the-counter trading has been reported on a daily basis since November 1, 1971. At the end of 1980, there were 3,050 issues in the NASDAQ system, an increase of 14.2 percent from 2,670 issues in 1979. Volume for 1980 was 6.7 billion shares, up 83.3 percent from 3.7 billion in the previous year. Market value for 1980 was $68.7 billion. This trading volume reflects the number of shares bought and sold by market-makers plus their net inventory changes.

Share and Dollar Volume by Exchange

Share volume in 1980 for stocks, rights, and warrants on exchanges for 1980 totaled $15.6 billion, an increase of 42.1 percent since last year. The New York Stock Exchange accounted for 80 percent of share volume for stocks, rights, and warrants; the American Stock Exchange, 10.8 percent; the Midwest Stock Exchange, 3.8 percent; and the Pacific Stock Exchange, 2.8 percent.

Market value of stocks, rights, and warrants was $476.4 billion, an increase of 58.5 percent over the previous year. The New York Stock Exchange represented 83.5 percent of the total; the American Stock Exchange and the Midwest Stock Exchange represented 7.3 percent and 4.3 percent of the total, respectively.

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

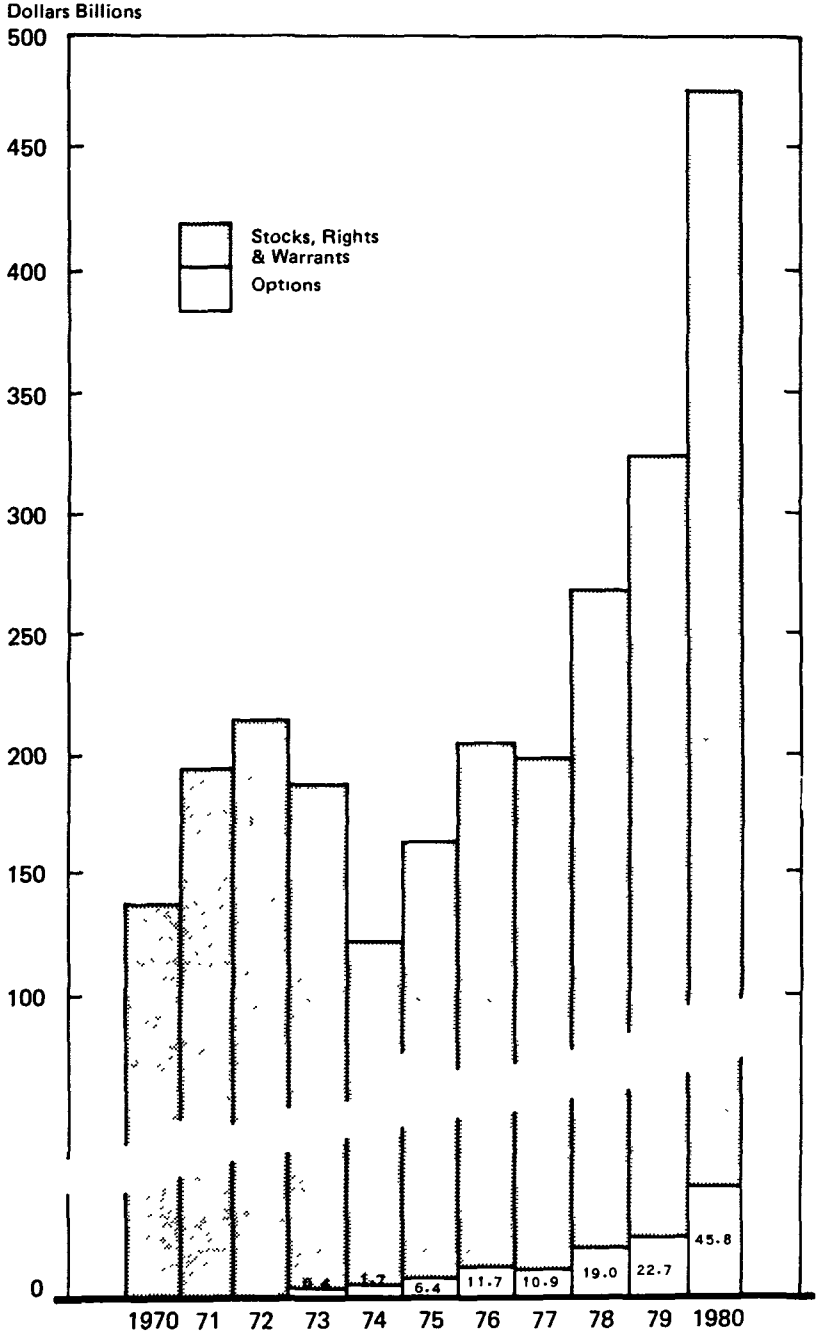


Table 23

SHARE VOLUME BY EXCHANGES[1]

In Percentage

Year	Total Share Volume (thousands)	NYSE	AMEX	MSE	PSE	PHLX	BSE	CSE	Other[2]
1935	681,971	73 13	12 42	1 91	2 69	1 10	0 96	0 03	7 76
1940	377,897	75 44	13 20	2 11	2 78	1 33	1 19	0 08	3 87
1945	769,018	65 87	21 31	1 77	2 98	1 06	0 66	0 05	6 30
1950	893,320	76 32	13 54	2 16	3 11	0 97	0 65	0 09	3 16
1955	1,321,401	68 85	19 19	2 09	3 08	0 85	0 48	0 05	5 41
1960	1,441,120	68 47	22 27	2 20	3 11	0 88	0 38	0 04	2 65
1961	2,142,523	64 99	25 58	2 22	3 41	0 79	0 30	0 04	2 67
1962	1,711,945	71 31	20 11	2 34	2 95	0 87	0 31	0 04	2 07
1963	1,880,793	72 93	18 83	2 32	2 82	0 83	0 29	0 04	1 94
1964	2,118,326	72 81	19 42	2 43	2 65	0 93	0 29	0 03	1 44
1965	2,671,012	69 80	22 53	2 63	2 33	0 81	0 26	0 05	1 49
1966	3,313,899	69 38	22 84	2 56	2 68	0 86	0 40	0 05	1 23
1967	4,646,553	64 40	28 41	2 35	2 46	0 87	0 43	0 02	1 06
1968	5,407,923	61 98	29 74	2 63	2 64	0 89	0 78	0 01	1 33
1969	5,134,856	63 16	27 61	2 84	3 47	1 22	0 51	0 00	1 19
1970	4,834,887	71 28	19 03	3 16	3 68	1 63	0 51	0 02	0 69
1971	6,172,668	71 34	18 42	3 52	3 72	3 72	1 91	0 43	0 63
1972	6,518,132	70 47	18 22	3 71	4 13	2 21	0 59	0 03	0 64
1973	5,899,678	74 92	13 75	4 09	3 68	2 19	0 71	0 04	0 62
1974	4,950,833	78 47	10 27	4 39	3 48	1 82	0 86	0 04	0 67
1975	6,381,669	80 92	8 96	4 05	3 25	1 54	0 84	0 13	0 31
1976	7,125,201	80 03	9 35	3 87	3 93	1 41	0 78	0 44	0 19
1977	7,134,946	79 54	9 73	3 95	3 71	1 49	0 66	0 64	0 28
1978	9,564,663	80 08	10 75	3 58	3 14	1 49	0 60	0 15	0 21
1979	10,977,775	79 78	10 82	3 29	3 38	1 64	0 54	0 27	0 28
1980	15,584,209	79 95	10 79	3 83	2 80	1 51	0 56	0 32	0 24

[1]Share volume for exchanges includes stocks, rights, and warrants
[2]Other includes all exchanges not listed above

Table 24

DOLLAR VOLUME BY EXCHANGES[1]

In Percentage

Year	Total Dollar Volume (thousands)	NYSE	AMEX	MSE	PSE	PHLX	BSE	CSE	Other[2]
1935	$15,396,139	86 64	7 83	1 32	1 39	0 88	1 34	0 04	0 56
1940	8,419,772	85 17	7 68	2 07	1 52	1 11	1 91	0 09	0 45
1945	16,284,552	82 75	10 81	2 00	1 78	0 96	1 16	0 06	0 48
1950	21,808,284	85 91	6 85	2 35	2 19	1 03	1 12	0 11	0 44
1955	38,039,107	86 31	6 98	2 44	1 90	1 03	0 78	0 09	0 47
1960	45,309,825	83 80	9 35	2 72	1 94	1 03	0 60	0 07	0 49
1961	64,071,623	82 43	10 71	2 75	1 99	1 03	0 49	0 07	0 53
1962	54,855,293	86 32	6 81	2 75	2 00	1 05	0 46	0 07	0 54
1963	64,437,900	85 19	7 51	2 72	2 39	1 06	0 41	0 06	0 66
1964	72,461,584	83 49	8 45	3 15	2 48	1 14	0 42	0 06	0 81
1965	89,549,093	81 78	9 91	3 44	2 43	1 12	0 42	0 08	0 82
1966	123,697,737	79 77	11 84	3 14	2 84	1 10	0 56	0 07	0 68
1967	162,189,211	77 29	14 48	3 08	2 79	1 13	0 66	0 03	0 54
1968	197,116,367	73 55	17 99	3 12	2 65	1 13	1 04	0 01	0 51
1969	176,389 759	73 48	17 59	3 39	3 12	1 43	0 67	0 01	0 31
1970	131,707,946	78 44	11 11	3 76	3 81	1 99	0 67	0 03	0 19
1971	186,375,130	79 07	9 98	4 00	3 79	2 29	0 58	0 05	0 24
1972	205,956,263	77 77	10 37	4 29	3 94	2 56	0 75	0 05	0 27
1973	178,863,622	82 07	6 06	4 54	3 55	2 45	1 00	0 06	0 27
1974	118,828,272	83 62	4 39	4 89	3 50	2 02	1 23	0 06	0 29
1975	157,555,469	85 04	3 66	4 82	3 25	1 72	1 18	0 17	0 16
1976	195,224,815	84 35	3 87	4 75	3 82	1 68	0 93	0 53	0 07
1977	187,393,082	83 96	4 60	4 79	3 53	1 62	0 73	0 74	0 03
1978	249,603,319	84 35	6 17	4 19	2 84	1 63	0 61	0 17	0 04
1979	300,728,389	83 65	6 93	3 82	2 85	1 80	0 56	0 35	0 04
1980	476,416,379	83 54	7 32	4 32	2 27	1 59	0 51	0 40	0 05

[1]Dollar volume for exchanges includes stocks, rights, and warrants
[2]Other includes all exchanges not listed above

Special Block Distributions

In 1980, there were 50 special block distributions with a value of $1,077.4 million. Secondary distributions accounted for 88 percent of the total number of special block distributions and 98 percent of the value. The special offering method was employed four times and the exchange distribution method was used twice in 1980.

Table 25

SPECIAL BLOCK DISTRIBUTIONS REPORTED BY EXCHANGES

(Value in thousands)

YEAR	Secondary distributions			Exchange distributions			Special offerings		
	Number	Shares Sold	Value	No	Shares sold	Value	No	Shares sold	Value
1942	116	2,397,454	$ 82,840	0	0	0	79	812,390	$22,694
1943	81	4,270,580	127,462	0	0	0	80	1,097,338	31,054
1944	94	4,097,298	135,760	0	0	0	87	1,053,667	32,454
1945	115	9,457,358	191,961	0	0	0	79	947,231	29,878
1946	100	6,481,291	232,398	0	0	0	23	308,134	11,002
1947	73	3,961,572	124,671	0	0	0	24	314,270	9,133
1948	95	7,302,420	175,991	0	0	0	21	238,879	5,466
1949	86	3,737,249	104,062	0	0	0	32	500,211	10,956
1950	77	4,280,681	88,743	0	0	0	20	150 308	4,940
1951	88	5,193,756	146,459	0	0	0	27	323,013	10,751
1952	76	4,223,258	149,117	0	0	0	22	357,897	9,931
1953	68	6,906,017	108,229	0	0	0	17	380,680	10,486
1954	84	5,738,359	218,490	57	705,781	$ 24,664	14	189 772	6,670
1955	116	6,756,767	344,871	19	258,348	10,211	9	161,850	7,223
1956	146	11,696,174	520,966	17	156,481	4,645	8	131,755	4,557
1957	99	9,324,599	339,062	33	390,832	15,855	5	63,408	1,845
1958	122	9,508,505	361,886	38	619,876	29 454	5	88,152	3,286
1959	148	17,330,941	822,336	28	545,038	26,491	3	33,500	3,730
1960	92	11,439,065	424,688	20	441,644	11,108	3	63,663	5,439
1961	130	19,910,013	926,514	33	1,127,266	58,072	2	35,000	1,504
1962	59	12,143,656	658,656	41	2,345,076	65,459	2	48 200	588
1963	100	18,937,935	814,984	72	2,892,233	107,498	0	0	0
1964	110	19,462,343	909,821	68	2,553,237	97,711	0	0	0
1965	142	31,153,319	1,603,107	57	2,334,277	86,479	0	0	0
1966	126	29,045,038	1,523,373	52	3,042,599	118,349	0	0	0
1967	143	30,783,604	1,154,479	51	3,452,856	125,404	0	0	0
1968	174	36,110,489	1,571,600	35	2,669,938	93,528	1	3,352	63
1969	142	38,224,799	1,244,186	32	1,706,572	52,198	0	0	0
1970	72	17,830,008	504,562	35	2,066,590	48,218	0	0	0
1971	204	72,801,243	2,007,517	30	2,595,104	65,765	0	0	0
1972	229	82,365,749	3,216,126	26	1,469,666	30,156	0	0	0
1973	120	30,825,890	1,151,087	19	802,322	9,140	91	6,662,111	79,889
1974	45	7,512,200	133,838	4	82,200	6,836	33	1,921,755	16,805
1975	51	34,149,069	1,409,933	14	483,846	8,300	14	1,252,925	11,521
1976	44	20,568,432	517,546	16	752,600	13,919	22	1,475,842	18,459
1977	39	9,848,986	261,257	6	295,264	5,242	18	1,074,290	14,519
1978	37	15,233,141	569,487	3	79,000	1,429	3	130,675	1,820
1979	37	12 721,775	251,418	3	1,647,600	86,065	6	309,887	4,078
1980 R	44	34 161,263	1,065,054	2	181,600	5,236	4	434 440	7,098

R = Revised

Value and Number of Securities Listed on Exchanges

The market value of stocks and bonds listed on U.S. exchanges by the end of 1980 was $1,863 billion, an increase of 25.2 percent over the previous year. The market value for stocks was $1,350 billion and $514 billion in bonds. The market value of stocks listed increased 32 percent in 1980, and the value of bonds increased 10.5 percent. Stocks with primary listing on the New York Stock Exchange had a market value of $1,242.8 billion and represented 92.1 percent of the common and preferred listed stocks. Those listed on the AMEX accounted for 7.7 percent of the total and valued $103.5 billion. This increase in value was 72.2 percent.

Table 26
SECURITIES LISTED ON EXCHANGES[1]
December 31, 1980

EXCHANGES	COMMON		PREFERRED		BONDS		TOTAL SECURITIES	
Registered	Number	Market Value (Million)	Number	Market Value (Million)	Number	Market Value (Million)	Number	Market Value (Million)
American	925	$101,548	104	$1,974	232	$5,196	1,261	$108,718
Boston	47	731	2	9	1	1	50	741
Cincinnati	5	28	2	1	5	27	12	56
Midwest	15	545	5	16	0	0	20	561
New York	1,540	1,215,394	688	27,410	3,057	507,770	5,285	1,750,574
Pacific	48	1,307	12	207	33	936	93	2,450
Philadelphia	17	4	81	55	22	284	120	343
Intermountain	35	3	0	0	0	0	35	3
Spokane	34	42	0	0	0	0	34	42
Total	2,666	1,319,602	894	$29,672	3,350	$514,214	6,910	$1,863,488
Includes the following foreign stocks								
Registered								
New York	37	$52,260	1	$9	150	$7,544	188	$59,813
American	56	23,329	0	0	7	N A	63	23,329
Pacific	3	326	2	21	0	0	5	347
Total	96	$75,915	3	$30	157	$7,544	256	$83,489

[1]Excluding securities which were suspended from trading at the end of the year, and securities which because of inactivity had no available quotes

Source SEC Form 1392

Table 27

VALUE OF STOCKS LISTED ON EXCHANGES

(Billions of dollars)

Dec 31	New York Stock Exchange	American Stock Exchange	Exclusively On Other Exchanges	Total
1936	$59 9	$14 8		$74 7
1937	38 9	10 2		49 1
1938	47 5	10 8		58 3
1939	46 5	10 1		56 6
1940	41 9	8 6		50 5
1941	35 8	7 4		43 2
1942	38 8	7 8		46 6
1943	47 6	9 9		57 5
1944	55 5	11 2		66 7
1945	73 8	14 4		88 2
1946	68 6	13 2		81 8
1947	68 3	12 1		80 4
1948	67 0	11 9	$3 0	81 9
1949	76 3	12 2	3 1	91 6
1950	93 8	13 9	3 3	111 0
1951	109 5	16 5	3 2	129 2
1952	120 5	16 9	3 1	140 5
1953	117 3	15 3	2 8	135 4
1954	169 1	22 1	3 6	194 8
1955	207 7	27 1	4 0	238 8
1956	219 2	31 0	3 8	254 0
1957	195 6	25 5	3 1	224 2
1958	276 7	31 7	4 3	312 7
1959	307 7	25 4	4 2	337 3
1960	307 0	24 2	4 1	335 3
1961	387 8	33 0	5 3	426 1
1962	345 8	24 4	4 0	374 2
1963	411 3	26 1	4 3	441 7
1964	474 3	28 2	4 3	506 8
1965	537 5	30 9	4 7	573 1
1966	482 5	27 9	4 0	514 4
1967	605 8	43 0	3 9	652 7
1968	692 3	61 2	6 0	759 5
1969	629 5	47 7	5 4	682 6
1970	636 4	39 5	4 8	680 7
1971	741 8	49 1	4 7	795 6
1972	871 5	55 6	5 6	932 7
1973	721 0	38 7	4 1	763 8
1974	511 1	23 3	2 9	537 3
1975	685 1	29 3	4 3	718 7
1976	858 3	36 0	4 2	898 5
1977	776 7	37 6	4 2	818 5
1978	822 7	39 2	2 9	864 8
1979	960 6	57 8	3 9	1,022 3
1980	1,242 8	103 5	2 9	1,349 2

Securities on Exchanges

As of September 30, 1981, a total of 7,062 securities, representing 3,128 issuers, were admitted to trading on securities exchanges in the United States. This compares with 6,850 issues, involving 3,082 issuers a year earlier. Over 5,000 issues were listed and registered on the New York Stock Exchange, accounting for 61.4 percent of the stock issues and 89.7 percent of the bond issues. Data below on "Securities Traded on Exchanges" involved some duplication since it includes both solely and dually listed securities.

Table 28

SECURITIES TRADED ON EXCHANGES

	Issuers	Stocks				Bonds[1]
		Registered	Temporarily exempted	Unlisted	Total	
American	970	987	1	40	1,028	240
Boston	748	121		669	790	15
Chicago Board of Trade	3	1		2	3	
Cincinnati	330	50		297	347	17
Intermountain	48	47		1	48	
Midwest	574	337	1	301	639	35
New York	1,918	2,284	1		2,285	2,980
Pacific Coast	791	791	1	158	950	116
Philadelphia	868	353		671	1,024	90
Spokane	35	34		4	38	

[1]Issuers exempted under Section 3(a)(12) of the Act, such as obligations of U S Government, the state, and cities, are not included in this table

Table 29

UNDUPLICATED COUNT OF SECURITIES ON EXCHANGES

(September 30, 1981)

	Stocks	Bonds	Total	Issuers Involved
Registered and Listed	3,682	3,328	7,010	3,097
Temporarily Exempted from registration	2	2	4	2
Admitted to unlisted trading privileges	35	13	48	29
Total	3,719	3,343	7,062	3,128

1933 ACT REGISTRATIONS

Effective Registration Statements

During the fiscal year ending September 30, 1981, 4,319 registration statements valued at $144.0 billion became effective. The number of effective registrations rose by 917 (27 percent) from the 3,402 effective registrations in the previous fiscal year. The value of effective registrations rose by $3.3.4 billion (30 percent) from the $110.6 billion of effective registrations in the previous fiscal year.

Among effective registration statements, there were 1,460 first-time registrants in fiscal 1981, an increase of 442 first-time registrants (43 percent) from the previous fiscal year's total of 1,018.

The number of registration statement filed rose by 34 percent to 4,223 in fiscal year 1981 from the 3,147 statements filed in fiscal year 1980.

Table 30

EFFECTIVE REGISTRATIONS

(Dollars in Millions)

Fiscal Year	Total		Cash Sale for Account of Issuers			
	Number of Statements	Value	Common Stock[1]	Bonds, Debentures and Notes	Preferred Stock	Total
Fiscal Year ended June 30						
1935[2]	284	$913	$168	$490	$28	$686
1936	689	4,835	0531	3,153	252	3,936
1937	840	4,851	0802	2,426	406	3,634
1938	412	2,101	0474	666	209	1,349
1939	344	2,579	0318	1,593	109	2,020
1940	306	1,787	0210	1,112	110	1,432
1941	313	2,611	0196	1,721	164	2,081
1942	193	2,003	0263	1,041	162	1,466
1943	123	659	0137	316	32	485
1944	221	1,760	272	732	343	1,347
1945	340	3 225	456	1 851	407	2 714
1946	661	7,073	1,331	3,102	991	5,424
1947	493	6,732	1,150	2,937	787	4,874
1948	435	6,405	1,678	2,817	537	5,032
1949	429	5,333	1,083	2,795	326	4,204
1950	487	5,307	1,786	2,127	468	4,381
1951	487	6,459	1,904	2,838	427	5,169
1952	635	9,500	3,332	3,346	851	7,529
1953	593	7,507	2,808	3,093	424	6,325
1954	631	9,174	2,610	4,240	531	7,381
1955	779	10,960	3,864	3,951	462	8,277
1956	906	13,096	4,544	4,123	539	9,206
1957	876	14,624	5,858	5,689	472	12,019
1958	813	16,490	5,998	6,857	427	13,282
1959	1,070	15,657	6,387	5,265	443	12,095
1960	1,426	14,367	7,260	4,224	253	11,737
1961	1,550	19,070	9,850	6,162	248	16,260
1962	1,844	19,547	11,521	4,512	253	16,286
1963	1,157	14,790	7,227	4,372	270	11,869
1964	1,121	16,860	10,006	4,554	224	14,784
1965	1,266	19,437	10,638	3,710	307	14,655
1966	1,523	30,109	18,218	7,061	444	25,723
1977	1,649	34,218	15,083	12,309	558	27,950
1968	2,417	54,076	22,092	14,036	1,140	37,268
1969	3,645	86,810	39,614	11,674	751	52,039
1970	3,389	59 137	28,939	18,436	823	48,198
1971	2,989	69,562	27,455	27,637	3,360	58,452
1972	3,712	62,487	26,518	20,127	3,237	49,882
1973	3,285	59,310	26,615	14,841	2,578	44,034
1974	2,890	56,924	19,811	20,997	2,274	43,082
1975	2,780	77,457	30,502	37,557	2,201	70,260
1976	2 813	87,733	37,115	29,373	3,013	69,501
Transition Quarter						
Jly-Sept 1976	639	15,010	6,767	5,066	413	12,246
Fiscal Year ended September 30						
1977	2 915	92 579	47,116	28,026	2,426	77,568
1978[3]	3,037	65,043	25,330	23,251	2,128	50,709
1979	3,112	77,400	22,714	28,894	1,712	53,320
1980	3,402	110,583	33,076	42,764	2,879	78,719
1981	4,319	144,028	49,244	40,163	2,476	91,883
Cumulative Total	70,240	$1,448,178	$580 871	$478,027	$43,875	$1,102,773

(r) = revised
(p) = preliminary

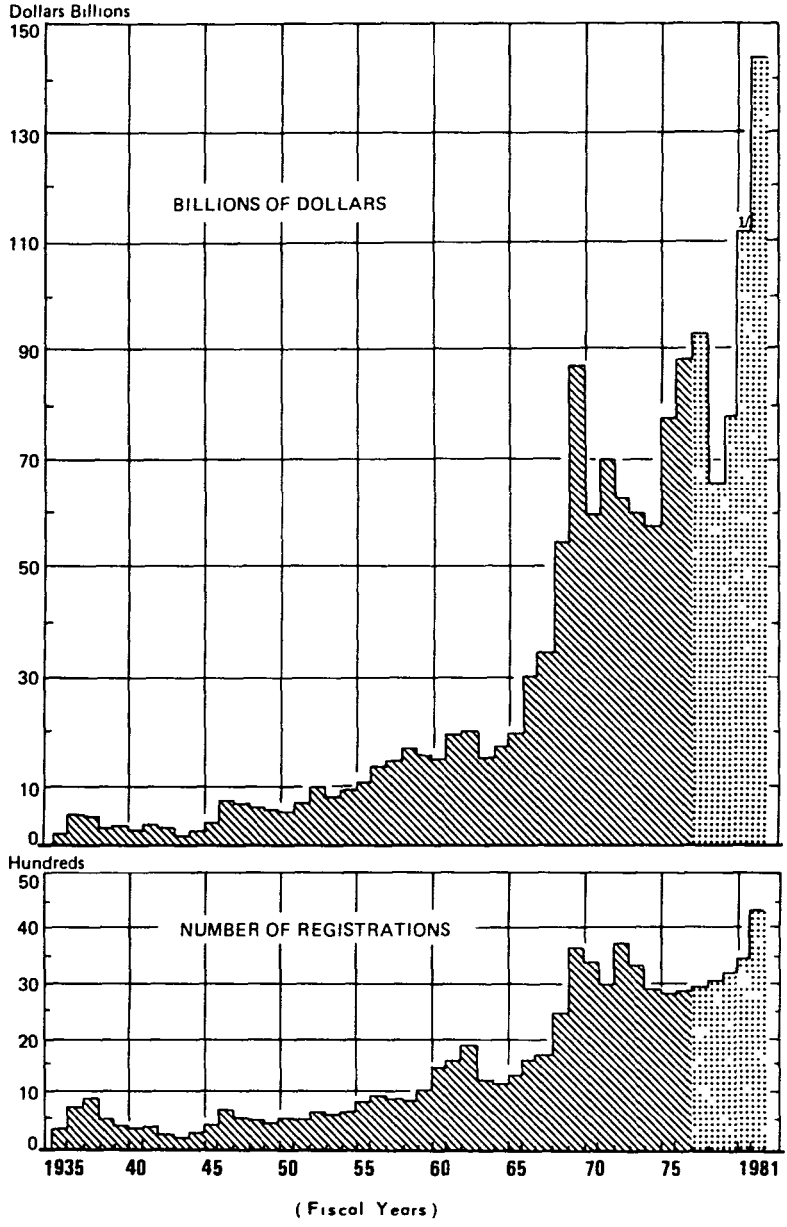
[1]Includes warrants, share of beneficial interest, certificates of participation and all other equity interests not elsewhere included

[2]For 10 months ended June 30, 1935

[3]The adoption of Rule 24F-2 (17 CFR 270 24F-2) effective November 3, 1977 made it impossible to report the dollar value of securities registered by investment companies

Note The Total Cash Sale differs from earlier presentations due to changes in rounding procedures

Securities Effectively Registered With S.E.C.
1935-1981



FISCAL YEAR END CHANGED FROM JUNE TO SEPTEMBER

DATA FOR TRANSITION QUARTER JULY-SEPTEMBER 1976 NOT SHOWN ON CHARTS· EFFECTIVE REGISTRATIONS $15.0 BILLION, NUMBER OF REGISTRATIONS 639

1/ DOES NOT INCLUDE INVESTMENT COMPANIES AS OF 1/1/78 DUE TO RULE CHANGE

Purpose and Type of Registration

Effective registrations for cash sale for the account of issuers amounted to $91.9 billion, or 64 percent, of all $144.0 billion of effective registrations in fiscal year 1981. Some $61.0 billion of these effective registrations (42 percent of all registrations) were intended for immediate offerings rather than for extended or other types of offerings, a slight decline ($743 million or 1 percent) from the $61.7 billion of such registrations in the previous fiscal year. Offerings by business to the general public totalled $57.2 billion in fiscal year 1981, a decline of $839 million (1 percent) from the $58.0 billion of such offerings in fiscal year 1980. Of this amount, debt securities accounted for $30.2 billion (53 percent), preferred stock $2.4 billion (6 percent) and common stock $24.6 billion (43 percent). Cash rights offerings (offerings to security holders) came to $656 million in fiscal year 1981, a decline of $1.1 billion (62 percent) from the $1.8 billion of such offerings in fiscal 1980. Cash offerings by foreign governments in fiscal year 1981 totalled $3.1 billion, an increase of $1.2 billion (65 percent) from the $1.9 billion of such offerings in fiscal year 1980.

In fiscal year 1981, another $30.9 billion of securities (21 percent of all registrations) were registered for cash sale for the account of the issuer in extended and similar types of offerings other than those for immediate cash sale. Securities registered for the account of issuers other than for cash sale (in conjunction with exchange offers, for example) amounted to $49.3 billion in fiscal year 1981, 34 percent of all registrations. Registration of securities for secondary offerings (for the account of selling security holders rather than issuers) amounted to $2.9 billion (2 percent) of all registrations in fiscal year 1981. Of these registrations for secondary offerings, $1.7 billion (59 percent) were in conjunction with cash sales and $1.2 billion (41 percent) were for other types of offerings such as exchange offerings.

In fiscal year 1981, debt securities were primarily registered for cash sale to the general public in immediate offerings for the account of issuer ($30.2 billion, 72 percent of total debt registrations of $42.2 billion). Registrations of other types of securities, however, were more evenly divided between registrations for immediate cash sale and registrations for other types of offerings. All registrations of preferred stock of $5.4 billion were principally divided between those for immediate cash sale for the account of issuer ($2.5 billion, or 45 percent of preferred stock registrations) and registration for other than cash sale for the account of issuer ($2.9 billion, or 54 percent of all registrations of preferred stock). All registrations of common stock ($96.5 billion) were principally divided among registrations for immediate cash sale for the account of issuer ($25.2 billion, or 26 percent of all common stock registrations), registrations for extended cash sale for the account of issuer ($24.0 billion, or 25 percent of all common stock registrations) and registrations for other than cash sale for the account of issuer ($44.4 billion, or 46 percent of all common stock registrations). Note: 1980 figures have been revised.

Table 31

EFFECTIVE REGISTRATIONS BY PURPOSE AND TYPE OF SECURITY FISCAL YEAR 1981

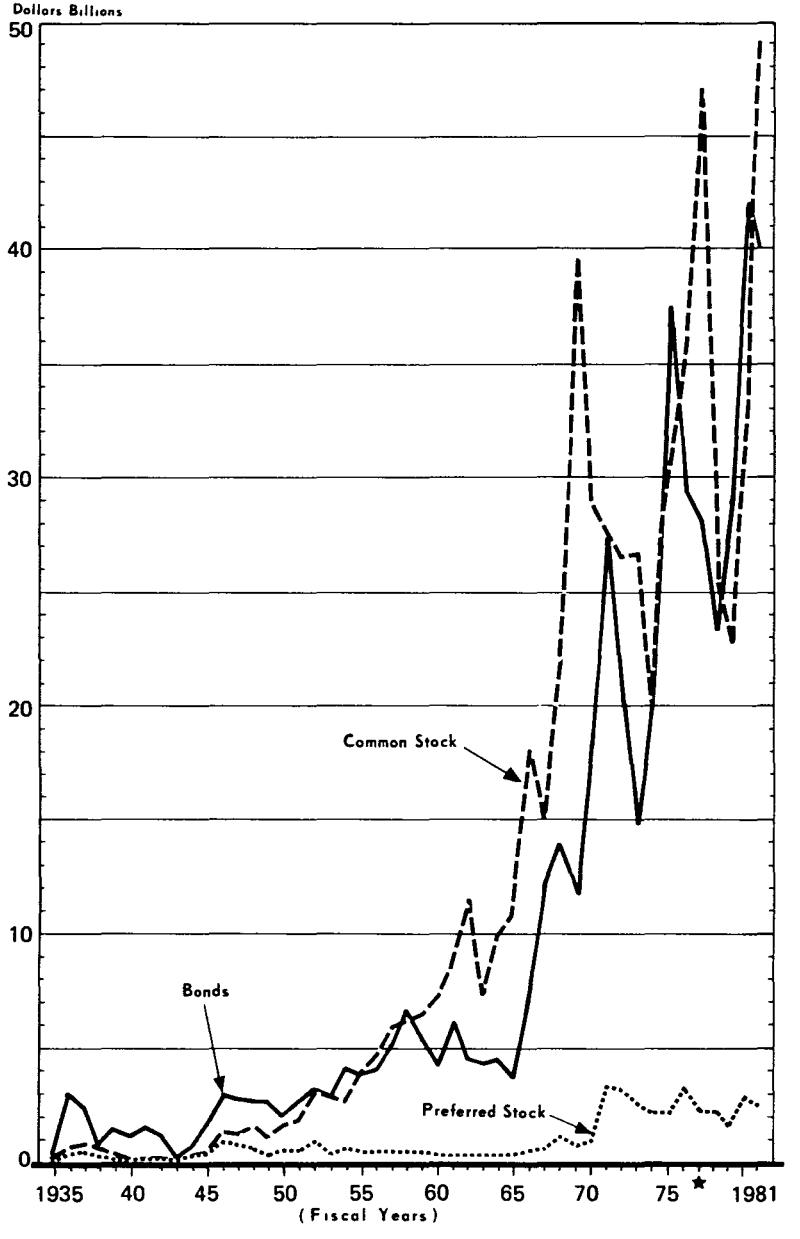
(Dollars in Millions)

Purpose of registrations	Type of security			
	Total	Bonds debentures and notes	Preferred Stock	Common Stock[1]
All registrations (estimated value)	$144,028	$42,150	$5,424	$96,455
For account of issuer for cash sale	91,882	40 153	2 476	49 244
Immediate offering	60 968	33 272	2 456	25 230
Corporate	57 855	30 159	2 466	25 230
Offered to				
General Public	57 199	30 154	2 439	24,605
Security Holders	656	5	23	624
Foreign Governments	3 113	3,113	0	0
Extended cash sale and other issues	30 914	6 391	9	24 014
For account of issuer for other than cash sale	49 264	1 390	2 941	44 433
Secondary Offerings	2,882	97	7	2 773
Cash Sale	1 711	1	0	1 710
Other	1 171	96	7	1 053

[1] Includes warrants, shares of beneficial interest certificates of participation and all other equity interests not elsewhere included

Note Preliminary

Effective Registrations
Cash Sale For Account Of Issuers
1935-1981



★BEGINNING IN 1977, FISCAL YEARS END IN SEPTEMBER RATHER THAN JUNE.

DATA FOR TRANSITION QUARTER JULY-SEPTEMBER 1976 NOT SHOWN ON CHART.
BONDS $5.1 BILLION, PREFERRED STOCK $.4 BILLION, COMMON STOCK $6.8 BILLION

Regulation A Offerings

During fiscal year 1981, 347 notifications were filed for proposed offerings under Regulation A. Issues between $500,000—$1,500,000 predominated. It should be noted that the ceiling for Regulation A was raised to $1.5 million on September 11, 1978.

Table 32

OFFERINGS UNDER REGULATION A

	Fiscal 1981	Fiscal 1980	Fiscal 1979
Size			
$100,000 or Less	8	17	10
$100,000—$200,000	31	25	33
$200,000—$300,000	39	17	27
$300,000—$400,000	23	23	30
$400,000—$500,000	35	35	44
$500,000—$1,500,000	303	281	203
Total	439	398	347
Underwriters			
Used	172	100	98
Not Used	267	298	249
Total	439	398	347
Offerors			
Issuing Companies	429	382	331
Stockholders	3	14	3
Issuers and Stockholders Jointly	7	2	13
Total	439	398	347

ENFORCEMENT

Types of Proceeding

As the table reflects, the securities laws provide for a wide range of enforcement actions by the Commission. The most common types of actions are injunctive proceedings instituted in the Federal district courts to enjoin continued or threatened securities law violators, and administrative proceedings pertaining to broker-dealer firms and/or individuals associated with such firms which may lead to various remedial sanctions as required in the public interest. When an injunction is entered by a court, violation of the court's decree is a basis for criminal contempt against the violator.

Table 33
TYPES OF PROCEEDINGS

ADMINISTRATIVE PROCEEDINGS

Persons Subject to, Acts Constituting, and Basis for, Enforcement Action	Sanction
Broker-dealer, municipal securities dealer, investment adviser or associated person	
Willful violation of securities acts provision or rule, aiding or abetting such violation, failure reasonably to supervise others willful misstatement or omission in filing with the Commission, conviction of or injunction against certain crimes or conduct	Censure or limitation on activities revocation suspension or denial of registration bar or suspension from association (1934 Act §§ 15B(c)(2)–4 15(b)(4)–(6) Advisers Act §§ 203(e)–(f)) *
Registered securities association	
Organization or rule not conforming to statutory requirements	Suspension of registration or limitation of activies functions or operations (1934 Act § 19(h)(1))
Violation of or inability to comply with the 1934 Act rules thereunder or its own rules unjustified failure to enforce compliance with the foregoing or with rules of the Municipal Securities Rulemaking Board by a member or person associated with a member	Suspension or revocation of registration censure or limitation of activities functions, or operations (1934 Act § 19(h)(1))
Member of registered securities association, or associated person	
Being subject to Commission order pursuant to 1934 Act § 15(b) willful violation of or effective transaction for other person with reason to believe that person was violating securities acts provisions rules thereunder or rules of Municipal Securities Rulemaking Board	Suspension or expulsion from the association bar or suspension from association with member of association (1934 Act §§ 19(h)(2)-(3))
National securities exchange	
Organization or rules not conforming to statutory requirements	Suspension of registration or limitation of activities functions or operations (1934 Act § 19(h)(1))
Violation of or inability to comply with 1934 Act rules thereunder or its own rules unjustified failure to enforce compliance with the foregoing by a member or person associated with a member	Suspension or revocation of registration censure or limitation of activities functions or operations (1934 Act § 19(H)(1))
Member of national securities exchange, or associated persons	
Being subject to Commission order pursuant to 1934 Act § 15(b) willful violation of or effective transaction for other person with reason to believe that person was violating securities acts provisions or rules thereunder	Suspension or explusion from exchange bar or suspension from association with member (1934 Act §§ *19(h)(2)-(3)*)
Registered clearing agency	
Violation of or inability to comply with 1934 Act rules thereunder or its own rules failure to enforce compliance with its own rules by participants	Suspension or revocation of registration censure or limitation of activities functions or operations (1934 Act § 19(h)(1))
Participant in Registered clearing agency	
Being subject to Commission order pursuant to 1934 Act § 15(b)(4) willful violation of or effecting transaction for other person with reason to believe that person was violating provisions of clearing agency rules	Suspension or expulsion from clearing agency (1934 Act § 19(h)(2))

*Statutory references are as follows 1933 Act the Securities Act of 1933 1934 Act the Securities Exchange Act of 1934 Investment Company Act The Investment Company Act of 1940 Advisers Act the Investment Advisers Act of 1940 Holding Company Act the Public Utility Holding Company Act of 1935 Trust Indenture Act the Trust Indenture Act of 1939 and SIPA the Securities Investor Protection Act of 1970

Table 33—Continued
TABLE OF PROCEEDINGS

ADMINISTRATIVE PROCEEDINGS

Persons Subject, Acts Constituting, and Basis for, Enforcement Action	Sanction
Securities information processor	
Violation of or inability to comply with provisions of 1934 Act or rules thereunder	Censure or operational limitations, suspension or revocation of registration (1934 Act § 11A(b)(6))
Transfer agent	
Willful violation of or inability to comply with 1934 Act, §§ 17 or 17A, or regulations thereunder	Censure or limitation of activities, denial, suspension, or revocation of registration (1934 Act, § 17A(c)(3))
Any person	
Willful violation of securities act provision or rule, aiding or abetting such violation, willful misstatement in filing with Commission	Temporary or permanent prohibition from serving in certain capacities for registered investment company (Investment Company Act, § 9(b))
Office or director of self-regulatory organization.	
Willful violation of 1934 Act, rules thereunder, or the organization's own rules, willful abuse of authority or unjustified failure to enforce compliance	Removal from office or censure (1934 Act, § 19(h)(4))
Principal of broker-dealer	
Engaging in business as a broker-dealer after appointment of SIPC trustee	Bar or suspension from being or being associated with a broker-dealer (SIPA, § 10(b)) p
1933 Act registration statement	
Statement materially inaccurate or incomplete	Stop order suspending effectiveness (1933 Act, § 8(d))
Investment company has not attained $100,000 net worth 90 days after statement became effective	Stop order (Investment Company, Act, § 14(a))
Persons subject to Sections 12, 13 or 15(d) of the 1934 Act.	
Material noncompliance with such provisions	Order directing compliance (1934 Act, § 15(c)(4))
Securities issue	
Noncompliance by issuer with 1934 Act or rules thereunder	Denial, suspension of effective date, suspension or revocation of registration on national securities exchange (1934 Act, § 12(j))
Public interest requires trading suspension	Summary suspension of over-the-counter or exchange trading (1934 Act, § 12(k))
Registered investment company	
Failure to file Investment Company Act registration statement or required report, filing materially incomplete or misleading statement of report	Revocation of registration (Investment Company Act, § 8(e))
Company has not attained $100,000 net worth 90 days after 1933 Act registration statement became effective	Revocation or suspension of registration (Investment Company Act, § 14(a))
Attorney, accountant, or other professional or expert	
Lack of requisite qualifications to represent others lacking in character or integrity, unethical or improper professional conduct willful violation of securities laws or rules, or aiding and abetting such violation	Permanent of temporary denial of privilege to appear or practice before the Commission (17 C F R § 201 2(e)(1))

Table 33—Continued
TYPES OF PROCEEDINGS

ADMINISTRATIVE PROCEEDINGS

Persons Subject to Acts Constituting and Basis for Enforcement Action	Sanction
Attorney suspended or disbarred by court, expert's license revoked or suspended; conviction of a felony or misdemeanor involving moral turpitude	Automatic suspension from appearance or practice before the Commission (17 C F R § 201 2(e)(2))
Permanent injunction against or finding of securities violation in Commission-instituted action finding of securities violation by Commission in administrative proceedings	Temporary suspension from appearance before Commission (17 C F R § 201 2(e)(3))
Member of Municipal Securities Rulemaking Board	
Willful violation of securities laws rules thereunder or rules of the Board	Censure or removal from office 1934 Act § 15B(c)(8))

CIVIL PROCEEDINGS IN FEDERAL DISTRICT COURTS

Persons Subject to Acts Constituting and Basis for Enforcement Action	Sanction
Any person	
Engaging in or about to engage in acts or practices violating securities acts rules or orders thereunder (including rules of a registered self-regulatory organization)	Injunction against acts or practices which constitute or would constitute violations (plus other equitable relief under court's general equity powers) (1933 Act Sec 20(b), 1934 Act Sec 21(d) 1935 Act Sec 18(f) Investment Company Act § 42(e), Advisers Act § 209(e) Trust Indenture Act § 321)
Noncompliance with provisions of law rule or regulation under 1933 1934 or Holding Company Acts order issued by Commission rules of a registered self-regulatory organization or undertaking in a registration statement	Writ of mandamus injunction or order directing compliance (1933 Act § 20(c), 1934 Act § 21(e) Holding Company Act § 18(g))
Securities Investor Protection Corportion	
Refusal to commit funds or act for the protection of customers	Order directing discharge of obligations or other appropriate relief (SIPA § 7(b))
National securities exchange or registered securities association	
Noncompliance by its members and persons associated with its members with the 1934 Act rules and orders thereunder or rules of the exchange or association	Writ of mandamus injunction or order directing such exchange or association to enforce compliance (1934 Act § 21(e))
Registered clearing agency	
Noncompliance by its participants with its own rules	Writ of mandamus injunction or order directing clearing agency to enforce complaince (1934 Act § 21(e))
Issuer subject to reporting requirements	Forfeiture of $100 per day (1934 Act § 32(b))
Failure to file reports required under § 15(d) of 1934 Act	
Registered investment company or affiliate	
Name of company or of security issued by it deceptive or misleading	Injunction against use of name (Investment Company Act, § 35(d))
Officer, director, member of advisory board, adviser, depositor, or underwirter of investment company	
Engage in act or practice constituting breach of fiduciary duty involving personal misconduct	Injunction against acting in certain capacities for investment company and other appropriate relief (Investment Company Act, § 36(a))

Table 33—Continued
TYPES OF PROCEEDINGS

CIVIL PROCEEDINGS IN FEDERAL DISTRICT COURTS

Persons Subject to Acts Constituting and Basis for Enforcement Action	Sanction
Any person having fiduciary duty respecting receipt of compensation from investment company	
Breach of fiduciary duty	Injunction (Investment Company Act § 36(a))

III REFERRAL TO ATTORNEY GENERAL FOR CRIMINAL PROSECUTION

Basis for Enforcement Action	Sanction or Relief
Any issuer which violates Section 30A(a) of the 1934 Act (foreign corrupt practices).	Maximum penalty $1 000 000 fine (1934 Act Sec 32(c)(1))
Any officer of director of an issuer of any stockholder acting on behalf of such issuer who willfully violates Section 30A(a) of the 1934 Act	Maximum penalty $10 000 fine and 5 years imprisonment (1934 Act Sec 32(c)(2))
Any employee or agent (subject to the Jurisdiction of the United States) of an issuer found to have violated Section 30A(a) of the 1934 Act who willfully carried out the act or practice constituting such violation	Maximum penalty $10 000 fine and 5 years imprisonment (1934 Act Sec 32(c)(3))
Any issuer which violates Section 30A(a) of the 1934 Act (foreign corrupt practices).	Maximum penalty $1 000 000 fine (1934 Act Sec 32(c)(1))
Any officer or director of an issuer or any stockholder acting on behalf of such issuer who willfully violates Section 30A(a) of the 1934 Act	Maximum penalty $10 000 fine and 5 years imprisonment (1934 Act Sec 32(c)(2))
Any employee or agent (subject to the jurisdiction of the United States) of an issuer found to have violated Section 30A(a) of the 1934 Act who willfully carried out the act or practice constituting such violation	Maximum penalty $10 000 fine and 5 years imprisonment (1934 Act Sec 32(c)(3)))

Table 34

INVESTIGATIONS OF POSSIBLE VIOLATIONS OF THE ACTS ADMINISTERED BY THE COMMISSION

Pending September 30, 1980	1,099
Opened	303
Total for Distribution	1,402
Closed	481
Pending September 30, 1981	921

During the fiscal year ending September 30, 1981, 132 formal orders were issued by the Commission upon recommendation of the Division of Enforcement.

Table 35

ADMINISTRATIVE PROCEEDINGS INSTITUTED DURING FISCAL YEAR ENDING SEPTEMBER 30, 1981

Broker Dealer Proceedings	34
Investment Adviser Proceedings	18
Stop Order, Reg A Suspension and Other Disclosure Cases	20

Table 36

INJUNCTIVE ACTIONS

Fiscal Year	Cases Instituted	Defendants
1972	119	511
1973	178	654
1974	148	613
1975	174	749
1976	158	722
1977	166	715
1978	135	607
1979	108	511
1980	103	387
1981	114	291

Table 37

CRIMINAL CASES

Fiscal Year	Number of cases referred/access Justice Dept	Number of Indictments	Defendants Indicted	Convictions
1972	38	28	67	75
1973	49	40	178	83
1974	67	40	169	81
1975	83	53	199	116
1976	116	23	118	97
1977	100	68	230	135
1978	109	50	144	174
1979	45	42	112	87
1980	74	26	49	58
1981	86	26	53	26

Trading Suspensions

During fiscal 1981, the Commission suspended trading in the securities of 23 companies, two less than the 25 trading suspensions in fiscal 1980 and equal to the 23 trading suspensions in fiscal 1979. In most instances, the trading suspension was ordered either because of substantial questions as to the adequacy, accuracy or availability of public information concerning the company's financial condition or business operations, or because transactions in the company's securities suggested possible manipulation or other violations.

Foreign Restricted List

The Commission maintains and publishes a Foreign Restricted List which is designed to put broker-dealers, financial institutions, investors and others on notice of unlawful distributions of foreign securities in the United States. The list consists of names of foreign companies whose securities the Commission has reason to believe have been, or are being, offered for public sale in the United States in violation of the registration requirements of Section 5 of the Securities Act. The offer and sale of unregistered securities deprives investors of all the protections afforded by the Securities Act, including the right to receive a prospectus containing the information required by the Act. While most broker-dealers refuse to effect transactions in securities issued by companies on the Foreign Restricted List, this does not necessarily prevent promoters from illegally offering such securities directly to investors in the United States by mail, by telephone, and sometimes by personal solicitation. The total number of corporations on the list is 99.

During the past fiscal year, one corporation, Rancho San Rafel, S.A., was added to the Foreign Restricted List.

Information came to the Commission's attention that Rancho San Rafel, S.A. of Costa Rica was soliciting investors in the United States to purchase its securities. Since no registration statement has been filed nor become effective pursuant to the Securities Act of 1933 with respect to these securities, their offer and sale may be in violation of Section 5 of the Securities Act of 1933.

The complete list of all foreign corporations and other foreign entities on the Foreign Restricted List on September 30, 1981 is as follows:

1. Aguacate Consolidated Mines, Incorporated (Costa Rica)
2. Alan MacTavish, Ltd. (England)
3. Allegheny Mining and Exploration Company, Ltd. (Canada)
4. Allied Fund for Capital Appreciation (AFCA, S.A.) (Panama)
5. Amalgamated Rare Earth Mines, Ltd. (Canada)
6. American Industrial Research S.A., also known as Investigaction Industrial Americana, S.A. (Mexico)
7. American International Mining (Bahamas)
8. American Mobile Telephone and Tape Co., Ltd. (Canada)
9. Antel International Corporation, Ltd. (Canada)
10. Antoine Silver Mines, Ltd.
11. ASCA Enterprisers Limited (Hong Kong)
12. Atholl Brose (Exports) Ltd. (England)
14. Atlantic and Pacific Bank and Trust Co., Ltd. (Bahamas)
15. Bank of Sark (United Kingdom)
16. Briar Court Mines, Ltd. (Canada)
17. British Overseas Mutual Fund Corporation Ltd. (Canada)
18. California & Caracas Mining Corp., Ltd. (Canada)
19. Canterra Development Corporation, Ltd. (Canada)
20. Cardwell Oil Corporation, Ltd. (Canada)
21. Caribbean Empire Company, Ltd. (British Honduras)
22. Caye Chapel Club, Ltd. (British Honduras)

23. Central and Southern Industries Corp. (Panama)
24. Cerro Azul Coffee Plantation (Panama)
25. Cia. Rio Banano, S.A. (Costa Rica)
26. City Bank A.S. (Denmark)
27. Claw Lake Molybdenum Mines, Ltd. (Canada)
28. Claravella Corporation (Costa Rica)
29. Compressed Air Corporation, Limited (Bahamas)
30. Continental and Southern Industries, S.A. (Panama)
31. Crossroads Corporation, S.A. (Panama)
32. Darien Exploration Company, S.A. (Panama)
33. Derkglen, Ltd. (England)
34. De Veers Consolidated Mining Corporation, S.A. (Panama)
35. Doncannon Spirits, Ltd. (Bahamas)
36. Durman, Ltd. formerly known as Bankers International Investment Corporation (Bahamas)
37. Empresia Minera Caudalosa de Panama, S.A. (Panma)
38. Ethel Copper Mines, Ltd. (Canada)
39. Euroforeign Banking Corporation, Ltd. (Panama)
40. Finansbanken a/s (Denmark)
41. First Liberty Fund, Ltd. (Bahamas)
42. Global Explorations, Inc. (Panama)
43. Global Insurance Company, Limited (British West Indies)
44. Globus Anlage-Vermittlungs-gesellschaft MBH (Germany)
45. Golden Age Mines, Ltd. (Canada)
46. Hebilla Mining Corporation (Costa Rica)
47. Hemisphere Land Corporation Limited (Bahamas)
48. Henry Ost & Son, Ltd. (England)
49. International Communications Corporation (British West Indies)
50. International Monetary Exchange (Panama)
51. International Trade Development of Costa Rica, S.A.
52. Ironco Mining & Smelting Company, Ltd. (Canada)
53. James G. Allan & Sons (Scotland)
54. J. P. Morgan & Company, Ltd., of London, England (not to be confused with J. P. Morgan & Co., Incorporated, New York)
55. Jupiter Explorations, Ltd. (Canada)
56. Kenilworth Mines, Ltd. (Canada)
57. Klondike Yukon Mining Company (Canada)
58. Kokanee Moly Mines, Ltd. (Canada)
59. Land Sales Corporation (Canada)
60. Los Dos Hermanos, S.A. (Spain)
61. Lynbar Mining Corp., Ltd. (Canada)
62. Mercantile Bank and Trust & Company., Ltd. (Cayman Islands)
63. Norart Minerals Limited (Canada)
64. Normandie Trust Company, S.A. (Panama)
65. Northern Survey (Canada)
67. Northland Minerals, Ltd. (Canada)
68. Obsco Corporation, Ltd. (Canada)
69. Pacific Northwest Developments, Ltd. (Canada)
70. Panamerican Bank & Trust Company (Panama)
71. Paulpic Gold Mines Ltd. (Canada)
72. Pyrotex Mining and Exploration Co., Ltd. (Canada)
73. Radio Hill Mines Co., Ltd. (Canada)
74. Rancho San Rafel, S.A. (Costa Rica)
75. Rodney Gold Mines Limited (Canada)
76. Royal Greyhound and Turf Holdings Limited (South Africa)
77. S.A. Valles & Co., Inc. (Philippines)
78. San Salvador Savings & Loan Co., Ltd. (Bahamas)
79. Santack Mines Limited (Canada)
80. Security Capital Fiscal & Guaranty Corporation S.A. (Panama)
81. Silver Stack Mines Limited (Canada)
82. Societe Anonyme de Refinancement (Switzerland)
83. Strathmore Distillery Company, Inc. (Scotlannd)
84. Strathross Blending Company Limited (England)
85. Swiss Caribbean Development & Finance Corporation (Switzerland)
86. Tam O'Shanter, Ltd. (Switzerland)

87. Timerland (Canada)
88. Trans-American Investments, Limited (Canada)
89. Trihope Resources, Ltd. (Canada)
90. Trust Company of Jamaica, Ltd. (West Indies)
91. United Mining and Milling Corporation (Bahamas)
92. Unitrust Limited (Ireland)
93. Vacationland (Canada)
94. Valores de Inversion, S.A. (Mexico)
95. Victoria Onente, Inc. (Panama)
96. Warden Walker Worldwide Investment Co. (England)
97. Wee Gee Uranium Mines, Ltd. (Canada)
98. Western International Explorations, Ltd. (Bahamas)
99. Yukon Wolverine Mining Company (Canada)

Right to Financial Privacy

Section 21(h)(6) of the Securities Exchange Act of 1934 [15 U.S.C. 78u(h)(6)] requires that the Commission "compile an annual tabulation of the occasions on which the Commission used each separate subparagraph or clause of [Section 21(h)(6)] or the provisions of the Right to Financial Privacy Act of 1978 [12 U.S.C. 3401-22 (the "RFPA")] to obtain access to financial records of a customer and include it in its annual report to the Congress." During the fiscal year, the Commission did not use any subparagraph or clause of Section 21(h)(2) for such purpose. The table below sets forth the number of occasions upon which the Commission obtained access to financial records of a customer using the procedures provided by (i) Section 1104 of the RFPA [12 U.S.C. 3404], applicable to customer authorizations; (ii) Section 1105 of the RFPA [12 U.S.C. 3405], applicable to administrative subpoenas; and (iii) Section 1107 of the RFPA [12 U.S.C. 3407], applicable to judicial subpoenas:

Section 1104	Section 1105	Section 1107
2	108	2

PUBLIC UTILITY HOLDING COMPANIES

System Companies

At fiscal year 1981 there were 13 holding companies registered under the Act of which 12 are "active". In the 13 registered systems, there were 58 electric and/or gas utility subsidiaries, 61 non-utility subsidiaries, and 19 inactive companies, or a total of 155 system companies including the top parent and subholding companies The following table lists the active systems.

Table 38

PUBLIC UTILITY HOLDING COMPANY SYSTEM

	Solely Registered Holding Companies	Registered Holding Operating Companies	Electric and/or Gas Utility Subsidiaries	Nonutility Subsidiaries	Inactive Companies	Total Companies	Other
Allegheny Power System (APS)	1	3	0	4	0	8	3
American Electric Power Company (AEP)	1	0	12	14	4	31	3[a]
Central and South West Corporation (CSW)	1	1	3	4	1	10	1[b]
Columbia Gas System (CGS)	1	0	8	10	0	19	—
Consolidated Natural Gas Company (CNG)	1	0	5	6	0	12	—
Eastern Utilities Associates (EUA)	1	0	3	1	2	7	4[c]
General Public Utilities (GPU)	1	0	4	3	2	10	—
Middle South Utilities (MSU)	1	0	7	2	3	13	1[b]
National Fuel Gas Company (NFG)	1	0	1	3	0	5	—
New England Electric System (NEES)	1	0	4	2	0	7	4[c]
Northeast Utilities (NEU)	1	0	5	8	6	20	4[c]
Philadelphia Electric Power Co (PEP)	0	1	1	0	1	3	—
Southern Company (SC)	1	0	5	4	0	10	—
Total Companies	12	5	58	61	19	155	8

[a] Peach Bottom Power Co , Inc
-50% APS
50% AEP

Ohio Valley Elec Corp & Subs

Indiana-Kentucky Elec Corp
-electric utility
-37 8% AEP
12 5% APS
49 7% Other Companies

[b] Arklahoma Corp
-32% CSW
34% MSU
34% Oklahoma Gas & Elec

[c] Yankee Atomic Electric Co
30% NEES, 31 5% NBU, 45% EUA

Connecticut Yankee Atomic Power Co 15% NEES, 44% NEU, 45% EUA

Vermont Yankee Nuclear Power Corp 20% NEES, 12% NDU, 25% EUA

Maine Yankee Atomic Power Co 20% NEES, 15% NDU, 4% EUA

-Statutory utility subsidiaries

Table 39

KEY FINANCIAL STATISTICS OF REGISTERED PUBLIC UTILITY HOLDING COMPANY SYSTEMS

Name of Company	As of June 30, 1981 (000 omitted) Total Assets	Operating Revenue
Allegheny Power System (APS)	$ 3,086,336	$ 1,384 240
American Electric Power Company, Inc (AEP)	11,053,447	4,072,066
Central and South West Corporation (CSW)	4,410,876	1,893,502
Columbia Gas System, Inc , The (CGS)	3,832,810	3 897,081
Consolidated Natural Gas Company (CNG)	2,751,887	2,652 552
Eastern Utilities Associates (EUA)	404,992	276,067
General Public Utilities Corp (GPU)	5,055,056	1,958 052
Middle South Utilities, Inc (MSU)	7,683,685	2,541,166
National Fuel Gas Company (NFG)	759,226	852,920
New England Electric Sytem (NEES)	2 185,763	1,259 417
Northeast Utilities (NEU)	3,745,155	1 522 892
Philadelphia Electric Power Company (PEP)	59,305	6 710
Southern Company, The (SC)	11 971 077	4 140 000
	$56 999,615	$26,456 665

Table 40

PUBLIC FINANCING OF HOLDING COMPANY SYSTEMS
FISCAL YEAR 1981

	Bonds	Long-Term Notes and/or Debentures	Pollution Control Financings	Stock Preferred	Stock Common	Short Term Debt
Allegheny Power System					$ 96,750,000	$ 225,000,000
Monogahela Power Co				$ 25,000,000		58,000,000
Potomac Edison Co				25,000,000		94,000,000
West Penn Power Co			$ 60,000,000			
American Electric Power					146,250,000	
Appalachian Power Co	$ 80,000,000		6,500,000	50,000,000		274,000,000
Indiana Michigan Electric Co	120,000,000					185,000,000
Kentucky Power						200,000,000
Ohio Power	130,000,000					50,000,000
AEP Service Co		$100,000,000				
Columbus & Southern Ohio Electric	85,000,000			15,000,000		200,000,000
Central & Southwest Corporation						300,000,000
Central Power & Light Co	100,000,000		100,000,000			
Southwestern Electric Power Co	60,000,000					
West Texas Utilities	75,000,000					
Columbia Gas System						350,000,000
Consolidated Natural Gas		100,000,000				175 000 000
Eastern Utilities Associates					10,463,000	
Blackstone Valley Electric Co	30,000,000					7,000,000
Eastern Edison Co	45,000,000		15,000,000			18,000 000
Montaup Electric Co						42,000,000
General Public Utilities Corporation						150,000,000
Jersey Central Power & Light Co						160,000,000
Metropolitan Edison Co						125,000,000
Pennsylvania Electric Co						160,000,000
Middle South Utilities					198,000,000	
Arkansas Power & Light Co	90,000,000	75,000,000	16,800,000			165,000,000
Louisiana Power & Light Co	175,000,000					190,000,000
Middle South Energy Co						1,400,000,000
Middle South Services						50,000,000
Mississippi Power & Light	30,000,000					45,000,000
New Orleans Public Service						22,000,000

Table 40—Continued

PUBLIC FINANCING OF HOLDING COMPANY SYSTEMS
FISCAL YEAR 1981

	Bonds	Long-Term Notes and/or Debentures	Pollution Control Financings	Stock: Preferred	Stock: Common	Short Debt Term
New England Electric System						$ 50,000,000
Granite State Electric Co						3,500,000
Massachusetts Electric Co						8,500,000
Narragansett Electric Co						22,500,000
New England Power Co						195,000,000
New England Power Service						45,000,000
New England Energy, Inc						400,000,000
Vermont Yankee Nuclear		$ 40 000 000				25,000,000
National Fuel Gas						192,700,000
Seneca Resources						40,000,000
Northeast Utilities Corp		80,000,000			$ 78,750,000	
Connecticut Light & Power Co	$ 50,000,000					225,000,000
Hartford Electric Light Co						160,000,000
Holyoke Water Power Co						20,000,000
Western Mass Electric Co	30,000,000					60,000,000
Northeast Nuclear Energy Co		80,000,000				
Southern Company					256,850,000	
Alabama Power Co	471,000,000			$150,000,000		400,000,000
Georgia Power Co	150,300,000		$ 50,000,000			475,000,000
Gulf Power Co	3,700,000		30,000,000			65,000,000
Mississippi Power Co	17,900,000			10,000,000		65,000,000
Southern Company Services						5,000,000
Connecticut Yankee Atomic Power		40,000,000				25,000,000
Yankee Atomic Electric Co		15,000,000				21,000,000
Total	$1,743,000,000	$530,000,000	$278,300,000	$275,000 000	$780,063,000	$7,148,200,000

Total = $10 75 billion

Table 41

SUBSIDIARY SERVICE COMPANIES OF PUBLIC UTILITY HOLDING COMPANY SYSTEMS

Name of Company	As of December 31, 1980 Total Billings	Total Assets	Total Personnel
Allegheny Power Service Corp	$ 23,851,502	$ 2,482,980	625
American Electric Power Service Corp	108,203,000	26,717,000	2,552
Central and South West Services, Inc	15,124,000	4,693,000	221
Columbia Gas System Service Corp	37,594,000	20,008,000	716
Consolidated Natural Gas Service Co	24,633,000	4,899,000	364
EUA Service Corp	8,508,462	1,638,248	235
GPU Service Corp	53,874,000	32,530,000	1,027
Middle South Services	39,742,000	54,753,000	597
New England Power Service Co	63,110,696	7,763,882	1,663
Northeast Utilities Service Co	107,877,000	81,195,000	2,379
Southern Company Services	125,831,000	66,238,000	2,660
Total	$608,348,660	$302,918,110	13,039

Fuel Programs

During fiscal year 1981, the Commission authorized approximately $1 billion for fuel exploration and development activities for the holding company systems. This represents a 72 percent increase over fiscal year 1980 fuel expenditures. The following table lists the authorization by holding company system for each fuel program.

Largely as a result of radical changes in cost and availability of fuel, utilities have embarked on major programs to acquire control over part of their fuel supply. Generally, the arrangments involve the formation of subsidiaries or entry into joint ventures for the production, transportation and financing of fuel supplies or the supply of capital for the exploration and the development of reserves with a right to share in any discovered reserves. Since 1971, the Commission has authorized expenditures of over $4.2 billion for fuel programs of holding companies subject to the Holding Company Act.

Table 42

REGULATED FUEL PROGRAM EXPENDITURES OF HOLDING COMPANY SYSTEMS

(Fiscal 1981)

(In millions of dollars)

	Gas and/or Oil Exploration and Financing	Fuel Oil Inventory	Coal, Lignite Exploration & Development	Coal Mining Expansion	Uranium Exploration	Nuclear Fuel Procurement	Fuel Transportation & Storage
American Electric Power Co	$	$	$	$119 7	$	$	$ 13 8
Central & South West Corp	31 0		15 8				3
Columbia Gas System, Inc	221 1						
Consolidated Natural Gas Co							
Middle South Utilities		115 2		3 7	8 1	263 4	76 4
National Fuel Gas System	15 0						20 5
New England Electric System	125 0						
Northeast Utilities							
Southern Company							
	$392 1	$115 2	$15 8	$123 4	$8 1	$263 4	$111 0

Total = $1 03 billion

Corporate Reorganizations

During the fiscal year the Commission entered 18 reorganization cases filed under Chapter 11 of the Bankruptcy Code involving companies with aggregate stated assets of about $2.5 billion and 130,000 public investors. Including the new cases the Commission was a party in a total of 35 Chapter 11 cases during the fiscal year. The stated assets of the companies involved in these cases totaled approximately $3.95 billion and their indebtedness of about $4.1 billion. During the fiscal year 12 cases involving assets of $250 million and liabilities of $210 million were concluded either through confirmation of a plan of reorganization, liquidation or dismissal, leaving 23 cases in which the Commission was a party at year-end.

The Commission also continued its participation in pending reorganization cases under Chapter X of the prior Bankruptcy Act. During the fiscal year 15 Chapter X cases were closed, leaving at year-end 52 open reorganization cases.

Table 43

PENDING REORGANIZATION PROCEEDINGS UNDER CHAPTER X OF THE BANKRUPTCY ACT IN WHICH THE COMMISSION PARTICIPATED

Fiscal Year 1981

Debtor	District Court	Petition Filed	SEC Notice of Appearance Filed
Aldersgate Foundation, Inc [2]	M D Fla	Sept 12 1974	Oct 3, 1974
American Associated Systems, Inc [1]	E D Ky	Dec 24, 1970	Feb 26, 1971
Arlan's Dept Stores, Inc [2]	S D N Y	March 8, 1974	March 8, 1974
Bankers Trust Co [2]	S D Miss	Dec 16, 1976	April 5 1977
Beck Industries, Inc	S D N Y	May 27, 1971	July 30 1971
Bermec Corp [2]	S D N Y	April 16, 1971	April 19, 1971
Beverly Hills Bancorp	C D Cal	April 11 1974	May 14, 1974
Brethren's Home, The	S D Ohio	Nov 23 1977	Dec 27, 1977
Bubble Up Delaware, Inc	C D Cal	Aug 31 1970	Oct 19, 1970
Carolina Caribbean Corp [2]	W D N C	Feb 28 1975	April 17, 1975
Citizens Mortgage Investment Trust	D Mass	Oct 5 1978	Nov 1 1978
Coast Inventors, Inc [1]	W D Wash	April 1 1964	June 10 1964
Commonwealth Corp [2]	N D Fla	June 28, 1974	July 17, 1974
Continental Investment Corp [3]	D Mass	Oct 31, 1978	Oct 31, 1978
Continental Mortgage Investors	D Mass	Oct 21, 1976	Oct 21 1976
Davenport Hotel, Inc [1]	E D Wash	Dec 20, 1972	Jan 26, 1973
Detroit Port Development Corp [1]	E D Mich	Sept 14, 1976	Nov 17, 1976
Diversified Equity Corp [1]	S D Ind	Jan 24, 1977	Feb 17, 1977
Diversified Mountaineer Corp [2]	S D W Va	Feb 8, 1974	April 24, 1974
Duplan Corp	S D N Y	Oct 5, 1976	Oct 5, 1976
E T & T Leasing, Inc [1]	D Md	Dec 20 1974	June 5, 1975
Farrington Manufacturing Co [2]	E D Va	Dec 22, 1970	Jan 14, 1971
First Baptist Church, Inc of Margate, Fla [2]	S D Fla	Sept 10, 1973	Oct 1, 1973
First Home Investment Corp of Kansas, Inc [2]	D Kan	April 24, 1973	April 24 1973
First Research Corp [1]	S D Fla	March 2, 1970	April 14, 1970
Fort Cobb, Okla Irrigation Fuel Authority	W D Okla	April 20, 1979	July 16, 1979
GAC Corp [1]	S D Fla	May 19, 1976	June 14 1976
GEBCO Investment Corp	W D Pa	Feb 8, 1977	March 24 1977
Wm Gluckin Co , Ltd	S D N Y	Feb 22, 1973	March 6 1973
Guaranty Trust Co	W D Okla	April 9, 1979	April 9, 1979
Gulfco Investment Corp	W D Okla	March 22, 1974	March 28, 1974
Gulf Union Corp [1]	M D La	Aug 29, 1974	Nov 5, 1974
Harmony Loan, Inc [2]	E D Ky	Jan 31, 1973	Jan 31, 1973
Hawaii Corp [3,4]	D Hawaii	March 17, 1977	March 17, 1977
Home-Stake Production Co	N D Okla	Sept 20, 1973	Oct 2, 1973
Investors Associated, Inc [1]	W D Wash	March 3, 1965	March 17 1965
Investors Funding Corp of New York[3]	S D N Y	Oct 21, 1974	Oct 22, 1974
J D Jewell, Inc [1]	N D Ga	Oct 20, 1972	Nov 7, 1972
King Resources Co [2]	D Colo	Aug 16, 1971	Oct 19, 1971
Lake Winnebago Development Co , Inc	W D Mo	Oct 14, 1970	Oct 26, 1970
Lusk Corp	D Ariz	Oct 28, 1965	Nov 15, 1965
Mount Everest Corp [2]	E D Pa	May 29 1974	June 28, 1974
National Telephone Co , Inc [2]	D Conn	July 10 1975	May 27 1976
North American Acceptance Corp [2]	N D Ga	March 5 1974	March 28, 1974
Omega-Alpha Inc [2]	N D Texas	Jan 10, 1975	Jan 10 1975
Pacific Homes[3]	C D Cal	Dec 9, 1977	Feb 2 1978
Pan American Financial Corp [2]	D Hawaii	Oct 2, 1972	Jan 9 1973
Parkview Gem Inc [2]	W D Mo	Dec 18, 1973	Dec 28 1973
Pocono Downs Inc	M D Pa	Aug 20, 1975	Aug 20 1975
John Rich Enterprises, Inc [2]	D Utah	Jan 16 1970	Feb 6 1970
Reliance Industries Inc	D Hawaii	May 24 1976	Aug 10, 1976
Royal Inns of America, Inc [2]	S D Cal	April 24 1975	June 24, 1975

Table 43—Continued

PENDING REORGANIZATION PROCEEDINGS UNDER CHAPTER X OF THE BANKRUPTCY ACT IN WHICH THE COMMISSION PARTICIPATED

Fiscal Year 1981

Debtor	District Court	Petition Filed	SEC Notice of Appearance Filed
Sierra Trading Corp [2]	D Colo	July 7, 1970	July 22, 1970
Sound Mortgage Co , Inc [1]	W D Wash	July 27, 1965	Aug 31, 1965
Southern Land Title Corp [1]	E D La	Dec 7, 1966	Dec 31, 1966
Stanndco Developers, Inc	W D N Y	Feb 5, 1974	March 7, 1974
Stirling Homex Corp [2]	W D N Y	July 11, 1972	July 24, 1972
Sunset International Petroleum Corp [2]	N D Texas	May 27, 1970	June 10, 1970
TMT Trailer Ferry, Inc [2]	S D Fla	June 27, 1957	Nov 22, 1957
Tilco, Inc [2]	D Kans	Feb 7, 1973	Feb 22, 1973
Tower Credit Corp [1]	M D Fla	April 13, 1966	Sept 6, 1966
U S Financial, Inc [2]	S D Cal	Sept 23, 1975	Nov 3, 1975
Virgin Island Properties, Inc [1]	D V I	Oct 22, 1971	April 11, 1972
Washington Group, Inc	M D N C	June 20, 1977	July 25, 1977
Western Growth Capital Corp	D Ariz	Feb 10, 1967	May 16, 1968
Westgate California Corp	S D Cal	Feb 26, 1974	March 8, 1974
Wonderbowl, Inc [2]	C D Cal	March 10, 1967	June 7, 1967

[1] Reorganization proceedings closed during fiscal year 1981
[2] Plan has been substantially consummated but no final decree has been entered because of pending matters
[3] Report or memorandum on plan of reorganization filed during fiscal year 1981

Table 44

REORGANIZATION PROCEEDINGS UNDER CHAPTER 11 OF THE BANKRUPTCY CODE IN WHICH COMMISSION ENTERED APPEARANCE

Debtor	District Court	Fiscal Year Filed
Airlift International, Inc	SD FL	1981
American Nautilus Fitness Center [3]	SD CA	1981
Arctic Enterprises, Inc	D MN	1981
Auto Train Corp [2]	D DC	1980
Christian Life Center	ND CA	1980
Coleman American Companies, Inc	D KS	1980
Combustion Equipment Association	SD NY	1981
Computer Communications	CD CA	1981
Fidelity American Financial Corp	ED PA	1981
FWD Corporation [1]	ED WI	1981
General Resources Corp	ND GA	1980
Goldblatt Brothers, Inc	ND IL	1981
Grove Finance Company	D UT	1981
G Weeks Securities	WD TN	1980
Haven Properties, Inc	D OR	1981
Hawaii Nevada Investment Corp	D NV	1981
Heritage Investment Group of Ark [3]	ED AR	1981
Horizon Hospital, Inc	MD FL	1981
Inforex, Inc [1]	D MA	1980
Itel Corporation	ND CA	1981
L S Good & Co [2]	ND WV	1980
Mansfield Tire & Rubber	ND OH	1980
NOVA REIT	ED VA	1981
Omega Financial Investment Corp [2]	CD CA	1981
Park Nursing Center	ED MI	1980
Penn-Dixie Industries	SD NY	1980
Pleasant Grove Medical Center [1]	ND TX	1980
Resource Exploration, Inc [1]	ND OH	1980
SBE, Incorporated [1]	ND CA	1980
Seatrain Lines, Inc	SD NY	1981

Table 44-Continued

REORGANIZATION PROCEEDINGS UNDER CHAPTER 11 OF THE BANKRUPTCY CODE IN WHICH COMMISSION ENTERED APPEARANCE

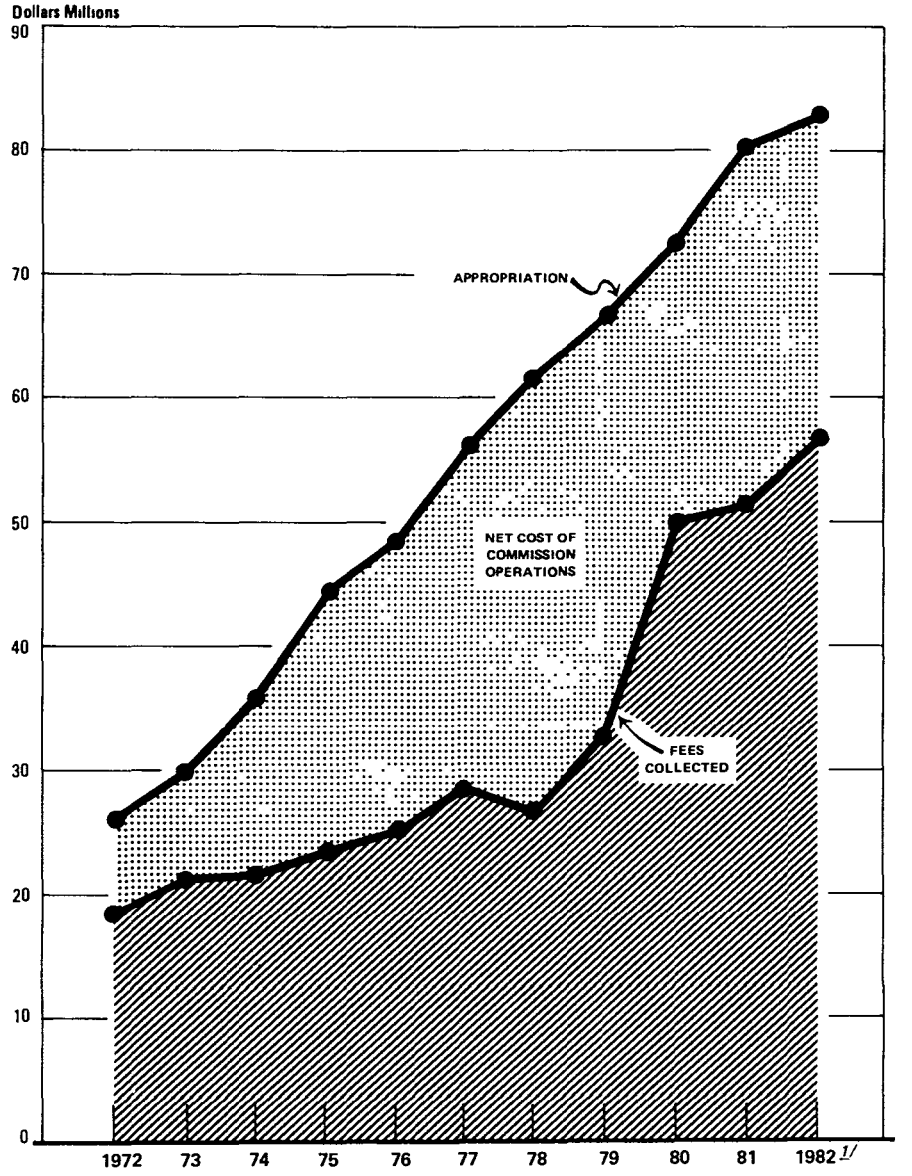
Debtor	District Court	Fiscal Year Filed
Southland Lutheran Home [1]	CD CA	1980
Tenna Corp [2]	ND OH	1980
Topps & Trowsers [1]	ND CA	1980
Unishelter, Inc	ED WI	1981
Western Farmers Association	D WA	1980
White Motor Corp	ND OH	1980

[1] Plan of reorganization confirmed
[2] Case liquidated under Chapter 7
[3] Chapter 11 petition dismissed

SEC OPERATIONS

The Commission collects fees for the registration of securities, securities transactions on national securities exchanges, and miscellaneous filings, reports and applications. In fiscal year 1981, the Commission expects to collect a record $51 million dollars in fees, representing approximately 64% of the total funds appropriated by the Congress for Commission operations. This FY-1981 estimated revenue is up from $49 million in FY-1980, which represented 68% of appropriated funds.

Appropriated Funds vs Fees Collected



1/ Estimated

Table 45

BUDGET ESTIMATES AND APPROPRIATIONS

Action	Fiscal Year 1977		Fiscal Year 1978		Fiscal Year 1979		Fiscal Year 1980		Fiscal Year 1981		Fiscal Year 1982	
	Positions	Money	Positions	Money	Positions	Money	Positions	Money	Positions	Money	Positions	Money
Estimate submitted to the Office of Management and Budget	2,400	$54,822,000	2,133	$59,000,000	2,179	$66,600,000	2,244	$72,478,000	2,424	$85,748,000	2,230	$92,395,000
Action by the Office of Management and Budget	-283	-1,724,000	-41	-710,000	-47	-1,800,000	-144	-3,439,000	-426	-9,653,000	-248	-9,559,000
Amount allowed by the Office of Management and Budget	2,117	53,098,000	2,092	58,290,000	2,132	64,800,000	2,100	69,039,000	1,998	76,095,000[1]	1,982	82,836,000[2]
Action by the House of Representatives		-98,000		-290,000	-7	-150,000		-93,000	+23	+255,000		
Sub-total	2,117	53,000,000	2,092	58,000,000	2,125	64,650,000	2,100	68,946,000	2,021	76,350,000		
Action by the Senate				+290,000				+40 000		+750 000		
Sub-total	2,117	53,000,000	2,092	58,290,000	2,125	64,650,000	2,100	68,986,000	2,021	77,100,000		
Action by conferees				190,000						-750,000		
Annual appropriation	2,117	53,000,000	2,092	58,100 000	2,117	64,650,000	2,100	68,986,000	2,021	76,350,000		
Supplemental appropriation		3,270,000		4,375,000		2 450,000		3,753,000		3,850,000		
Total appropriation	2 117	56,270,000	2,092	62,475,000	2,117	67,100,000	2,100	72,739,000	2,021	80 200,000		

[1] Original submission to Congress was $77,150,000, subsequently reduced by OMB
[2] Original submission to Congress was 2,141 positions and $88,560,000, subsequently reduced by OMB