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NEW DIRECTIONS IN PROFESSIONAL RESPONSIBILITY CALLED FOR BY CHAIRMAN GARRETT

Chairman Ray Garrett, Jr., stressed the SEC's concern over the increasing number of large scale cases of fraud, mismanagement and disregard for investor interest that have cropped up in recent months. In an address before the American Bar Association National Institute in Washington, D. C. last night, he said that our system of securities regulation is passing through a dangerous period. He said that the Commission is not entirely happy with the means at its disposal to cause higher standards of professional conduct for investor protection. "It is absolutely essential," he said, "that the professional persons so involved perform in a manner that instills justifiable confidence in accountants' certificates and lawyers' opinions and in the other work that lawyers perform."

"In the last few years the Commission has seen some truly monstrous financial debacles," Mr. Garrett said. Equity Funding Corporation, National Student Marketing, Penn Central and Four Seasons are cases of epic proportions. "Hundreds of thousands of persons have lost hundreds of millions of dollars because of investments in securities which, together with their issuers, had received the full treatment--securities issued pursuant to 1933 Act registration, issuers registered under the 1934 Act, markets conducted by registered broker-dealers who were NASD members and also stock exchange members, represented by reputable law firms and financials certified by reputable public accountants."

Mr. Garrett pointed out that these cases might allow one to say our system of securities regulation is an elaborate farce for that the system has failed by placing too much reliance on the public sector and that those who argued in 1933 that the federal government should play a heavier role are right. These critics might urge we cannot rely on legal liabilities to produce adequate disclosure, public accountants to examine financial statements or private counsel to guide clients to full compliance, or on informing prospective investors as adequate protection, for example, he added.

However, "the Commission strongly believes that ours is the best system over the long run that man has devised for optimum freedom and growth," Mr. Garrett said. "And, like any other legal system, it works best where primary reliance remains on the private citizen."

For this regulatory system to work, "heavy reliance must be placed upon the accountants and lawyers who participate in the system on the private side," Mr. Garrett stated. Because the SEC is a small government police force, we must keep the pressure on the professionals to do a major part of the job of protection of investors, he said.

There is a "larger history of proceeding against accountants than against lawyers," Mr. Garrett observed. The independence of the accountant and the obvious significance of their findings make it clear where the accountant's duty lies while the lawyer is supposed to represent the private interest, it was noted. However, Mr. Garrett added, "... when it comes to matters affecting public stockholders and investors, we are not prepared to agree that the corporate lawyer's duty is solely, or even primarily, to protect the interests of the individuals constituting corporate management, when he is retained to serve the corporation." "When a lawyer is retained to represent a corporation and to be paid out of corporate funds, the ABA's code of professional responsibility would say that the lawyer's client is the corporate entity -- not the individuals that constitute corporate management nor the individuals that constitute its stockholders nor any other specified persons," Mr. Garrett said.

"How does this help us with our disclosure problem? Who speaks for this corporate abstraction? Is it the lawyer or is it corporate management?" Mr. Garrett asked. The SEC has two enforcement weapons, the suspension or disbarment from practice before the Commission and an action for an injunction on the ground that the accountant or lawyer has participated in or aided and abetted a violation of the securities laws. The use of suspension or disbarment does not seem an appropriate vehicle for enunciating professional guidelines, Mr. Garrett said. The injunction action also presents problems, he noted.

"If the injunction extends, as the Commission has frequently requested, to all future behavior of the professional person or firm in matters affecting the Commission and its laws, it may be too much," Mr. Garrett said. In addition, "... our law as to civil damages may be anachronistic as applied to affairs of a magnitude so far exceeding the resources of the professional individual or firm," Mr. Garrett stated.

"I think we have to work toward trying to solve this problem on a more reasonable basis than it presently stands," he noted further. "The profession, however, I think is overdue in taking this problem seriously and thinking through to an appropriate solution," he said. We must work to increase their effectiveness in these critical areas, Mr. Garrett concluded.

RULE PROPOSALS AND ADOPTIONS

GUIDELINES FOR CONTROL LOCATIONS FOR FOREIGN SECURITIES ANNOUNCED. The Securities and Exchange Commission today announced guidelines for control locations for foreign securities under subparagraphs (c)(4) and (c)(7) of Rule 15c3-3 under the Securities Exchange Act of 1934.

The criteria established relates to the satisfactory control for purposes of Rule 15c3-3 of foreign securities lodged in the custody of foreign depositories, foreign clearing agencies, foreign custodian banks or foreign broker-dealers for the account of customers of registered brokers or dealers and foreign securities lodged with registered brokers or dealers who in turn carry securities for the account of customers of other brokers or dealers.

The release requires any broker or dealer utilizing such locations to submit an "Application for Control Locations for Foreign Securities" to George A. Fitzsimmons, Secretary, Securities and Exchange Commission, within 120 days of the publication of the release stating the name, address, and principal place of business of the entity which serves as a location for the lodgment of customers' foreign securities and the name and address of the governmental agency or other regulatory authority which supervises or regulates the respective foreign entity. If a broker or dealer wishes to utilize a new foreign entity or registered broker or dealer as a control location for customers' foreign securities and such entity meets the specified criteria, the broker or dealer will be permitted to utilize such entities provided the requested information is submitted to the Secretary prior to commencing use of such locations. A submitted application in these instances shall be considered accepted unless the Commission rejects such application within 90 days of its receipt of the Commission.

The guidelines require, among other things, that foreign securities must be held free of lien by the foreign entity except for safe custody and administration fees and that the beneficial ownership of such securities must be fully transferable, may be supplemented or altered as further experience in the operation of the rule is gained. Where such securities are carried by registered broker-dealers for the account of customers of other broker-dealers the release requires that such securities be maintained in a "Special Custody Account for the Exclusive Benefit of the Customers of that broker or dealer. Although an entity may meet the specified criteria the Commission may determine that it would not be in the public interest or for the protection of investors to permit such entity to continue as a satisfactory control location. (Rel. 34-10429)

COMMISSION ANNOUNCEMENTS

TRIONICS ENGINEERING SUSPENSION TERMINATED. Suspension of over-the-counter trading in the securities of Trionics Engineering Corporation, of Staten Island, New York, will terminate at midnight (EDT) on October 13, 1973.

Trading in Trionics was first suspended on April 17, 1973 because of questions raised concerning market activity in the company's stock and because of the unavailability of reliable current information concerning Trionics' financial condition and its past and present operations.

Trionics, which had been totally inoperative, was acquired by Computer Counseling, Inc. in December 1968. In March 1969 the Trionics shares held by Computer were spun-off to the shareholders of Computer. In December 1968, Computer completed a public offering under Regulation A of the Securities Act of 1933. Computer's Regulation A exemption from registration was temporarily suspended in August, 1969 and permanently suspended in August, 1971.

Of the 1,957,500 Trionics outstanding shares, approximately 97% are held by officers, directors and employees of the companies and its subsidiaries and their relatives. The majority of the public shareholders who own the 2.2% or approximately 42,000 shares of Trionics acquired their shares when, as Computer shareholders, Trionics shares were spun-off to them in March, 1969.

In February 1973 Trionics acquired, for shares of its stock, stock of the following corporations which are now its subsidiaries: Chadwick Industries, Inc., a small mail order operation; Mar-Wil Enterprises, now Trionics' manufacturing subsidiary; and C.F.H. Marketing Associates Ltd., an advertising and marketing firm from three Trionics officers, who had formed C.F.H. a month earlier.

On April 2, 1973 an initial quotation was submitted to the National Quotation Bureau of \$1-3/4 - \$2-1/2 for Trionics. Eight days later, the ask price had risen to \$4 per share. Because of this activity, the Commission requested that reliable financial and operating information be made available to the financial community, to shareholders and to the Commission.

Trionics has advised the Commission that on October 9, 1973 it mailed to its shareholders a release informing them of the present posture of Trionics' business. The release states that Trionics has been operative only since February 1973; that it has an immediate working capital problem which must be alleviated to enable it to purchase raw materials and meet projected needs; that its most current balance sheet dated June 30, 1973 shows a \$10,000 working capital deficit; and that Trionics faces intense competition from established companies in the needlework field.

The Commission's staff is continuing its investigation to determine whether violations of the registration and antifraud provisions have occurred in trading in the stock of Trionics and will closely monitor market activity when trading resumes to assure compliance with the federal securities laws. (Rel. 34-10436)

TRADING SUSPENDED IN GLOBA, INC., HYDROPLEX CORP. AND TORGINOL INDUSTRIES. Over-the-counter trading has been suspended for a ten-day period beginning October 11, 1973 and terminating at midnight (EDT) on October 20, 1973 in the securities of the following companies because they failed to file with the Commission the indicated reports:

GLOBA, INC., located in New York, New York (10-K Annual Report for 1972 and 10-Q Quarterly Reports for last quarter of 1972 and first two quarters of 1973);

HYDROPLEX CORP., located in New York, New York (10-Q Quarterly Reports for 1972 and 1973); and

TORGINOL INDUSTRIES, INC., located in Las Vegas, Nevada (10-Q Quarterly Reports for 1972 and 1973).

(Rel. 34-10435)

COURT ENFORCEMENT ACTIONS

FIDELITY REGISTRAR & TRANSFER CO. AND LEONARD REISCH ENJOINED. The New York Regional Office announced that on October 1 the Federal court in Newark, New Jersey, preliminarily enjoined Fidelity Registrar & Transfer Co. of Jersey City, New Jersey, and its president, Leonard Reisch, of New York City, from violations of the anti-fraud provisions of the securities laws, in the issuance, purchase, sale and pledge of unlawfully issued securities. In addition, on the same date, the court ordered the appointment of a receiver for Fidelity.

In its complaint filed on September 28, 1973, the Commission charged that the corporate defendant, a registrar and transfer agent for approximately 80 corporate issuers of securities, used the bogus stock certificates of eight of the corporate issuers for the personal and unlawful use of Reisch and others. This unlawful use included sales in the over-the-counter market and pledges for personal loans. (LR-6090)

FAYE HILL ENJOINED. The Fort Worth Regional Office announced that Federal District Court at Fort Worth, Texas on October 4 permanently enjoined by consent Faye Hill of Dallas, formerly of Amarillo, Texas, from violations of the registration provisions of the securities laws in the offer and sale of Communications Cybernetics Corporation stock. (LR-6091)

MCALPINE OIL CO., J.E. MCALPINE ENJOINED. The Fort Worth Regional Office announced that Federal District Court at Oklahoma City, Oklahoma on October 2 permanently enjoined by consent McAlpine Oil Company and Johnnie Edward McAlpine, both of Tulsa, Oklahoma, from violations of various provisions of the securities laws. (LR-6092)

CADMUS L. G. GOSS, ENJOINED. The Chicago Regional Office announced that on September 25 the Federal court in Des Moines, Iowa, permanently enjoined Cadmus L. G. Goss of Phoenix, Arizona, from violating the registration and anti-fraud provisions of the Federal securities laws. Goss, one of several defendants, consented to the entry of the order without admitting or denying the allegations. (LR-6093)

COMPLAINT NAMES SIX DAVENPORT, IOWA FIRMS. A complaint has been filed in the Federal court in the District of Columbia on October 5 against the following companies, all of Davenport, Iowa, seeking to enjoin them from failing to file required reports and requiring the filing of certain required registration statements including financial statements and periodic reports containing financial and business information about these companies.

Steel Valley, Inc. (LR-6094); Security Investing Co., Ltd. (LR-6095); Hynes & Howes Securities Company (LR-6096); Hynes & Howes Real Estate, Inc. (LR-6097); Hynes & Howes Insurance Counselors, Inc. (LR-6098); and American Home Investment Company (LR-6099).

HOLDING COMPANY ACT RELEASES

MASSACHUSETTS ELECTRIC CO. An order has been issued authorizing Massachusetts Electric Company, subsidiary of New England Electric System, to sell 200,000 shares of cumulative preferred stock (\$100 par) at competitive bidding. Net proceeds will be used to reduce outstanding short-term notes temporarily issued to finance construction expenditures. (Rel. 35-18120)

OHIO EDISON AND PENNSYLVANIA POWER COMPANIES. A notice has been issued giving interested persons until October 30 to request a hearing on proposals by Ohio Edison Company, and its subsidiary, Pennsylvania Power Company, to (1) guarantee obligations under a coal mining equipment lease, (2) guarantee principal, interest and premium payments, if any, on certain first mortgage bonds and (3) guarantee repayment of short-term notes, all said guarantees in favor of non-affiliate companies in connection with the development of coal mines in Ohio. (Rel. 35-18122)

INVESTMENT COMPANY ACT RELEASES

PIEDMONT CAPITAL CORPORATION. A notice has been issued giving interested persons until November 6 to request a hearing on an application of Piedmont Capital Corporation, the sponsor of Corporate Leaders Trust Certificates, Series B, a unit investment trust, and Lexington Research Fund, Inc. and Lexington Growth Fund, Inc., two mutual funds, for an order permitting holders of Trust certificates to exchange at net asset value their holdings for shares in either of the two Funds and to permit shareholders of the two Funds to exchange their holdings for single payment unit investment Trust certificates at net asset value. (Rel. IC-8029)

MIDLAND BASIC. A notice has been issued giving interested persons until November 7 to request a hearing on a proposal of the Commission to declare that Midland Basic, Inc., a registered closed-end investment company, has ceased to be an investment company. (Rel. IC-8030)

MISCELLANEOUS

TRADING SUSPENSIONS CONTINUED. The SEC has announced the suspension of (a) over-the-counter trading in the securities of First Leisure Corporation for the further ten-day period October 13 through 22, inclusive, and (b) exchange and over-the-counter trading in the securities of Equity Funding Corporation of America, Giant Stores Corporation and Sanitas Service Corporation and over-the-counter trading in the securities of Industries International, Inc. for the further ten-day period October 14 through 23, inclusive.