

# SECURITIES AND EXCHANGE COMMISSION NEWS DIGEST



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A brief summary of financial proposals filed with and actions by the S.E.C.

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## SEC ANNOUNCES RULINGS ON "INDEPENDENCE" OF ACCOUNTANTS

The Securities and Exchange Commission today announced the publication of a summary of past administrative rulings by the Commission dealing with the independence of accountants who certify financial statements filed with the Commission pursuant to the requirements of the several laws it administers.

These laws either require or give the Commission power to require that financial statements filed with it be certified by "independent" accountants, and with minor exceptions the Commission's rules require that such statements be so certified. While the concept of independence was well developed and the value of a review by independent accountants who are in no way connected with the business was established before enactment of the Securities Act of 1933, its passage is an important landmark in the development of the concept of the responsibility of the independent accountant to the investor and the public. The Senate Banking and Currency Committee recognized that the agency administering the law should have full and adequate authority to procure whatever information might be necessary in carrying out its provisions; and it considered the advisability of requiring the audit to be made by accountants on the staff of the agency. However, it was deemed essential to refrain from placing upon the agency the duty of passing judgment upon the soundness of any security; and the bill as passed required certification by independent public accountants.

The requirement that industry furnish financial statements certified by independent accountants imposes upon the Commission the responsibility of ascertaining whether audits pursuant to its requirements are made by qualified independent accountants. Reflecting this concern, Rule II(e) of the Commission's Rules of Practice provides that the Commission may disqualify, and deny, temporarily or permanently, the privilege of appearing or practicing before it to any accountant who is found by the Commission, after hearing, not to possess the requisite qualifications to represent others; or to be lacking in character or integrity; or to have engaged in unethical or improper professional conduct. These proceedings, which are rare, are conducted privately and may or may not result in a published decision by the Commission. This concern also is reflected in the Commission's accounting rules (Regulation S-X), under which problems arise from time to time with respect to the question whether particular relationships between an accountant and the company whose financial statements he certifies are of a nature which would prejudice the "independent" status of the accountant.

In administering this Regulation, the Commission has not attempted to set up objective standards for measuring the qualifications of accountants other than requiring that they be in good standing and entitled to practice as independent accountants in their place of residence or principal office. However, it is expected that they will have adequate technical training and proficiency and will conduct their audit in a workmanlike manner in accordance with generally accepted auditing standards. Rule II(e) of the Rules of Practice recognizes that ethical and professional responsibility is founded upon character and integrity.

The Commission has consistently held that the question of independence is one of fact, to be determined in the light of all the pertinent circumstances in a particular case; but it is

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not practicable to identify all of the circumstances which might prevent an accountant from being independent. The Commission has stated: ". . . an accountant will be considered not independent with respect to any person or any of its parents or subsidiaries in whom he has, or had during the period of report, any direct financial interest or any material indirect financial interest; or with whom he is, or was during such period, connected as a promoter, underwriter, voting trustee, director, officer, or employee."

Administrative rulings on the question of "independence" have been made by the Commission from time to time. Today's announcement summarizes these rulings for the information and guidance of practicing accountants. The Commission noted, however, that a finding in a particular case that an accountant is not independent under its rules does not necessarily reflect on his professional standing or qualification to serve other companies whose financial reports are filed with the Commission.

#### AMERICAN INVESTMENT (ILL.) FILES STOCK OPTION PLAN

American Investment Company of Illinois, 8251 Maryland Ave., St. Louis, filed a registration statement (File 2-14596) with the SEC on December 10, 1958, seeking registration of 13,880 shares of its common stock issuable under stock options exercisable commencing January 2, 1959, and an additional 23,710 common shares issuable under stock options exercisable commencing January 3, 1960. The 13,880 shares are issuable to key employees of subsidiaries of the company entitled to purchase shares pursuant to Option Warrants issued in 1956; and the 23,710 shares are issuable to key employees of subsidiaries entitled to purchase shares issuable pursuant to Option Warrants issued in 1957.

#### CITIES SERVICE STOCK DIVIDEND PROPOSAL FILED

Cities Service Company, New York, has filed a proposal with the SEC for issuance of 210,376 shares of its \$10 par common stock, to be distributed as a stock dividend; and the Commission has issued an order (Release 35-13883) giving interested persons until December 24, 1958, to request a hearing thereon.

The 2% stock dividend distribution would be made by Cities on or about January 22, 1959 to its stockholders of record December 1, 1958, on the basis of one new share for each 50 shares of its outstanding 10,518,804 common shares. Cities proposes to assign a value of \$57 per share to each share of the dividend stock, or an aggregate of \$11,991,432.

#### COLONIAL FUND AUTHORIZED TO PURCHASE NORTHWEST AIRLINE STOCK

The SEC has issued an exemption order (Release 40-2803) authorizing The Colonial Fund, Inc., Boston investment company, to purchase up to 16,000 shares out of an offering of 449,040 shares of Cumulative Preferred Stock, 5½% Convertible Series, being offered by Northwest Airlines, Inc., for subscription by its stockholders at \$25 per share. An underwriting group which includes First Boston Corporation and Kidder, Peabody & Co. will purchase unsubscribed shares. Because of an affiliation with these two firms, Colonial Fund's purchase of Northwest Airline stock is prohibited by provisions of the Investment Company Act in the absence of an exemption order by the Commission. It proposes to acquire the shares at the public offering price from members of the underwriting or selling group other than First Boston and Kidder.

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Group Securities, Inc., Jersey City, New Jersey investment company, filed an amendment on December 10, 1958, to its registration statement (File 2-10685) seeking registration of an additional 5,000,000 shares of Capital Stock, 1½ par value.

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Wall Street Planning Corporation, Boston, Mass. investment company, filed an amendment on December 10, 1958 to its registration statement (File 2-12757) seeking registration of an additional \$6,000,000 of Systematic Investment Programs and Systematic Investment Programs with Group Creditor Life Insurance Protection and \$1,000,000 Single Payment Investment Programs.

#### BIG HORN MT. URANIUM OFFERING SUSPENDED

The Securities and Exchange Commission has issued an order (Release 33-4006) temporarily suspending a Regulation A exemption from registration under the Securities Act of 1933 with respect to a public offering of stock by Big Horn Mountain Gold and Uranium Company, 1424 Pearl St., Boulder, Colo.

Regulation A provides a conditional exemption from Securities Act registration with respect to public offerings of securities not exceeding \$300,000 in amount. On February 23, 1956, Big Horn filed a notification with the Commission proposing the public offering of 7,500,000 shares of its common stock at 3¢ per share pursuant to such an exemption. The Commission's suspension order asserts that the terms and conditions of Regulation A have not been complied with, that Big Horn's notification and offering circular are false and misleading in respect of certain material facts, and that its stock offering "has been and would be made in such manner as to operate as a fraud and deceit upon purchasers." The order provides an opportunity for hearing, upon request, on the question whether the suspension should be vacated or made permanent.

According to the Commission's order, Big Horn's notification and offering circular are false and misleading by reason of (1) the failure to show that Lamey and Co., the underwriter, is not in business at the address shown in the offering circular or in Colorado and is not licensed as a broker-dealer in Colorado; and (2) the failure to reflect the current status of performance of work obligations under the company's lease of mining properties.

With respect to non-compliance with Regulation A, the order further asserts that certain sales material has been used prior to its filing with the Commission; that sales of stock have been made in states other than those listed in the notification; and that sales also have been made at prices other than those set forth in the offering circular.

#### SEC COMMENCES ACTION AGAINST VEDITZ CO. REGISTRATION

The Securities and Exchange Commission has ordered proceedings under the Securities Exchange Act of 1934 to determine whether Jean R. Veditz Co., Inc., 160 Broadway, New York, has violated the anti-fraud and other provisions of the Federal Securities Laws and, if so, whether its broker-dealer registration should be revoked. A hearing for the purpose of taking evidence therein is scheduled for December 18, 1958, in the Commission's New York Regional Office.

According to the Commission's order, Veditz Co. became registered as a broker-dealer on March 2, 1957; Jean R. Veditz is president and owner of all its outstanding common stock; and Ben Goldstein serves as supervisor of its sales operations.

The Commission's order asserts that information developed in an investigation conducted by its Staff tends to show that, during the period July 1, 1958, to date, Veditz Co., Veditz and Goldstein, in connection with their offering and sale of Class A common stock of Universal Drilling Company, Inc., "engaged in acts, practices and a course of business which would and did operate as a fraud and deceit upon persons," in that they made false and misleading statements of material facts and omitted to state material facts concerning, among other things, the listing of the Universal stock on an exchange and the profitable operations, earnings and dividends of that company. Furthermore, according to the order, (a) they failed to comply with the Securities Act prospectus requirements in the offering and sale of the Universal stock; (b) Veditz Co., Veditz and Goldstein offered and sold common stock of Mono-Kearsarge Consolidated Mining Company during the period January 1957 to November 1958 when no Securities Act registration statement had been filed or was in effect as to such stock; and (c) Veditz Co. and Veditz are permanently enjoined

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by a November 25, 1958, decree of the Supreme Court of the State of New York, County of New York, from engaging in and continuing certain conduct and practices in connection with the purchase and sale of securities.

At the December 18th hearing, inquiry will be conducted into the foregoing matters for the purpose of determining whether Veditz Co., Veditz and Goldstein have wilfully violated the registration and anti-fraud provisions of the Federal Securities Laws, and, if so, whether the broker-dealer registration of Veditz Co. should be revoked.

SEC COMPLAINT FILED AGAINST VEDITZ CO. AND LEDERER CO.

The SEC New York Regional Office announced December 9, 1958, that a complaint had been filed (USDC, SDNY) charging Jean R. Veditz Co., Inc., J. H. Lederer Co., Inc., and various officers and other individuals with fraudulent misrepresentations in the sale of Universal Drilling Company, Inc. stock (Lit. Release No. 1370). Previously, the Commission ordered administrative proceedings against J. H. Lederer Co., Inc., 56 Beaver St., New York City, charging that company with fraud in the sale of Continental Mining Exploration Ltd. stock (See Release 34-5799). The hearing in the latter proceedings is scheduled for December 15, 1958, in the Commission's New York Regional Office).

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