Twentieth Annual Report
of the
Securities and Exchange Commission

Fiscal Year Ended June 30, 1954

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SECURITIES AND EXCHANGE COMMISSION

Headquarters Office
425 Second Street NW.
Washington 25, D. C.

COMMISSIONERS

RALPH H. DEMMLER, Chairman
PAUL R. ROWEN
CLARENCE H. ADAMS
J. SINCLAIR ARMSTRONG
A. JACKSON GOODWIN, JR.

ORVAL L. DuBOIS, Secretary

LETTER OF TRANSMITTAL

SECURITIES AND EXCHANGE COMMISSION.
Washington, D. C., January 31, 1955.

SIR: I have the honor to transmit to you the Twentieth Annual Report of the Securities and Exchange Commission, covering the fiscal year July 1, 1953 to June 30, 1954, in accordance with the provisions of section 23 (b) of the Securities Exchange Act of 1934, approved June 6, 1934; section 23 of the Public Utility Holding Company Act of 1935, approved August 26, 1935; section 46 (a) of the Investment Company Act of 1940, approved August 22, 1940;

section 216 of the Investment Advisers Act of 1940, approved August 22, 1940; and section 3 of the act of June 29, 1949, amending the Bretton Woods Agreements Act. Respectfully.

RALPH H. DEMMLER,
Chairman.

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

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FOREWORD

This is the 20th Annual Report of the Securities and Exchange Commission to the Congress for the fiscal year July 1, 1953 to June 30, 1954. The report describes the Commission's activities during the year in discharging its duties under the various statutes which it administers, including the supervision of registration of securities for sale to the public, the surveillance of the securities markets, the regulation of the activities of brokers and dealers, the regulation of registered public utility holding company systems and investment companies and litigation in the courts.

The year was marked by the enactment by the Congress, by unanimous vote, of the first substantial amendment to the laws regulating the offering and sale of securities in many years. This amendment was drafted following extensive conferences with representatives of the securities industry and members of Congressional committees. The most important change accomplished was the revision of the definitions of "offering" and "selling" to provide for increased dissemination of information to prospective investors about securities being offered, thereby furthering the concept of full disclosure. This legislation is described in detail in this report.

During the year the Commission engaged in an intensive program of revising and simplifying its rules, forms and procedures for the purpose of removing unnecessary complexities and duplications. The Commission also reviewed and revised its administrative organization and processes with a view to providing more aggressive and effective enforcement of the securities laws for the greater protection of investors. One aspect of this program is an endeavor to obtain more effective cooperation between the Commission and state securities administrators. The details of the Commission's activities in these respects are also included in this report.

COMMISSIONERS AND STAFF OFFICERS

(As of November 15, 1954)

Commissioners

RALPH H. DEMMLER, of Pennsylvania, Chairman -- Term expires June 5, 1957

PAUL R. ROWEN, of Massachusetts -- Term expires June 5, 1955

CLARENCE H. ADAMS, of Connecticut -- Term expires June 5, 1956

J. SINCLAIR ARMSTRONG, of Illinois -- Term expires June 5, 1958

A. JACKSON GOODWIN, JR., of Alabama -- Term expires June 5, 1959

Secretary: Orval L. DuBois

Staff Officers

JOHN V. BOWSER, Executive Director; Director, Division of Administrative Management.

EDWARD T. TAIT, Executive Assistant to the Chairman.

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

ROBERT A. McDOWELL, Director, Division of Corporate Regulation. RAY GARRETT, JR., Associate Director.

HAROLD C. PATTERSON, Director, Division of Trading and Exchanges.

WILLIAM H. TIMBERS, General Counsel. MYRON S. ISAACS, Associate General Counsel.

EARLE C. KING, Chief Accountant.

LEONARD HELFENSTEIN, Director, Office of Opinion Writing.

BALDWIN B. BANE, Executive Adviser to the Commission.

REGIONAL AND BRANCH OFFICES

Regional Administrators

Region 1. -- Francis J. Purcell, 42 Broadway, New York 4, New York

Region 2. -- Philip E. Kendrick, Federal Building, U.S. Post Office and Courthouse, Post Office Square, Boston 9, Mass.

Region 3. -- William Green, Peachtree Seventh Building (Room 350), Atlanta 5, Georgia

Region 4. -- Thomas B. Hart, Bankers Building (Room 630), 105 West Adams Street, Chicago 3, Ill.

Region 5. -- Oran H. Allred, United States Courthouse (Room 301) Tenth and Lamar Streets, Fort Worth 2, Texas

Region 6. -- William L. Cohn, New Customhouse (Room 162), Nineteenth and Stout Streets, Denver 2, Colo.

Region 7. -- Andrew D. Orrick, Appraisers Building (Room 334), 630 Sansome Street, San Francisco 11, Calif.

Region 8. -- James E. Newton, 905 Second Avenue Building (Room 304), Seattle 4, Wash.

Region 9. -- William S. Marshall, 131 Indiana Avenue (Room 115), Washington, D. C.

Branch Offices

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

Federal Building (Room 1074), Detroit 26, Mich.

United States Post Office and Courthouse (Room 1737) 312 North Spring Street, Los Angeles 12, Calif.

Pioneer Building (Room 400) Fourth and Roberts Streets, St. Paul 1, Minn.

COMMISSIONERS

Ralph H. Demmler, Chairman

Chairman Demmler was born in Pittsburgh, Pa. on August 22, 1904 and has been a lifelong resident of that city. Chairman Demmler received an A. B. degree from Allegheny College in 1925 and an LL. B. degree from the Law School of the

University of Pittsburgh in 1928. He was admitted to the Pennsylvania bar in 1928 and thereafter specialized in corporate and banking law. Between 1928 and 1930 he was associated with C. E. Theobald, Esq. and between 1930 and 1938 with the firm of Watson & Freeman. He was a partner in the firm of Hirsch, Shumaker, Demmler & Bash from 1938 to 1941. Between 1941 and 1943 he served as trust officer of Commonwealth Trust Company of Pittsburgh. Between 1943 and 1953 he was associated with the firm of Reed, Smith, Shaw & McClay, and was a partner in that firm from 1948 until June 15, 1953. On June 17, 1953, he took office as a member of the Securities and Exchange Commission for a term of office expiring June 5, 1957 and was designated Chairman of the Commission by the President.

Paul R. Rowen

Commissioner Rowen was born in Brighton, Mass., October 7, 1899. He received an A. B. degree from Georgetown University in 1921, attended Harvard Law School from 1921 to 1924, received an LL. B. degree from Boston University Law School in 1925 and was admitted to the Bar of Massachusetts in 1926. From 1926 to 1932 Mr. Rowen was engaged in the general practice of law in Boston. From 1932 to 1936 he served successively as assistant district attorney in Boston, as assistant counsel, regional litigation attorney, N. R. A., in Washington, D. C., and as legal consultant, Federal Coordinator of Transportation, in Washington, D. C. In 1936 Mr. Rowen became a member of the staff of the Commission at its office in Washington, D. C., and served as an attorney on the staff until 1939. Thereafter, Mr. Rowen was appointed regional administrator of the Commission's Boston regional office and served in that capacity for over 6 years. On May 28, 1948, he took office as a member of the Securities and Exchange Commission and on June 14, 1950, was reappointed for a term of office ending June 5, 1955.

Clarence H. Adams

Commissioner Adams was born in Wells, Maine, on November 1, 1905, and resides in Bloomfield, Conn. In 1925 he moved to Connecticut where he entered the investment banking business. In 1931 he organized the securities division of the Banking Department and became the first Securities Administrator of Connecticut, responsible for the administration of the Connecticut Securities Act, which position he held until 1950. In 1945 he served as President of the National Association of State Securities Administrators. His business background includes membership in an investment banking firm in Hartford, and he headed a lending institution in that city. On May 8, 1952, lie took office as a member of the Securities and Exchange Commission for a term of office expiring June 5, 1956.

J. Sinclair Armstrong

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

A. Jackson Goodwin, Jr.

Commissioner Goodwin was born in Anniston, Ala., on October 18, 1911 and resides in that city. He received an A. B. degree from Princeton University in 1934 and an M. B. A. degree from Harvard Business School in 1936. Between 1936 and 1940 he was associated with the investment banking firm of Dillon, Read & Co. Between 1946 and 1952, after 5 years military service during which, among other duties, he served as an assistant and aide to Undersecretary of War Robert P. Patterson and in the European Theater of Operations as a Lieutenant Colonel, he was associated with the Anniston National Bank of Anniston, Ala., as vice president and director. In 1952 and 1953 he was a Director of the Federal Reserve Bank of Atlanta, Birmingham Branch, and a Director of the Life Insurance Company of Alabama. On July 16, 1953, he took office as a member of the Securities and Exchange Commission for a term of office expiring June 5, 1954, and was reappointed for a term expiring June 5, 1959.

PART I
AMENDMENT OF SECURITIES LAWS AND REVISION OF RULES AND FORMS

AMENDMENT OF SECURITIES LAWS

During the fiscal year Congress adopted by a unanimous vote a statute amending the securities acts administered by the Commission, the first such amendment in many years. [Footnote: Public Law 577, 83d Congress, Chapter 667, 2d Session (68 Stat. 683), approved August 10, 1954, effective October 10, 1954.] It effected important changes in the Securities Act of 1933 and limited

changes, largely technical, in the Securities Exchange Act of 1934, the Trust Indenture Act of 1939, and the Investment Company Act of 1940. After conferences during the fall of 1953 with representatives of the securities industry and with the Chairmen of the Committees and subcommittees of the Senate and House of Representatives having jurisdiction, the Commission prepared a draft bill. The original bill contained provisions dealing with eight problems, seven of which were enacted as outlined below. The eighth, a proposal to increase the maximum exemption from registration pursuant to section 3(b) of the Securities Act from $300,000 to $500,000, was not adopted. The changes made are summarized below:

1. Dissemination of information during waiting period. -- The Securities Act of 1933 requires the registration with the Commission of securities to be publicly offered. Prior to the amendment, the Act prohibited the offering of a security for sale as well as the actual consummation of a sale prior to the effective date of the registration statement. Although it is a basic purpose of the Act that information concerning securities to be offered to the public shall be given widespread distribution during the so-called waiting period between the filing and effective dates of the registration statement, normally a period of about twenty days, sellers of securities had been reluctant to give full effect to this purpose because of uncertainty whether dissemination of information by means of the preliminary or so-called "red herring" prospectus during this period might be construed as illegal sales activity which would subject them to civil and criminal liabilities and penalties.

To eliminate this deterrent to furnishing prospective investors with information concerning securities to be offered, the amended act permits written offers during the waiting period by means of a prospectus which meets the requirements of the Commission's rules. It thus removes the difficult distinction, inherent in previous practice, that it was lawful and desirable for an underwriter or dealer to disseminate information during the waiting period but illegal to offer to sell or to solicit offers to buy. The Act as amended, however, continues to make sales, contracts of sale, and contracts to sell unlawful before the registration statement becomes effective.

2. Use of prospectuses after effective date of registration. -- The Securities Act requires persons selling securities to deliver prospectuses to purchasers in the initial distribution of a security, regardless of how long the distribution might take. Prior to its amendment it also required the delivery of a prospectus by securities dealers in trading transactions for one year after the commencement of an offering even though the initial distribution of the security had long been completed. This one-year period for trading transactions, as distinguished from actual distribution, had been recognized as unrealistically long. Accordingly, the Act was amended to reduce the one-year period to 40 days after the effective

date of the registration statement or after the commencement of the public offering, whichever date is later. The statutory provision requiring a dealer to deliver a prospectus so long as he is disposing of an unsold allotment or otherwise participating in an initial distribution remains unchanged. For certain types of investment companies which continuously offer securities, the amended Act requires the use of prospectuses in all transactions, so long as securities of the same class are currently being offered or sold by the issuer or by or through an underwriter.

3. Simplification of information requirements for prospectuses used more than 13 months. -- Before amendment, the Securities Act required that prospectuses which are used more than 13 months after the effective date of a registration statement should contain information as of a date within one year of its use. This produced a hardship in many cases. As amended, the Act provides that where a prospectus is used more than 9 months after the effective date the information contained therein shall be as of a date within 16 months of such use.

4. Extension of credit by dealers in new issues. -- The Securities Exchange Act of 1934 prohibited the extension of credit by dealers to purchasers of a new issue for six months after the offering period. It was felt that the six-month period was unnecessarily long and that a 30-day period, as provided by the amended Act, would be sufficient to insure against the misuse of credit in distributions.

5. "When-issued" trading. -- The amendment removes an ambiguity in the Securities Exchange Act by eliminating the last sentence of section 12 (d) of that Act which placed seemingly unnecessary and irrelevant limitations on the authority of the Commission to adopt rules for the effective regulation of "when-issued" trading.

6. The offering of institutional type of debt securities. -- The Trust Indenture Act of 1939 required inclusion of a summary of certain specified indenture provisions in a prospectus used in the sale of debt securities. This created problems in the formulation of simpler forms of prospectuses for this type of security. The amendment makes clear that the summary need be included in the prospectus only to the extent required by the rules and regulations of the Commission. It should therefore facilitate the simplification of prospectuses. As discussed below the Commission has adopted a simple and short form for the registration of institutional type debt securities.

7. Simplified registration procedures for investment companies. -- In order to have a supply of registered shares on hand at all times, investment companies which engage in continuous offerings of their shares have heretofore been required to file new registration statements under the Securities Act periodically. The statutory amendment will permit such a company to increase the number of

its registered shares by amendment of its registration statement in lieu of filing a new registration statement.

REVISION OF RULES AND FORMS

The Commission constantly reviews its rules and forms with a view to making such revisions and clarifications as are necessary and appropriate to keep pace with changing practices and new developments. During the past fiscal year the Commission gave particular attention to clarifying and simplifying many of the existing rules and forms. A primary objective is to eliminate duplication and to encourage conciseness without the sacrifice of any safeguards necessary for the protection of investors.

Considerable progress was made by the Commission during the 1954 fiscal year in carrying out this program. At the present time it is engaged in preparing further revisions, including those made necessary by the recent amendments of the securities acts. Certain of the changes made during the 1954 fiscal year are outlined below. Other revisions of rules and forms which are of primary interest to special groups, such as brokers and dealers and public utility holding companies, are described in the parts of this report dealing with the regulation of the activities of such persons and companies.

Form S-5. -- Form S-5 was revised to simplify registration under the Securities Act of 1933 and result in more intelligible prospectuses for open-end management investment companies. [Footnote: Securities Act release No. 3493 (December 15,1953).]

Form S-9. -- Form S-9 has been adopted for the registration of non-convertible fixed interest debt securities of American and Canadian companies. It is available for use by an issuer which has been in business at least 10 years, has a prescribed substantial earnings history, and has filed annual and other periodic reports pursuant to section 13 or 15 (d) of the Securities Exchange Act of 1934. The standards prescribed in this new form were developed after a thorough analysis of all debt issues registered with the Commission during the years 1951 to 1953, inclusive. By this process, informational requirements have been limited essentially to five items, namely, financial statements of the issuer consisting principally of a balance sheet and a five-year summary of earnings and surplus; a brief statement of the principal business-of the issuer and related matters; a description of the use of proceeds of the financing; a description of the securities being offered; and offering price information. The form does not require the detailed information prescribed by the general registration forms for securities which do not meet the standards prescribed for Form S-9. Because of the substantially shorter prospectuses permissible with this form the Commission

expects to be in a position to consider favorably requests to reduce substantially the waiting period between the filing date and the effective date of registration statements for such security issues. [Footnote: Securities Act release No. 3509 (July 21, 1954).]

Rule 173. -- Provisions of various Acts administered by the Commission authorize it to institute injunctive actions and create certain civil liabilities. Since rights arising because of violations of these Acts may prove unenforceable against persons who are not residents of the United States where it is impossible to obtain service upon them, Rule 173 was adopted under the Securities Act to implement the provisions of that Act, and to afford to the Commission and others the same opportunity to enforce rights or obligations against such persons as is available in the case of residents. Similar rules also have been adopted under other acts, and appropriate forms to be used for filing irrevocable consents to service have been adopted. [Footnote: Securities Act release No. 3506 (June 30, 1954).]

Rule 415. -- Rule 415, adopted under the Securities Act, simplifies the registration procedure for securities offered at competitive bidding. It provides that, under certain conditions, a post-effective amendment reflecting the results of the bidding becomes effective without further order upon the filing thereof with the Commission or a regional or branch office. Appropriate amendments to and rescission of such other rules as were necessary in this connection were also adopted. [Footnote: Securities Act release No. 3494 (January 13, 1954).]

Regulation D. -- Regulation D provides a conditional exemption from registration under the Securities Act for offerings not exceeding $300,000 in any one year made by Canadian issuers or by domestic issuers having their principal business operations in Canada. The promulgation of this regulation followed the amendment of the extradition agreements between the United States and Canada. It is a part of a comprehensive program designed to prevent fraud and remedy certain abuses in the sale of Canadian securities in this country in violation of American law.

Its adoption was an experiment in international cooperation in stamping out security frauds across the border. The Securities Commission of the Province of Ontario, after the close of the fiscal year, indicated its dissatisfaction with the operation of the Regulation and the Commission is presently studying whether it should be modified or withdrawn. The Commission is also studying other aspects of the problem of securities sales to United States citizens from the Dominion of Canada. Regulation D is merely one phase of a much larger over-all problem. [Footnote: Securities Exchange Act release No. 4989 (January 28, 1954).]

"When-Issued" Trading. -- Regulation X-12D-3 provided for the registration for "when-issued" trading on national securities exchanges of unissued short-term warrants and unissued securities other than short-term warrants. Form 1-J was required to be filed for the registration of warrants and Form 2-J for other unissued securities. Regulation X-12D-3 had been obsolete for most purposes since the Commission amended rule X-12A-4 in June 1950 to provide that an unissued short-term contract as well as an issued short-term warrant could be traded on an exchange as an exempted security and the only cases in which Regulation X-12D-3 still served a substantial practical purpose arose where the securities to be traded were the subject of a voluntary subscription or exchange right granted to the holders of a security traded on the exchange. During the fiscal year rule X-12A-5 was amended to cover these cases and generally to simplify the requirements. As amended, rule X-12A-5 is far less burdensome to issuers and exchanges than the provisions of Regulation X-12D-3, and nevertheless affords adequate protection to investors. Upon the adoption of the amendments to rule X-12A-5 the Commission rescinded Regulation X-12D-3 including Forms 1-J and 2-J.

The Commission also rescinded rules X-12A-6, X-12A-7, X-12A-8, and X-12A-9 providing exemptions from registration under the Securities Exchange Act. Situations to which rules X-126A-6 and rule X-12A-8 related are covered by rule X-12A-5, as amended, and rules X-12A-7 and X-12A-9, having been promulgated in the light of particular circumstances, were no longer of general usefulness. [Footnote: Securities Exchange Act release No. 4989 (January 28, 1954).]

Class registration of securities. -- Under Regulation X-12D-1, registration was effective under the Securities Exchange Act only as to a specified amount of a class of security, so that, if additional shares or amounts of the same class were to be subsequently issued, a new application on Form 8-A was required to be filed for registration of such additional amounts. During the fiscal year the regulation was amended to provide that the original application for registration is deemed to cover the entire class of security, and the subsequent registration of any additional unissued shares or amounts of the same class becomes effective automatically when they are issued, without any further application, certification or order. The new procedure makes unnecessary a large majority of the applications previously filed on Form 8-A, since most such applications have been filed to register additional blocks of a class of security already registered. Consequently, applications on Form 8-A will be filed henceforth only in the event that a new class of securities is to be registered. The Commission believes that the time and expense to be saved by registrants, exchanges and the Commission through the operation of this new procedure will be considerable.

Revisions have also been made in Form 8-A which considerably shorten the old form, principally by deleting certain requirements made unnecessary in view of the new class registration technique. [Footnote: Securities Exchange Act release No. 4990 (January 28,1954).]

Forms 8-K and 10-K. -- These forms, which are used by companies having securities listed on stock exchanges or registered under the Securities Act of 1933 for current reports and annual reports, respectively, were revised during the fiscal year. Form 8-K was revised to eliminate certain items to limit the requirements with respect to exhibits and to clarify those concerning financial statements. One of the principal changes made in the revision of Form 10-K brings its requirements into conformity with corresponding requirements of the Commission's proxy rules. Thus, it is provided that, if a proxy statement has been filed under those rules, certain information furnished in such statement need not be repeated in answer to corresponding items of Form 10-K, and no refiling or incorporation by reference of the proxy statement for this purpose is necessary. In addition, financial statements contained in such proxy statements, or in annual reports to security holders, may be incorporated by reference where such financial statements substantially meet the requirements of Form 10-K.

Clarification also has been made of the provision which permits companies filing reports with the Federal Power Commission to substitute their reports to that Commission and thereby satisfy in large part the requirements of this Commission's Form 10-K. A new general instruction has been added to Form 10-K to make the form available for use by railroads, motor carriers and communication companies which formerly used Forms 12-K and 12A-K, providing for the use of annual reports to the Interstate Commerce Commission or the Federal Communications Commission, or annual reports to stockholders, to satisfy substantially all requirements of this Commission's form. Accordingly, Forms 12-K and 12A-K were rescinded. [Footnote: Securities Exchange Act release No. 4991 (January 28,1954).]

Rule X-12A-1. -- This rule provided an exemption from the registration requirements of the Securities Exchange Act for the capital stock of certain banking institutions traded on a national securities exchange. During the fiscal year the rule was amended to extend the scope of the exemption so that, when a national securities exchange merges into or is absorbed by another exchange, the exemption which was available for such securities on the merged or absorbed exchange will continue in effect on the surviving exchange. [Footnote: Securities Exchange Act release No. 4945 (September 29,1954).]

Rescission of Form 9-K and of Rules X-13A-13 and X-15D-13. -- In reviewing its activities, procedures and requirements to determine the extent to which eliminations, revisions or modifications might be made without a material adverse

effect on the public interest, the Commission invited all interested persons to submit their views and comments in regard to a proposal to rescind Form 9-K, the form for quarterly reports for gross sales and operating revenues, and Rules X-13A-13 and 15D-13, the rules relating to the filing of such reports under the Securities Exchange Act. After considering the comments and data submitted, the Commission rescinded this form and its related rules, although the Commission is continuing to keep under study the adequacy of its annual and interim reporting requirements. [Footnote: Securities Exchange Act release No. 4949 (October 9,1954).]

Proxy rules. -- Rule X-14A-8 formerly provided for inclusion in an issuer's proxy material of stockholder proposals which were proper subjects for action by security holders, but did not specifically provide that state law was the standard for determining what constituted "a proper subject for action although the Commission's staff had so interpreted the rule." The proxy rules as amended specifically provide that a security holder's proposal may be omitted from the management proxy material if it is one which, under the laws of the issuer's domicile, is not a proper subject for action by security holders. The rule places the burden of proof upon the management to show that a particular security holder's proposal is not a proper one for inclusion in management's proxy material. Thus, if management contends that a proposal may be omitted because it is not proper under state law, it will be incumbent upon management to refer to the applicable statute or case law and furnish a supporting opinion of counsel satisfactory to the Commission.

Under paragraph X-14A-8 (c) (5) of the amended rule management is specifically permitted to omit from its proxy material a proposal which is a recommendation or request with respect to the conduct of the ordinary business operations of the issuer.

Prior to recent revisions of the proxy rules, a stockholder proposal included in the management's proxy material had to be repeated in subsequent proxy statements, upon request, provided it received 3% of the total number of votes cast at the last annual or subsequent special meeting. This resulted in repetitive submissions of proposals which had received very modest stockholder interest. The proxy rules now provide that a proposal may be omitted for a period of three years from the last previous submission if the proposal was submitted within the previous five years and received less than a 3% vote in the case of a single submission, less than a 6% vote upon a second submission, or less than a 10% vote upon a third or subsequent submission during such 5-year period.

Rule X-14A-8 of the proxy rules formerly provided that any stockholder proposal submitted to an issuer with respect to an annual meeting would, if submitted more than 30 days in advance of the corresponding date on which proxy material

was released for the last annual meeting, be prima facie deemed to have been submitted within a reasonable time. The rule has been amended to extend this period from 30 days to 60 days, so as to give more time for the consideration of security holders' proposals. [Footnote: Securities Exchange Act release No. 4979 (January 6, 1954).]

Rule X-16B-6. -- This rule which grants a partial exemption from section 16 (b) of the Securities Exchange Act with respect to profits which might otherwise be deemed to have been realized and recoverable where there is a purchase by an officer, director or 10% stockholder of an equity security pursuant to the exercise of an option or similar right and a subsequent sale of such security was amended to clarify the conditions under which the exemption is available. [Footnote: Securities Exchange Act release No. 4998 (February 9, 1954).]

Form N-8B-1. -- Form N-8B-1 is the basic form for registration of management investment companies under the Investment Company Act. Recent revisions have been made based on the Commission's experience with these companies and take into consideration the fact that the form is now used chiefly by newly-organized companies and consequently call for much less information than was previously required. [Footnote: Investment Company Act release No. 1932 (December 15,1953).]

Forms N-30A-1 and N-30B-1. -- These annual and quarterly reporting forms required to be filed by registered management investment companies pursuant to section 30 of the Investment Company Act and sections 13 and 15 (d) of the Securities Exchange Act have been revised to eliminate the duplication of information filed. [Footnote: Investment Company Act release No. 1978 (May 6,1954).]

PART II
ADMINISTRATION OF THE SECURITIES ACT OF 1933

The Securities Act of 1933 is designed to provide disclosure to investors of material facts concerning securities publicly offered for sale by use of the mails or other instrumentalities of interstate commerce, and to prevent misrepresentation, deceit or other fraudulent practices in the sale of securities. Disclosure is obtained by requiring the issuer of such securities to file with the Commission a registration statement, and related prospectus, containing significant information about the issuer and the offering. These documents are available for public inspection as soon as they are filed. In addition the prospectus must be furnished to the purchaser at or before delivery of the security. The contents of the registration statement are the primary responsibility of the issuer and the

underwriter; the Commission has no authority to control the nature or quality of a security to be offered for public sale or to approve or disapprove its merits or the terms of its distribution.

DESCRIPTION OF THE REGISTRATION PROCESS

Registration Statement and Prospectus

Registration of any security proposed to be publicly offered may be secured by filing with the Commission a registration statement on the applicable form containing prescribed disclosures. The Commission has adopted several such forms designed to disclose appropriately for the type of issue involved the classes of information specified in Schedule A of the Act. In general the registration statement must describe such items as the names of persons who participate in the direction, management, or control of the issuer's business; their security holdings, remuneration paid and options or bonus and profit-sharing privileges allotted to them; the character and size of the business enterprise; its capital structure and past history and earnings; its financial statements, certified by independent accountants; underwriters' commissions; pending or threatened legal proceedings; and the purpose to which the proceeds of the offering are to be applied. The prospectus constitutes a part of the registration statement and presents in summary the more important of the required disclosures.

Although several different registration forms are currently available, the majority of registrants use Form S-1, the general form for business companies. Next in demand is Form S-5, designed for open-end management investment companies. During the 1954 fiscal year out of 649 registration statements filed, 432 or two-thirds were on Form S-1 while 123 or nearly one-fifth were on Form S-5.

Examination Procedure

The commission is charged with the responsibility of preventing the sale of securities to the public on the basis of statements which on their face appear to contain inaccurate or incomplete information. The staff of the Division of Corporation Finance examines each registration statement for compliance with the standards of disclosure and usually notifies the registrant by an informal letter of comment of any material respect in which the statement apparently fails to conform to these requirements. The registrant is thus afforded an opportunity to file an amendment before the statement becomes effective. In addition, the Commission has power, after notice and opportunity for hearing, to issue an order suspending the effectiveness of a registration statement. No such orders were issued during the 1954 fiscal year.

Time Required to Complete Registration

Because prompt examination of a registration statement is important to industry, the Commission completes its analysis in the shortest possible time consistent with the public interest. Congress provided for a lapse of 20 days in the ordinary case between the filing date of a registration statement and the time it may become effective. The waiting period is designed to provide investors with an opportunity to become familiar with the proposed security. Widespread publicity is given to information disclosed in the registration statement immediately on its filing. The commission is empowered to accelerate the effective date so as to shorten the 20-day waiting period where the facts justify such action. In exercising this power, the Commission is required by statute to take into account the adequacy of the information already available to the public, the complexity of the particular financing, and the public interest and protection of investors.

The median time which elapsed between the filing and the effective date with respect to 629 registration statements that became effective during the 1954 fiscal year was 22 days, one less than the corresponding figure in the preceding year. This time was divided among the three principal stages of the registration process as follows: (a) from date of filing registration statement to date of letter of comment, 10 days; (b) from date of letter of comment to date of filing first material amendment, 7 days; and (c) from date of filing first amendment to date of filing final amendment and effective date of registration, 5 days.

VOLUME OF SECURITIES REGISTERED

Securities effectively registered under the Securities Act of 1933 during the fiscal year 1954 totalled $9.2 billion, the second highest volume in the twenty-year period of the Commission's history. The amount of registrations in each of the post-war years has exceeded $5 billion and reached a high point of $9,5 billion in 1952. These figures cover all registrations including new issues sold for cash by the issuer, secondary distributions, and securities issued for other than cash proceeds, such as exchange transactions and issues reserved for conversion of other securities.

The most important category of registrations, new issues to be sold for cash for account of the issuer, amounted to almost $7.5 billion in the 1954 fiscal year as compared with an average of somewhat over $6 billion for the last five fiscal years. In this five-year period, 51 percent of the dollar volume of new cash issues consisted of debt securities, 40 percent common stock, and 9 percent preferred stock. The relatively high proportion of common stock registrations in recent

years results in part from the large amount of securities registered by investment companies.

Of the dollar amount of securities registered in the 1954 fiscal year, 80.5 percent was for account of issuers for cash sale, 17.9 percent for account of issuers for other than cash sale and 1.7 percent was for the account of others, as shown below. Most of the registrations involving issues not to be sold for cash cover securities reserved for conversion of other registered securities.

Registered for account of issuers for cash sale: $7,381,199,000

Registered for account of issuers for other than cash sale: $1,637,951,000

Registered for account of others than the issuers: $154,352,000

Total: $9,173,502,000

The classification by industry of securities registered for cash sale for account of issuers in the fiscal year 1954 is as follows:

[table omitted]

Electric and gas companies have accounted for the largest volume of registrations not only in the 1954 fiscal year but for several years past. Registrations of securities by companies in this field during the last five years have averaged more than two billion dollars per year, the large amount mainly reflecting two factors. First, the great post-war expansion of public utilities plant facilities has been financed to a considerable extent by funds raised in the capital markets, whereas in other industries more reliance has been placed on internal sources of funds, including retained earnings and depreciation accruals. Second, as compared with other industries, more of their securities have been offered publicly and registered under the 1933 Act, rather than placed privately with institutional investors.

The next largest volume of issues in the 1954 fiscal year was registered by investment companies. Issues of these companies, which have formed approximately one-fifth of total registrations of new cash issues in recent years, are classified according to type of organization for the fiscal years 1953 and 1954:

[table omitted]

Manufacturing companies ranked third in volume of registrations in 1954, but accounted for only 13 percent of total registrations. While expenditures for new

plant and equipment by manufacturing companies have been at record levels during the last few years, companies in this group have used internal sources of funds to a major extent, and also have sold a large proportion of their securities privately.

About 67 percent of the net proceeds of the corporate securities registered for cash sale for account of issuers in the fiscal year 1954 was designated for new money purposes, including plant, equipment and working capital. Almost 6 percent was for retirement of securities and 27 percent for other purposes, principally the purchase of securities by investment companies. This distribution follows fairly closely the pattern of the last five years.

REGISTRATION STATEMENTS FILED

During the 1954 fiscal year 649 registration statements were filed covering proposed offerings aggregating $8,983,752,628, compared with 621 statements covering an aggregate of $7,399,059,928 in the 1953 fiscal year, an increase of approximately $1,585,000,000. The 649 statements included 151 filed by companies which had not previously registered securities under the Act.

Particulars regarding the disposition of all registration statements filed are summarized below.

[table omitted]

DISCLOSURES OBTAINED BY THE REGISTRATION PROCESS

Disclosures secured by the staff's examination of registration statements during the 1954 fiscal year are illustrated by the following examples.

Dealings with promoters. -- A corporation which operated two dog racing tracks proposed a public offering of debentures and common stock by means of a prospectus which failed to disclose adequately transactions with the promoters and certain facts bearing on the risks involved. Before the registration statement was permitted to become effective, a section was inserted at the beginning of the prospectus disclosing transactions pursuant to which the corporation acquired the tracks from the promoters. It showed, among other things, that the promoters received from the corporation short-term notes in the amount of $300,000 and debentures of the issue to be registered in the amount of $300,000, together with rights to purchase at 1 cent per share a total of 167,502 shares of common stock of the corporation which was to be offered to the public at a price of $1.00 per share; that the promoters and officers were to receive annual salaries

aggregating $62,500 plus a bonus; and that for the corporation's latest fiscal year, its first year in operation, four officers had waived a portion of their salaries to the aggregate extent of $24,000 to enable the corporation to pay interest on its outstanding debentures. In addition it was pointed out that the book value of the corporation's tangible assets for each $1,000 of debentures outstanding was $573.64; that the corporation's first year of operations resulted in a deficit, and its liabilities exceeded its assets as of the date of its most recent balance sheet; and that the value of the common stock had been diluted by the sale of 209,956 shares of such stock at 1 cent per share.

Effect of declining sales on earnings. -- The prospectus filed in January 1954 with the registration statement of a company engaged in a highly competitive line of manufacture contained somewhat broad generalizations under "Recent Developments" indicating that the volume of sales and level of earnings had fallen off. After the staff elicited from representatives of the company details concerning the extent and effect of this downward trend, the prospectus was amended to include the specific statement that "Sales for the month of December 1953 approximated 62% of average monthly sales for the six months ended August 31, 1953, earnings for the quarter ended November 30, 1953 approximated 52% of average quarterly earnings for the six months ended August 31, 1953, and sales backlog at January 31, 1954 approximated 62% of such backlog at August 31, 1953."

Estimates of mineral reserves and profit margin. -- The prospectus accompanying a registration statement filed by a company proposing to erect a sulphur mining plant stated that only 25.8 acres of the 308 acres held by the company had been explored and was accompanied by an engineering report which estimated that the 25.8 acres contained 1,027,283 long tons of recoverable sulphur. As to the remaining acreage, the officers were said to "hope and believe" that substantial deposits of sulphur underlay most of the tract. It was added "With domestic prices at around $30.00 per ton and world prices ranging from $75 upward, and it is hoped production costs will be around $5.00 per ton, the Corporation believes it can make a good showing profit-wise." After inquiries by the Commission's staff concerning, among other things, the justification for the engineer's estimate of sulphur in the light of the procedures he employed, the prospectus was amended to disclose that the accomplished drilling indicated there were 115,000 tons of sulphur in the explored part of the acreage; that at that stage the company could not say there was more than 115,000 tons; and that the plant then under construction could not be financially successful if no more than 115,000 tons of sulphur were found. The amended prospectus omitted the estimate of sulphur mining costs and included a statement that the sulphur concentration was such as to make it likely that operating costs would be high. It also disclosed that, whereas the 600,000 shares to be offered for public sale were priced at $1.00 per share, a total of 2,651,250 shares had been acquired by

the promoters "at no substantial cost to themselves other than time and effort spent."

Reflection in financial statements of rate refund by utility company. -- In 1952, a regulatory agency issued an order permitting a utility company registering securities under the Securities Act to put into effect increased rates, but requiring it to refund any portion of such increase ultimately found not justified by that agency. In a further order issued in 1954, establishing rates to become effective during 1954, that agency stated that it would appear that the refund which would have to be made would be in the neighborhood of $32,000,000, subject to reduction for adjustment of purchase contracts and income taxes. These facts were disclosed in the registration statement as originally filed but the accompanying financial statements reflected no provision for the net effect of the refund. As a result of the staff's letter of comment and subsequent conference with representatives of the registrant, the financial statements were amended to reduce the net income in excess of 20 per cent for the two years and the interim period affected, being the amounts of the estimated net refund, and to include the sum of these amounts as a liability in the balance sheet.

Impact of seasonal business on earnings. -- Effective and fair disclosure of results of operations for interim periods is often troublesome, particularly when a company's operations are subject to marked seasonal variation. An aggravated instance of this situation was found in the case of a registrant which has shown a very rapid expansion during the last five years.

The financial statements of this company as initially filed revealed that the net profit for the first five months of the current fiscal year amounted to approximately $1,500,000, and indicated that, owing to the seasonal nature of the business, earnings for the first five months of a fiscal year had historically been materially greater than for the balance of the year. The extent of the past seasonal variation could not be determined from the financial data furnished. Therefore, a danger existed that the five months' earnings of $1,500,000 could be misinterpreted as indicating an annual rate grossly in excess of the amount which reasonably could be anticipated. In order to avoid this danger, the registrant was required to furnish the results of operations for the same period of the previous fiscal year for comparison with the first five months of the current fiscal year. When the comparison was furnished, it was observed that the net profit for the first five months of the previous fiscal year was approximately equal to the net profit for the entire fiscal year. The registrant was thereupon requested also to add a statement in respect of the net profit reported for the first five months of the current fiscal year indicating that substantially all earnings for the entire fiscal year had historically been made during the first five months.

EXEMPTION FROM REGISTRATION UNDER THE ACT

The Commission is authorized under Section 3 (b) of the Act to adopt rules providing exemption from the registration requirements for public offerings of securities not exceeding a maximum of $300,000. Among the six types of exemption provided by the Commission under this authority, the three most commonly used are: Regulation A, the general exemption for issues up to $300,000 for issuers; Regulation B, the exemption for fractional undivided interests in oil or gas rights up to $100,000; and Regulation D, the exemption for Canadian securities with the same dollar limitations as Regulation A.

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

Exempt Offerings under Regulation A

New procedure. -- Regulation A was revised in March 1953 so as to make it mandatory to use an offering circular containing specified information which includes financial statements. In order to assure uniformity in the standards required of offering circulars filed under this new Regulation, the headquarters staff participated with the regional offices in the processing of material filed pursuant to the Regulation. Beginning in the latter part of the fiscal year, the Commission instituted a program of transferring to the regional offices responsibility for the examination and processing of Regulation A cases.

Denial or suspension of exemption. -- While Regulation A provides for the denial or suspension of the exemption in appropriate cases, the Commission has exercised its power to issue orders thereunder sparingly because it believes it is preferable to resolve disclosure problems in conferences with issuers and underwriters wherever possible. The four companies subjected to such formal action up to the close of the 1954 fiscal year were:

Dakota-Montana Oil Leaseholds, Inc.; suspension, Securities Act Release No. 3477 (1953); suspension order vacated, Securities Act Release No. 3481 (1953).

Pioneer Enterprises, Inc.; denial, Securities Act Release No. 3486 (1953).

Apartment Owners, Inc.; suspension, Securities Act Releases Nos. 3496 and 3498 (1954); denial, Securities Act Release No. 3507 (1954).

Utah-Wyoming Atomic Corporation; suspension, Securities Act Releases Nos. 3505 and 3508 (1954).

Volume of filings. -- During the 1954 fiscal year 1,175 notifications were filed under Regulation A covering proposed offerings of $187,153,226, compared with 1,528 notifications covering proposed offerings of $223,350,026, in the 1953 fiscal year. Included in the 1954 totals are 142 notifications covering stock offerings of $24,747,941 with respect to companies engaged in the oil and gas business, and 172 filings covering offerings of $29,903,097 with respect to mining companies. In addition, 2,382 items of sales literature, excluding initial offering circulars, were filed.

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

[table omitted]

Most of the underwritings were undertaken by commercial underwriters who participated in 419 offerings while officers, directors or other persons not regularly engaged in the securities business handled the remaining 82 cases.

Exempt Offerings under Regulation B

During the 1954 fiscal year, the Commission received 156 offering sheets filed under Regulation B. These filings in connection with exempt offerings of oil and gas securities were examined by the specialized Oil and Gas Unit which collaborates with the Commission staff generally in the solution of the technical and complex problems peculiar to oil and gas securities which arise under various of the Acts and regulations administered by the Commission.

[table omitted]

Confidential reports of sales. -- As an aid in determining whether violations of law have occurred in the marketing of securities exempt under Regulation B, the Commission obtains confidential reports of actual sales made pursuant to such exemption. During the 1954 fiscal year, 1,699 such reports covering aggregate sales of $770,042 were filed.

Exempt Offerings under Regulation D

By the adoption of Regulation D on March 6, 1953, as a companion to the revised Regulation A, the Commission provided for the first time an exemption from the registration requirements of the Act for public offerings of securities, not exceeding $300,000 in any one year, made by Canadian issuers or by domestic issuers having their principal business operations in Canada. To obtain the exemption, an offeror must file with the Commission a notification, and in all cases an offering circular, containing pertinent information regarding the issuer

and the security proposed to be sold in the United States. This information must include financial statements.

During the 1954 fiscal year 46 notifications were filed under Regulation D covering aggregate offerings of $11,334,350. They represented 42 issuers proposing to explore for uranium or other minerals, three to engage in the oil and gas business, and one in lumbering.

After the close of the 1954 fiscal year, the Commission on August 16, 1954 issued its first order pursuant to Regulation D suspending exemption with respect to a public offering of securities of Northwest Uranium Corporation. The reasons assigned by the Commission for the suspension included reasonable cause to believe that the use of the company's offering circular would and did operate as a fraud and deceit upon the purchasers of said securities.

LITIGATION UNDER THE SECURITIES ACT

Injunctive Actions

Injunctions are sometimes sought to restrain continued violation of the Securities Act when it appears that damage to the public is threatened.

The cases during the fiscal year 1954 were of a varied nature. In S.E.C. v. Chemi-Cote Perlite Corporation and Otto T. Ball, the Commission's complaint charged that the defendants had sold personally owned stock of the defendant Ball in Chemi-Cote Perlite Corporation without registration, and that the defendants represented that the corporation was in excellent financial condition with assets in excess of $23,000,000 when, in fact, the company had a deficit of $185,000 and assets not exceeding $100,000; that the company's perlite mining claims were worth $4,500,000 when, in fact, there was no reasonable basis for any such valuation; that the proceeds from the sale of such securities being sold at $10 per share would be used by Chemi-Cote Perlite Corporation for the purpose of financing its operation when, in fact, in some instances one-half of the proceeds from the sale of such stock was being paid to salesmen as commissions, and the stock being offered was the personally owned stock of the defendant Otto T. Ball. The defendants consented to a final judgment enjoining them from further violation of the registration and anti-fraud provisions of the Securities Act.

S.E.C. v. Professional Life Insurance Company, J. Clifton Butler Agencies and J. Clinton Butler was an action to enjoin the defendants from violating the registration and anti-fraud provisions of the Securities Act. The complaint alleged that the defendants had purchased an office building for the defendant,

Professional Life Insurance Company, for $465,000, and within a few days thereafter arranged to have such building appraised at $650,000, an appreciation of $185,000 over cost, and a short time thereafter issued a dividend of stock of the company to J. Clinton Butler based upon the claimed appreciation in value of the building. The shares received by the defendant Butler as a stock dividend were later sold by him without disclosing to purchasers that such shares were owned by him personally and that the proceeds would be retained by him and not placed in the treasury of Professional Life Insurance Company. It was also alleged that the defendants omitted to state to purchasers that Professional Life Insurance Company was operating at a loss and had no surplus or realized profits at the time the shares were sold. A stipulation was entered into between the Commission and the defendants whereby it was agreed that the defendants, J. Clinton Butler and J. Clinton Butler Agencies, a registered broker-dealer, would consent to the entry of a permanent injunction and that J. Clinton Butler would completely disassociate himself from the management and control of Professional Life Insurance Company. When the Commission was satisfied that the terms of the stipulation had been complied with, it moved for the dismissal of the action against Professional Life Insurance Company. The injunction against J. Clinton Butler and J. Clinton Butler Agencies continued in effect. The broker-dealer registration of J. Clinton Butler Agencies was withdrawn.

A judgment was entered in an action, S.E.C. v. Glen F. McBurney in which the Commission's complaint filed in the previous year, alleged that the defendant in the sale of units of interest in oil and gas rights in a leasehold interest had violated the registration and the anti-fraud provisions of the Securities Act. Although the defendant-filed an answer to the fraud count, he later consented to the entry of judgment on both counts.

In S.E.C. v. Kaye, Real & Co., Inc., John A. Kaye and Stanwood Oil Corporation, the complaint alleged that defendant John A. Kaye has been controlling stockholder of Kaye, Real & Co., Inc., a broker and dealer in securities, and of Stanwood Oil Corporation, and that the defendants had been selling stock of Stanwood Oil Corporation without registration and had been employing a fraudulent scheme involving acquisition of control of the management and operations of Stanwood Oil Corporation by defendants John A. Kaye and Kaye. Real & Co., Inc., to whom approximately 1,000,000 shares out of a total of 1,472,519 shares outstanding had been issued; that the defendants thereupon disseminated numerous false statements concerning the increased value of Stanwood stock by reason of the acquisition by said corporation of various other companies and business enterprises.

Other actions taken by the Commission during the fiscal year resulted in injunctions of violations of the registration provisions of the Securities Act include: S.E.C. v. Dominaire Constructions, Inc. and V. L. Arnold, involving an offering of

securities to develop mortarless interlocking concrete blocks; S.E.C. v. Lever Motors Corporation, involving an offering of securities for the development of a lever-type motor, and S.E.C. v. H. H. Tucker, involving an offering of personal notes, evidences of indebtedness, investment contracts and profit-sharing agreements.

Participation as Amicus Curiae

In Wilko v. Swan, in a decision reversing the Court of Appeals for the Second Circuit, the Supreme Court sustained the position urged by the Commission as amicus curiae that a customer cannot be deprived by a securities firm of the court remedy afforded him by Section 12 (2) of the Securities Act for alleged misrepresentations in the sale of securities through a pre-transaction stipulation for arbitration of future disputes. In an opinion delivered by Mr. Justice Reed, the Court held that the pre-transaction agreement contravened the anti-waiver provisions of Section 14 of the Act, and conflicted with the remedial purposes of the legislation.

The Commission also participated as amicus curiae in Bentsen v. Blackwell, in which the Supreme Court granted a writ of certiorari and subsequently dismissed the writ after the oral argument had "developed the undesirability of deciding the questions in this case on the pleadings". Petitioner had sought certiorari solely on the question whether the civil recovery provisions of Section 12 (2) of the Securities Act require that the mails or instruments of interstate commerce be used to transmit the particular misrepresentations complained of, or whether, as the Court of Appeals for the Fifth Circuit had ruled 14 and as the Commission had urged, it sufficed that the mails were used elsewhere in the sale transaction -- in this case allegedly to deliver the documents essential to the investment contracts sold.

PART III
ADMINISTRATION OF THE SECURITIES EXCHANGE ACT OF 1934

The Securities Exchange Act of 1934 is designed to insure the maintenance of fair and honest markets in securities transactions on the organized exchanges and in the over-the-counter markets. Accordingly, the Act provides for the regulation of such transactions and of matters related thereto. It requires that information as to the condition of corporations whose securities are listed on a national securities exchange shall be made available to the public and provides for the' registration of such securities, such exchanges, brokers and dealers in securities, and associations of brokers and dealers. It also regulates the use of credit in securities trading. While the authority to issue rules regarding such credit is lodged in the Board of Governors of the Federal Reserve System, the

administration of these rules and of the other provisions of the Act is vested in the Commission.

REGULATION OF EXCHANGES AND EXCHANGE TRADING

Registration and Exemption of Exchanges

At the close of the 1954 fiscal year the following 15 exchanges were registered as national securities exchanges:

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

Four exchanges were exempted from registration at the close of the fiscal year:

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

During the year the Washington Stock Exchange was merged into and absorbed by the Philadelphia-Baltimore Stock Exchange under an arrangement which provided for the creation of a Washington Stock Exchange Branch of the Philadelphia-Baltimore Stock Exchange. Trading commenced on the new branch at the opening of business on October 15, 1953, and on December 31, 1953, the Washington Stock Exchange was permitted to withdraw its registration as a national securities exchange.

Information pertinent to the organization, rules of procedure, trading practices, membership requirements and related matters of each exchange is contained in

its registration or exemption statement, and any changes in such information are required to be reported promptly by the exchanges. During the year, the exchanges reported numerous changes, including the following:

The New York and American stock exchanges rescinded rules which had placed limitations on purchases made by certain members on the floors of these exchanges for accounts in which they had an interest.

The New York, American, Midwest, Los Angeles and San Francisco stock exchanges rescinded rules, commonly referred to as the "Daylight Margin Rules", which had required exchange members to deposit at the close of each trading day an amount which would represent sufficient margin, under the terms of the Federal Reserve Board's regulation T, for the maximum position taken by the member during the trading day. The rescission of these rules had the effect of placing exchange members in the same position as the general public with respect to the initial margining of transactions and the withdrawal of proceeds of sales.

The New York and American stock exchanges rescinded rules which, with certain exceptions, had prohibited partners of member firms or voting stockholders of member corporations from having margin accounts (except at a bank) if their firm or corporation carried margin accounts for customers, and which had prohibited member firms and member corporations carrying margin accounts for customers from making transactions in securities if the market value of securities carried in proprietary accounts was equal to or greater than their net capital.

The Boston Stock Exchange amended its rules relating to the registration of corporations as member corporations of the exchange by rescinding the provisions that prohibited member corporations from carrying margin accounts and required member corporations to segregate customers' free-credit balances in special bank accounts with restrictions on withdrawals from such accounts. This action was designed to bring its rules pertaining to member corporations into conformity with rules of various other exchanges.

The Pittsburgh Stock Exchange amended its rules to permit corporations engaged in the securities business to become members of the exchange.

The Salt Lake Stock Exchange completed the revision of its rules which, together with the new constitution it had adopted in the preceding year, were designed, among other things, to strengthen the financial responsibility of its members and to improve inspection and audit requirements.

The New York, American, Boston and San Francisco stock exchanges revised the minimum net capital requirements for members, member firms and member corporations by providing, among other things, that aggregate indebtedness may not exceed 2000% of net capital. The previous limit had been 1500%.

The Midwest Stock Exchange changed the minimum net capital requirement of member corporations from 10% to 6 2/3% of aggregate indebtedness, so that aggregate indebtedness may not exceed 1500% of net capital as compared with the previous 1000% limit. The Philadelphia-Baltimore Stock Exchange provided that aggregate indebtedness of member corporations may not exceed 2000% of net capital as compared with the previous 1000% limit. These changes established uniformity in capital requirements between corporate and other members of these two exchanges.

The New York, Boston, Detroit, Los Angeles, Midwest, Philadelphia-Baltimore, Pittsburgh and San Francisco stock exchanges adopted new schedules of increased commission rates. The new rates are substantially identical on these exchanges. They contain an innovation which provides for a discount from the regular commission where a purchase and sale, or sale and purchase, of a single security for one account is completed within 30 calendar days.

The Cincinnati Stock Exchange, effective May 3, 1954, adopted a new schedule of increased commission rates applicable to stocks traded solely on that exchange.

The Honolulu Stock Exchange adopted a revised Constitution and Rules for the purpose of clarifying and strengthening the provisions thereof. The revision included a new schedule of increased commission rates.

Disciplinary Action by Exchanges

Each national securities exchange reports to the Commission any action of a disciplinary nature taken by it against any of its members, or against any partner or employee of a member, for violation of the Securities Exchange Act or any rule thereunder or of any exchange rule. During the year, 5 exchanges reported 40 cases of disciplinary action against members, member firms and partners of member firms.

The actions reported included fines ranging from $100 to $5,000 in 17 cases, with total fines aggregating $9,807.50, expulsion of 1 individual and suspension of another from exchange membership, revocation of the registration of 1 member as a specialist, and censure of individuals and firms for infractions of exchange rules. The rules violated included those pertaining to specialists, floor traders, short sales, capital requirements and the filing of financial statements.

REGISTRATION OF SECURITIES ON EXCHANGES

Unless a security is registered under the Act (or is exempt therefrom), it is unlawful to effect any transaction in the security on any national securities exchange. Pursuant to Section 12 an issuer may register a class of securities on an exchange by filing with the Commission and the exchange an application which discloses pertinent information concerning the issuer and its affairs. Each such issuer is required by Section 13 to file periodic reports keeping that information current. These applications and reports furnish details about the issuer's capital structure, the terms of its securities, information about the persons who direct, manage, or control its affairs, remuneration paid its officers and directors, allotment of options and bonus and profit-sharing arrangements; and financial statements certified by independent accountants.

Applications for registration of securities and periodic reports filed under this Act are examined by the staff of the Division of Corporation Finance to determine that the fair and adequate disclosure required by the statute appears to have been made.

The Commission has greatly simplified the registration process by the adoption of new Rule X-12D1-1, under which the old procedure of registration by separate successive applications, each covering a specified number of shares or a certain principal amount of bonds of a given class of security, was changed to a new method providing for the registration by a single application covering an entire class of security, regardless of the amount already issued or which may subsequently be issued.

Statistics of Securities Registered on Exchanges

At the close of the 1954 fiscal year, 2,204 issuers had 2,641 stock issues and 1,009 bond issues registered on national securities exchanges. During the year, securities of 37 new issuers became registered on exchanges while the registration of all securities of 43 issuers was terminated.

The following table shows for the fiscal year the number of applications filed under Section 12 and of reports filed under Section 13 and, pursuant to undertakings contained in registration statements filed under the Securities Act to supply information equivalent to that supplied with respect to securities registered on an exchange, under Section 15(d) of the Securities Exchange Act:

Application for registration of classes of securities on exchanges: 160

Annual reports: 2, 884

Current reports: 4, 413

Information concerning the number of securities traded on each stock exchange is shown in the appendix.

Suspension of Trading

The Commission is authorized by the Act, after notice and opportunity for hearing, to suspend for a period not exceeding 12 months or withdraw the registration of a security on an exchange if the issuer fails to comply with any provision of the Act or the rules and regulations; and it may summarily suspend trading in such a security for a period not exceeding 10 days if the public interest so requires.

The Commission summarily prohibited trading in the common stock of Adolph Gobel, Inc. on the American Stock Exchange by ordering successive 10-day suspensions from March 13, 1953 to February 19, 1954. It had received advice from Gobel's accountants that, on the basis of information they had discovered after their audit, certified financial statements included in Gobel's annual report for 1952 understated the reported loss of $437,070.57 by approximately $213,000. The Commission also commenced a proceeding to determine whether to suspend or withdraw exchange registration of this stock, and conducted hearings on this question. New accountants retained by Gobel found the amount of loss in question to be $582,021.89. Meanwhile certain creditors filed a petition for reorganization of Gobel under Chapter X of the Bankruptcy Act.

The Commission on February 18, 1954 ordered its proceedings terminated and published its findings and opinion stating it was satisfied that, since the disclosures made were substantially correct, there was no further need to deny stockholders access to the exchange market. The Commission pointed out that the report of the new accountants, explored in the record of the proceeding, took into account the allegations of the former accountants, analyzed the transactions which required different accounting treatment on Gobel's books, and contained a detailed reconciliation between the loss reported in. the statement certified by the former accountant and reported by the new accountants. In addition, the Commission noted that the affairs of Gobel had come under the direction of a trustee, subject to court supervision.

MARKET VALUE AND VOLUME OF SECURITIES TRADED ON EXCHANGES

The unduplicated total market value on December 31, 1953, of all stocks and bonds admitted to trading on one or more of the 19 stock exchanges in the United States was $236,097,628,000.

[table omitted]

The New York Stock Exchange and American Stock Exchange figures are as reported by those exchanges. There is no duplication of issues between those two exchanges. However, over half the issues of stocks listed on the New York Stock Exchange, comprising about 85% of the number of shares so listed, were also admitted to trading on from one to nine regional exchanges, and about 30% of the issues of stocks and number of shares on the American Stock Exchange were also admitted to trading on from one to six regional exchanges.

The amounts shown for "all other exchanges" in the above table were based on the number of shares outstanding exclusive of treasury shares, instead of on the number of registered shares as in previous years, producing slightly smaller aggregates in consequence.

The bonds on the New York Stock Exchange included United States Government and New York State and City issues with an aggregate market value of $78,109,634,000.

Market Value of Stocks on Exchanges

The $135.3 billion aggregate market value of all stocks available for trading on the exchanges at the close of 1953 compared with $140.5 billion at the close of 1952. On the New York Stock Exchange, aggregate stock values increased from $117.3 billion on December 31, 1953 to $139.2 billion on June 30, 1954. Reports as of the latter date are not available for the other exchanges.

Comparative Number of Stock Issues on Exchanges

[table omitted]

New listings of stocks exclusively on the regional exchanges are not sufficiently numerous to offset the reduction in number of their exclusive listings which goes on continually because of retirements, mergers, loss of exclusive status by listing on a New York stock exchange, and other reasons. Only 7 regional exchanges obtained any exclusive stock listings during 1953, such listings consisting of 4 preferred and 5 common issues. Preferred stock listings are frequently made for other purposes than trading, a usual purpose being compliance with statutes with respect to legality for trust investment. The 5 new common stock issues listed had a year-end market value aggregating only $5,300,000. The regional

exchanges continue to obtain substantial new listings of stocks which are also listed on one or the other of the New York stock exchanges. Their principal acquisitions, however, are unlisted trading privileges in stocks listed elsewhere, predominantly on the New York Stock Exchange. The following shows the aggregate figures relating to stock admissions during 1953 on 1 or more regional exchanges, with market values computed as of December 31, 1953:

[table omitted]

Comparative Volumes on Exchanges

Market value and volume of sales on all domestic stock exchanges for the year 1953 and for the 6 months ending June 30, 1954, are shown in appendix table 7. Comparable information for prior years is shown hi previous annual reports.

Block Distributions Reported by Stock Exchanges

Rule X-10B-2, in substance, prohibits any person engaged in distributing a security from paying any other person for soliciting or inducing a third person to buy the security on a national securities exchange. An exemption from the prohibition of the rule is provided for those cases where compensation is paid pursuant to the terms of a plan, filed by a national securities exchange and declared effective by the Commission, authorizing the payment of such compensation in connection with a distribution of securities.

Pursuant to the terms of this exemption, two types of plans have been developed to permit distributions of large blocks of securities to be made on a national securities exchange. The first of these, designated the "Special Offering Plan", was evolved in 1941 as a result of numerous conferences between representatives of the Commission' and of various stock exchanges, and the Commission declared effective a special offering plan for each of the following nine exchanges on the date shown opposite each:

New York Stock Exchange: Feb. 14, 1942

San Francisco Stock Exchange: Apr. 17, 1942

American Stock Exchange: May 15, 1942

Philadelphia-Baltimore Stock Exchange: Sept. 23, 1943

Detroit Stock Exchange: Nov. 18, 1943

Midwest Stock Exchange: Mar. 27, 1944

Cincinnati Stock Exchange: June 26, 1944

Los Angeles Stock Exchange: May 28, 1948

Boston Stock Exchange: Sept. 15, 1948

The second type of plan, designated the "Exchange Distribution Plan", was initially declared effective for the New York Stock Exchange on August 21, 1953 for an experimental period expiring on February 26, 1954 which expiration date was subsequently extended to February 28, 1955. The American, Midwest, and San Francisco stock exchanges each filed plans similar to that of the New York Stock Exchange and they were also declared effective for an experimental period expiring on February 28, 1955.

These two types of plans permit a block of securities to be distributed through the facilities of a national securities exchange when it has been determined that the regular market on the floor of the exchange cannot absorb the particular block within a reasonable time and at a reasonable price or prices. They contain anti-manipulative controls and also require participating members to make certain disclosures to persons whose orders are solicited. The principal differences between the provisions of the two plans is in the manner of determining the offering-price of the security and the charges to buyers on their purchases of the security. In this regard, a special offering is made at a fixed price consistent with the existing auction market price of the security while an exchange distribution is made in the regular auction market on the floor of the exchange.

Buyers of a security which is the subject of a special offering are not charged any commission on their purchases and obtain the security at the net price of the offering. On the other hand, buyers of a security which is the subject of an exchange distribution on the New York Stock Exchange, American Stock Exchange and San Francisco Stock Exchange pay commissions in agency transactions and are charged net prices in principal transactions. In exchange distributions on the Midwest Stock Exchange, however, purchasers need not be charged commissions in agency transactions and may be charged the equivalent of a commission in principal transactions.

In addition to these two methods of distributing large blocks of securities on stock exchanges, a third method is commonly employed to distribute blocks of securities listed on exchanges to the public over the counter, commonly referred to as a "Secondary Distribution". Such distributions take place when it has been determined that it would not be possible or in the best interest of the various parties involved to sell the shares on the exchange in the regular way or by employing either the special offering or exchange distribution technique. The

distributions generally take place after the close of exchange trading. As in the case of special offerings, buyers obtain the security from the dealer at the net price of the offering, which usually is at or about the most recent price registered on the exchange. It is generally the practice of exchanges to require members to obtain the approval of the exchange before participating in such secondary distributions.

The following table shows the number and dollar volume of special offerings and exchange distributions reported by the exchanges having such plans in effect, as well as similar figures for secondary distributions which exchanges have approved for member participation and reported to the Commission.

[table omitted]

UNLISTED TRADING PRIVILEGES ON EXCHANGES

Number of Issues Admitted to Unlisted Trading

Securities are said to be admitted to unlisted trading on a stock exchange when the admission to trading is approved by the exchange without application by or agreement with the issuer. Such admissions are governed by section 12(f) of the Securities Exchange Act the respective clauses of which section are referred to in the following text and tables.

In the tables, the "Clause 1" stocks are the residue of those admitted to unlisted trading prior to March 1, 1934, and they are shown in two categories, those which are "unlisted only" and those which are also listed and registered on a stock exchange other than that where they are admitted to unlisted trading. The "Clause 2" stocks are those admitted to unlisted trading pursuant to Commission grants of applications by stock exchanges conditioned on existing listing and registration on some other stock exchange. The "Clause 3" stocks are those admitted to unlisted trading pursuant to Commission grants of applications by stock exchanges conditioned upon the availability of information substantially equivalent to that filed in the case of listed issues. The following table, for comparative purposes, also shows the number of listed stock issues on each stock exchange.

[table omitted]

Volume of Unlisted Trading in Stocks on Exchanges

The reported volume of shares traded on an unlisted basis on the stock exchanges during the calendar year 1953 included 20,968,165 in stocks admitted

to unlisted trading only and 21,457,187 in stocks listed and registered on an exchange other than that where the unlisted trading occurred. These amounts were respectively 3.30% and 3.38% of the total share volume reported on all exchanges.

[table omitted]

The volumes are as reported by the stock exchanges or other reporting agencies, and are less than the actual amounts in some cases, particularly with respect to American Stock Exchange figures, which exclude odd lots and other items not reported on the stock tickers. The figures are exclusive of volumes in short-term rights.

Applications for Unlisted Trading Privileges

Pursuant to applications filed by the exchanges under Clause 2 of section 12 (f) and approved by the Commission during the fiscal year, unlisted trading privileges were extended as follows:

[table omitted]

Changes in Securities Admitted to Unlisted Trading Privileges

The usual considerable number of notifications of minor changes in securities admitted to unlisted trading was received during the fiscal year from the stock exchanges pursuant to paragraph (a) of rule X-12F-2.

Applications for continuance of trading in unlisted issues after more important changes than those contemplated under paragraph (a) of rule X-12F-2 are made under paragraph (b) thereof. Three such applications were filed during the fiscal year by the American Stock Exchange, of which 2 were granted and 1 withdrawn.

DELISTING OF SECURITIES FROM EXCHANGES

Securities Delisted by Application

During the fiscal year ending June 30, 1954, the Commission granted 20 applications filed by exchanges or issuers to strike securities from exchange listing and registration pursuant to section 12 (d) and rule X-12D2-1. The applications included 11 by exchanges, covering 8 stock and 9 bond issues; and 9 by issuers, covering 8 stock issues, 1 of which was removed from 2 exchanges. The applications by exchanges were based on the undesirability, for various reasons, of further exchange trading. The applications by issuers were

based on liquidation in one instance, reduced public holdings and limited trading volumes in two, and on the fact that the stock remained listed on another exchange in the remaining instances.

Securities Delisted by Notification

Notifications effecting the removal because of redemption or retirement of 115 issues from listing and registration on national securities exchanges were received during the fiscal year. Removals from more than one exchange brought the total removals to 136. The American Stock Exchange removed 7 issues from listing and registration when they became listed and registered on the New York Stock Exchange. The exempted exchanges removed 3 issues from listed trading thereon.

MANIPULATION AND STABILIZATION

Manipulation

The Securities Exchange Act prohibits manipulative practices in the securities markets. The Commission's analysts constantly watch for unusual or unexplained market activity. They observe the tickers of the leading exchanges and examine the quotation sheets of all exchanges. The financial news-ticker, leading newspapers and various financial publications and services are also closely followed. Over-the-counter surveillance is maintained by the examination of the bids and offers appearing in the sheets of the national quotation services and charts are kept on securities having actively quoted markets.

When unusual or unexplained market activity is observed, all known information regarding the security is evaluated and a decision made as to the necessity for an investigation. These investigations take two forms. The "quiz" or "preliminary" investigation is designed rapidly to discover evidence of unlawful activity. If a quiz discloses no evidence of violations it is closed. If violations are discovered, the information obtained in the quiz is made available to the proper division of the Commission or to the appropriate outside agency for punitive or corrective action. If the quiz indicates that more intensive investigation is necessary, a formal order may be issued by the Commission. Such an order empowers members of the staff to subpoena pertinent material and to take testimony under oath. Virtually all of the Commission's investigations are privately conducted so that no unfair reflection will be cast on any persons or securities and the trading markets will not be upset.

The following table shows the number of quizzes and formal investigations initiated in the fiscal year 1954 and the number closed or completed during the same period and the number pending at the ending of the fiscal year:

[table omitted]

When securities are to be offered to the public their markets are watched very closely to make sure that the price is not artificially raised prior to the distribution. All registered offerings and all offerings made under Regulations A and D (in all some 1849 offerings having a value exceeding $9,365,000,000) were so observed during the fiscal year. Hundreds of other smaller offerings, such as secondary distributions and distributions of securities under special plans filed by the exchanges, were also checked and many were kept under special observation for considerable lengths of time.

Stabilization

All stabilizing operations are very carefully observed. During the fiscal year, stabilizing was effected in connection with stock offerings aggregating 21,759,000 shares having an aggregate public offering price of $403,086,000. Bond issues having a total offering price of $65,000,000 were also stabilized. To accomplish this stabilization, 220,257 shares of stock were purchased by the offerors at a cost of $3,657,000. Bonds costing $442,500 were also bought by stabilizers. In connection with these operations more than 7,000 stabilizing reports were received and examined during the fiscal year.

During the fiscal year, the Commission engaged in the formulation and release for public comment of rules relating to the stabilization of securities under the Securities Exchange Act. [Footnote: Securities Exchange Act release No. 5040 (May 18, 1954).] Three proposed rules deal with (1) permissible underwriters' trading prior to and during a distribution; (2) the times, methods and prices at which stabilizing transactions are permissible; and (3) permissible stabilizing transactions in connection with the offering of rights to security holders to subscribe for additional securities.

Following the Commission's Statement of Policy in 1940 [Footnote: Securities Exchange Act release No. 2446 (March 18, 1949).], rather than promulgate specific rules in connection with stabilizing practices, the Commission had depended upon informal interpretations, some of which were issued in the form of releases but most of which were individually rendered by letter or telephone in answer to specific request. The Committee on Interstate and Foreign Commerce of the House of Representatives recommended in a report, dated December 30, 1952, that "The Commission should earnestly and expeditiously grapple with the problem of stabilization with the view either of the early promulgation of rules

publicly covering these operations, or of recommending to the Congress such changes in legislation as its experience and study show now to be desirable." [Footnote: House of Representatives, Report No. 2508, 82d Congress, 2d session, page 3.] The proposed rules were circulated for public comment on May 18, 1954, after intensive study by the staff and review by the Commission.

After the close of the fiscal year, a public hearing was held on July 8, 1954, and since that time an ad hoc committee of the public has conferred with and submitted additional proposals to the staff. The final recommendations of the staff with respect to the proposed rules are expected to be submitted to the Commission in the near future.

SECURITY OWNERSHIP BY CORPORATION INSIDERS

Officers, directors and owners of more than 10% of a listed stock are required by section 16 (a) of the Securities Exchange Act to file with the Commission and the exchange, initial reports disclosing their direct and indirect beneficial ownership of each class of stock issued by their company and additional reports disclosing subsequent changes in such ownership. The Public Utility Holding Company Act and the Investment Company Act contain similar requirements.

All reports are available for public inspection. In addition, in order to make the information filed pursuant to the regulation readily available in usable form, it is condensed and published in the Commission's monthly "Official Summary of Security Transactions and Holdings," which is distributed on a subscription basis by the Government Printing Office.

The steady growth over a number of years in the volume of insiders' reports filed with the Commission, mentioned in last year's annual report, continued during the 1954 fiscal year. Compared with the 14,765 reports filed during the 1944 fiscal year, the 23,199 reports filed in 1954 reflect a 10-year increase in these annual filings approximating 57%. The following tabulation shows details concerning the reports filed during the 1954 fiscal year.

[table omitted]

Recovery of Insiders' Profits by Company

For the purpose of preventing the unfair use of information which may have been obtained by an insider by reason of his relationship to his company, sections 16 (b) of the Securities Exchange Act, 17 (b) of the Public Utility Holding Company Act, and 30 (f) of the Investment Company Act provide for the recovery by or on behalf of the issuer of any profit realized by the insider from certain purchases

and sales, or sales and purchases, of securities of the company within any period of less than 6 months. The Commission is not charged with the enforcement of the civil remedies created by these provisions, which are matters for determination by the courts in actions brought by the proper parties. However, the Commission has participated as amicus curiae in a number of suits instituted under these provisions where questions of statutory interpretation are involved.

REGULATION OF PROXIES

Scope of Proxy Regulation

Under sections 14 (a) of the Securities Exchange Act, 12 (e) of the Public Utility Holding Company Act of 1935, and 20 (a) of the Investment Company Act of 1940 the Commission has adopted Regulation X-14 requiring the disclosure of pertinent information in connection with the solicitation of proxies, consents and authorizations in respect of securities of companies subject to those statutes. The regulation also provides means whereby any security holders so desiring may communicate with other security holders when management is soliciting proxies, either by arranging for the independent distribution of their own proxy statements or by including their proposals in the proxy statements sent out by management.

Copies of proposed proxy material must be filed with the Commission in preliminary form at least 10 days prior to the date of the proposed solicitation. Where preliminary material fails to meet the prescribed disclosure standards, the management or other group responsible for its preparation is notified informally and given an opportunity to avoid such defects in the preparation of the proxy material in the definitive form in which it may be furnished to all stockholders.

Statistics Relating to Proxy Statements

During the calendar year 1953 1,860 solicitations were made pursuant to Regulation X-14, of which 1,838 were conducted by management and 22 by non-management groups.

The purpose for which proxies are most often sought is the voting for nominees for directors. In 1953 this was an item of business in 1,715 stockholders' meetings, while at 119 meetings it was not involved. The remaining 26 solicitations sought consents or authorizations from stockholders with respect to proposals not involving any meeting or any election of directors.

The 1,838 management solicitations were made in 1953 by 1,695 companies, the difference of 143 in these figures reflecting repeated solicitations made in

certain cases. Such repeated solicitations, whether by management or opposition groups, arise especially in connection with proxy contests.

During the first five months of 1954, twenty-five companies were subject to proxy contests for control or for representation on the board of directors compared to 18 such contests during the entire calendar year 1953.

The nature and the frequency of corporate business other than election of directors on which stockholders' decisions were sought in the calendar year 1953 are shown below.

[table omitted]

REGULATION OF BROKERS AND DEALERS IN OVER-THE-COUNTER MARKETS

Registration

Section 15 (a) of the Securities Exchange Act requires the registration of brokers and dealers using the mails or instrumentalities of interstate commerce to effect transactions in securities on the over-the-counter markets, except those brokers and dealers whose business is exclusively intrastate or exclusively in exempt securities.

Set forth below are certain data with respect to registrations of brokers and dealers and applications therefor during the fiscal year 1954:

[table omitted]

Simplification of Forms and Rules Applicable to the Registration of Broker-Dealers

The Commission during the fiscal year substantially revised forms and rules pertaining to the registration of brokers and dealers.

This action was taken in connection with a comprehensive review of rules, regulations, forms and procedures, to eliminate duplication and to simplify the requirements wherever practicable without prejudice to the public interest or to the protection of investors.

In adopting the new forms for registration as a broker-dealer and in revising applicable rules, the Commission acted on the view that, wherever possible, an application for registration should be limited generally to information necessary to

determine whether a registrant, or an applicant for registration, or any controlled, or controlling person, is subject to a statutory disqualification.

Form BD adopted during the year, applicable to brokers and dealers, is an all-purpose form to be used: (1) as the form of application for registration; (2) as the form to amend such an application; and (3) as the form of supplemental report to be filed by a registered person. The new four page Form BD contains only nine items or questions, whereas Form 3-M previously used as an application for registration, consisted of twelve pages and required furnishing information under twenty-seven items. Adoption of Form BD made it possible to rescind the single-purpose Forms 3-M, 4-M, 5-M and 6-M formerly used by broker-dealers. As a part of these actions the Commission, in each instance, amended applicable rules under the controlling statutes.

Both the previous and the current rules require that the information contained in the application for registration of brokers or dealers be kept current by amendments to the original application. By providing that the new forms may be used as supplements to the old forms, persons registered before adoption of the new forms are now required only to furnish current information with respect to the information in the abbreviated and simplified new forms. It is anticipated that, after these initial supplements have been filed, there will be a substantial reduction in the volume of amendments required to be filed with the Commission by registered broker-dealers.

Administrative Proceedings

The Commission is empowered, with due regard for the public interest and the protection of investors, to deny or revoke the registration of brokers and dealers pursuant to section 15 (b) of the Act and, pursuant to section 15A and 19 (a) of the Act, to suspend or expel brokers and dealers from membership in a national securities association or national securities exchange, where misconduct of various types on the part of the broker-dealer, or its partners, officers, directors or employees is shown.

The following tabulations reflect the type and number of such administrative proceedings instituted by the Commission during the 1954 fiscal year and their disposition:

[table omitted]

As shown in the above table, there were no proceedings on; the question of denial of registration pending at the beginning of the fiscal year. However, 18 such proceedings were instituted during the year of which 16 related to applications for registration filed by Canadian brokers and dealers. The

Commission orders for proceedings in the latter group charged, in effect, that the Canadian brokers and dealers had sold and delivered to persons in the United States stock of certain Canadian companies in violation of the securities registration and anti-fraud provisions of the Securities Act of 1933 and the broker-dealer registration provisions of the Exchange Act. During the pendency of these proceedings, 9 of the respondents withdrew their applications for registration; one application was cancelled because of the death of the respondent and one proceeding is still pending. The Commission issued orders of denial in the remaining 5 cases.

Three administrative proceedings decided during the year involved, among other things, the failure of a firm to comply with the net capital requirements of the Commission. In one case the Commission revoked registrant's registration because its aggregate indebtedness exceeded 2000 per centum of its net capital, and in another the Commission made similar findings with respect to violation of the net capital rule and also found that registrant failed to keep its books and records current and failed to disclose that the controlling interest in the firm had been sold to an undisclosed person. In the third case violation of the net capital rule was also found but the Commission noted that the firm had revised its practices and concluded that a suspension from membership in the National Association of Securities Dealers, Inc. for a period of 10 days was a sufficient sanction.

Some of the other proceedings disposed of during the year involved violations of rule X-17A-5 in that the registrants hi some instances filed false and misleading financial statements with this Commission, and in other instances failed to file statements of financial condition as required by the rule. In other instances, permanent injunctions restraining the registrants from engaging in and continuing unlawful acts and practices in connection with the purchase and sale of securities were the basis for the revocation orders.

Broker-Dealer Inspections

Section 17 (a) of the Securities Exchange Act empowers the Commission to make periodic, special, and other examinations of the books and records of brokers and dealers. Under this section the Commission conducts an inspection program to determine whether brokers and dealers are complying with the requirements of the Acts administered by the Commission.

During the fiscal year the Commission's Regional Offices reported on 788 such inspections, 621 of which were inspections of members of the NASD. As in former years, a substantial number of violations of the rules and regulations were discovered, including non-compliance with the capital rule, the hypothecation rule and Regulation T prescribed by the Board of Governors of the Federal Reserve

System. There were a very few instances where brokers and dealers were taking secret profits. There were a number of transactions in which the reasonableness of the price charged to the customer in relation to the current market price, or the concurrent cost, was questionable, and a substantial number of miscellaneous infractions too scattered and varied to classify.

The Commission does not necessarily take formal action against a registered broker or dealer who appears from these inspections to have violated the Acts. The character of the activity and the public interest are considered in determining whether action is appropriate. If the violations appear to be inadvertent or the result of misinformation, the Commission affords the broker-dealer an opportunity to correct its practices if possible, or to satisfy the Commission that they will not continue.

The extent of the broker-dealer inspection program depends primarily on the availability of funds. Many members of the investing public have the erroneous impression that every registered broker-dealer firm is inspected regularly in a manner comparable to the examinations made of banking institutions. This, of course, is not so, and would be possible only with a substantial increase in personnel and a corresponding increase in costs.

In addition to the Commission, inspections of brokers and dealers are made by the National Association of Securities Dealers, Inc., some of the national securities exchanges and some of the states. These inspections vary widely in character, scope, and frequency. There have been cases where several agencies have inspected a single firm in a relatively short period of time, and others where a firm subject to inspection by several agencies has remained uninspected for an extended period. This problem calls for coordination between inspecting agencies designed to avoid multiplicity of inspections of some firms and long-term omission of inspections of other firms.

A survey conducted by the SEC Liaison Committee of the National Association of Securities Administrators, working in cooperation with this Commission, indicated a lack of uniformity in inspection programs and differences in jurisdiction which make impracticable a system whereby the findings of one inspecting agency would be available to other agencies. The results of this survey were discussed with representatives of National Association of Securities Administrators, various national securities exchanges and the National Association of Securities Dealers, Inc.

This study culminated in adoption of a program for the interchange of information as to dates of inspection between inspecting agencies. However, under this program, the results of any inspections are confidential to the inspecting agency. This pooling of information as to when and by whom inspections have recently

been made permits the scheduling of routine inspections so as to reduce haphazard duplications of inspections and omissions to inspect. The program applies only to routine inspections, and no inspecting agency is in any way restricted in its freedom to inspect or investigate for good cause, such as on a customer's complaint or an indication of unsatisfactory financial condition. To evaluate the program would be impracticable at this early date, but there are indications that it will effectively reduce the number of uninspected and overinspected firms.

The active participants at the year-end included the Commission, the National Association of Securities Dealers, Inc., the New York Stock Exchange, the American Stock Exchange, the San Francisco Stock Exchange, the Midwest Stock Exchange and practically every state whose laws and procedures provide for an effective inspection or examination program, including the states of California, Connecticut, Illinois, Michigan, Minnesota, Oklahoma, Oregon, Washington and Wisconsin. It is anticipated that, as other exchanges and states develop effective inspection programs, their participation in this cooperative effort will become of increasing importance. In addition to the states named above many others which conduct limited inspection programs have signified their cooperation to the extent of their jurisdiction and inspection facilities.

Investigations

Investigations of brokers and dealers may result from the inspection program, complaints from members of the public or information received from sources such as state securities commissions, securities exchanges and associations and "better business bureaus." When investigations are completed and the evidence has been analyzed, the staff, where appropriate, recommends to the Commission that it Institute injunctive action or institute proceedings to revoke registration or to suspend or expel from membership in the national securities exchange or association to which the broker or dealer may belong, or refer the matter to the Department of Justice for criminal prosecution. The number of such investigations during the fiscal year were as follows:

[table omitted]

Financial Reports

The Commission's rule X-17A-5 requires brokers and dealers to file financial reports each calendar year. During the 1954 fiscal year 3950 such reports were filed. Examination of the financial report filed by a broker-dealer affords the staff an opportunity to determine whether, as of the date of the report, the firm is in compliance with the capital requirements prescribed by rule X-15C3-1, and if it is not, the firm is given an opportunity, if consistent with the public interest and the

protection of investors, to bring its financial condition up to the required standards. If the firm fails to do so promptly, the Commission takes appropriate action.

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

Membership

The National Association of Securities Dealers, Inc. continued as the only national securities association registered with the Commission. The Association reported that during the fiscal year its membership increased by 57 to a total of 3,091 at June 30, 1954, as a result of 281 admissions to, and 224 terminations of membership. The Association also reported that at June 30, 1954 there were registered with it as registered representatives 35,679 individuals, including generally all partners, officers, salesmen, traders and other persons associated with, or employed by, member firms in capacities which involve their doing business directly with the public. The number of persons so registered increased by 2,091 during the year as a result of 6,087 initial registrations, 2,250 re-registrations and 6,246 terminations of registration.

Disciplinary Actions

During the fiscal year the Commission received from the NASD reports of final action in twenty-seven disciplinary proceedings in which formal complaints alleging violations of specified provisions of the Association's Rules of Fair Practice had been filed against members, eight of which involved members and the remaining nineteen involved not only members, but also one or more registered representatives of such members.

In five of the proceedings members were expelled, in seven members were fined and in six were censured, and in ten no disciplinary action was taken against the members. With respect to registered representatives, the registrations of seven were revoked, four were suspended, fines were imposed on four representatives and censure upon six, and the complaint was dismissed in one case. In a few of the cases more than one type of sanction was imposed with respect to the person disciplined. The fines imposed ranged from $100 to $3,500 and the suspensions from 14 days to one year. In some instances costs were assessed.

Commission Review of NASD Disciplinary Actions

Section 15A (g) of the Act provides that disciplinary actions by the NASD are subject to review by the Commission on its own motion •or on the application of

any aggrieved person. Two such petitions, described in earlier Annual Reports, were pending at the close of the last fiscal year and during the year their status remained unchanged. [Footnote: The pending cases concern petitions filed by Earl L. Combest from a two-year suspension as registered representative and a fine of $2,500, and by Otis & Co. from a two-year suspension from membership. Subsequent to the close of the fiscal year the suspension of Combest was cancelled but the action imposing the fine was affirmed. (Securities Exchange Act Release No. 5064, July 13,1954) and the petition of Otis & Co. was dismissed as moot, following the revocation by the NASD of its suspension order (Securities Exchange Act Release No. 5110, November 4,1954.)] In addition, three other petitions were filed during the year. One of these, filed on behalf of Gilbert Parker Investing, Inc. under this section and in the alternative under section 15A(b) (4) described below, concerned a decision by the NASD that Parker and his firm were not eligible for membership because of a disqualification arising from an earlier NASD disciplinary action. This petition was withdrawn prior to determination by the Commission.

Petitions for review were filed with the Commission with respect to two decisions of the Board of Governors of the NASD expelling members found to have violated designated rules in selling oil royalties to customers at unfair prices and to have by such violations been guilty of conduct inconsistent with just and equitable principles of trade. Both these appeals were pending at the end of the fiscal year.

Commission Review of Action on Membership

The Act in section 15A (b) (4) and the by-laws of the NASD provide that, except where the Commission with due regard to the public interest approves or directs to the contrary, no broker or dealer may be admitted to or continued in membership if he or any controlling or controlled person is expelled or is currently under suspension from such an association for violation of a rule prohibiting conduct inconsistent with just and equitable principles of trade, or is subject to an order of the Commission denying or revoking his broker-dealer registration, or was a "cause" of any such order of expulsion, current suspension or denial or revocation.

Pursuant to this authority the Commission approved applications for the continuation in membership of three firms while employing persons formerly associated with Charles E. Bailey & Co. and one firm employing a person formerly associated with Mason, Moran & Co.

The status of two other cases pending at the start of this fiscal year was unchanged at the year end.

Commission Action on NASD Rules

Section ISA (j) of the. Act provides that the Commission shall disapprove changes in the rules of a national securities association unless such changes appear to the Commission to be consistent with the requirements for such rules as contained in sub-section 15A(b) of the Act.

The Commission, on June 30, 1952, had disapproved, pending further order, a rule adopted by the Association providing for notice under certain conditions to a member (the "employer member") before another member (the "executing member") knowingly executes purchases or sales of a security for the account of a partner, officer, registered representative or employee of the employer member. At the same time the Commission gave notice that it had under consideration a proposal to adopt rule X-10B-6 which had the same broad objective. Broadly stated, both rules were designed to provide notice to a firm of transactions by employees or associates effected through other firms so that a member, in his own interest and in the interest of his customers, might weigh the effect, if any, of such transactions handled outside his own office.

The Commission on the basis of further study of the problem involved and on the comments received on its proposed rule concluded that its own rule should not be adopted and that the Association's rule should be permitted to become effective. The Commission by order, therefore, vacated its earlier order which had disapproved the Association's proposed rule.

Change in Commission Rules Applicable to NASD

As another step in its program for the simplification of rules, the Commission adopted amendments to paragraph (b) of its rule X-15AJ-1 and to Forms X-15AA-1 and X-15AJ-2 under the Securities Exchange Act which had the effect of reducing the information required to be filed with the Commission by national securities associations. The amendments eliminated a requirement that such an association file annually with the Commission as a part of its registration statement a list of members arranged on a geographical basis and information concerning the amount of dues payable each year by each member. The amendments were adopted at the request of the NASD on the grounds that the information had little value but was difficult and expensive to compile.

In addition the Association during the year amended sections 4, 5 and 6 of Article XV of the by-laws and section 27 (a) of Article III of the Rules of Fair Practice all of which relate to registered representatives. The effect of the integrated amendments to the by-laws was to provide for continuous jurisdiction over a registered representative so that a change of employment from one member to another would no longer terminate the responsibility of the representative for

actions committed during a previous employment. Section 27 (a) of the Rules of Fair Practice imposed on a member an obligation to supervise certain activities of specified employees. The amendment to this section extended the scope of the rule to encompass all registered representatives, instead of only salesmen, and to all transactions with or for a customer, instead of only sales or offers to customers.

LITIGATION UNDER THE SECURITIES EXCHANGE ACT

During the fiscal year the Commission found it necessary to apply to the federal courts on a number of occasions for injunctive relief to prevent continuing violations of the Securities Exchange Act.

One such action was S.E.C. vs. Lawrence L. Smith, in which the Commission's complaint charged the defendant with violating the anti-manipulative and anti-fraud provisions of the Act in that he effected a series of transactions in a security registered on a national securities exchange for the purpose of inducing others to purchase or sell shares of such security. The orders were placed with several brokers. The complaint alleged that the defendant represented to brokers that he would pay for the securities purchased for his account on the settlement date when, in fact, the defendant knew that he could not settle and pay on the due date. It was also charged that the defendant issued checks in purported payment for securities purchased on his order when, in fact, the defendant knew he had insufficient funds available to honor such checks. Because of the activities of the defendant, certain brokers and dealers were forced to sell the securities on the market at prices less than the amount agreed to be paid by the defendant and less than the cost of such securities to such brokers and dealers. The defendant consented to the entry of judgment.

In connection with an investigation the Commission found it necessary to file a complaint in S.E.C. vs. Charles M. Weber, doing business as Weber-Millican Company, a registered broker-dealer, to require registrant to permit representatives of the Commission to examine certain books and records. The complaint alleged that Weber-Millican refused to make available for reasonable inspection and examination by representatives of the Commission, as required by the Act, books and records which the defendant must keep and make available pursuant to the rules adopted under the statute. The defendant consented to the entry of judgment.

A complaint charging violation of the Commission's net capital rule was filed in S.E.C. vs. W. E. Buford & Co., Inc. The complaint alleged that the defendant's aggregate indebtedness to other persons exceeded 2000 per centum of its net capital as defined in the rule. In addition to an injunction the Commission also

sought the appointment of a receiver. Subsequent to the filing of the complaint and the entry of a temporary restraining order, the defendant entered into certain transactions and arrangements with creditors which brought its financial condition within the standards prescribed by the rule promulgated for the protection of investors. Under the circumstances the Commission entered into a stipulation with the defendant forming the basis of the court's order wherein W. E. Buford & Co., Inc. consented to the entry of a judgment to enjoin the defendant from future violations of 'the rule and undertook to file with the Commission monthly financial reports for one year. It was provided that if the defendant is in full compliance with the requirements of the Commission's rule for the one-year period, the court may vacate the judgment on motion of the defendant. However, the defendant agreed that if during that period he should violate the rule, he would not oppose an application by the Commission for the appointment of a receiver of the defendant's business. Jurisdiction was retained by the court for the purpose of giving full effect to this arrangement.

In S.E.C. vs. George McKaig, the Commission alleged that McKaig, individually and doing business as George McKaig & Company, hypothecated securities of customers under circumstances which permitted the securities to be subjected to liens in excess of those permitted by Commission rules. In addition to charging other violations of the hypothecation rules, the complaint also charged that the defendant permitted his indebtedness to exceed the limitations prescribed by the Commission's net capital rule, that he failed to keep required books and records, and filed uncertified accounts of financial condition, although required to file certified reports. The action was pending at the end of the fiscal year.

Participation as Amicus Curiae

In Connell v. Errion, the Commission filed a brief as amicus curiae by invitation of the Court. It expressed the view that the anti-fraud provisions of rule X-10B-5 under section 10 (-b) of the Securities Exchange Act of 1934 were applicable to a combination purchase of securities and property which did not come within the definition of securities under the Act, and that under section 29 (b) of the Act the defrauded seller could obtain rescission of the entire transaction, including the transfer of the non-securities, for violation of the rule, or obtain monetary relief by way of damages as an alternative to specific restitution. Defendants had sought dismissal of the complaint which was based upon alleged violations of the rule. In denying the motion to dismiss, the Court indicated from the bench that its conclusion was based largely upon the Commission's arguments.

Textron, Inc. v. American Woolen Company was a suit to enjoin announcement of the results of a vote for officers and directors of the American Woolen Company taken at a stockholders' meeting because a substantial number of proxies counted for and necessary to the existence of a quorum allegedly had

been obtained in violation of the Commission's proxy rules under section 14 (a) of the Securities Exchange Act of 1934. The Commission filed a statement with the Court expressing the view, with which the Court subsequently agreed, .that a shareholder could maintain a private action in a federal district court based upon an alleged violation of the Commission's proxy rules in a proper case, notwithstanding the fact that the Commission itself did not institute an action. The Court found, however, that the alleged violations did not invalidate the proxies for the purpose of being counted toward a quorum, and that under the circumstances federal jurisdiction could not be based on the Securities Exchange Act, although the Court took jurisdiction on other grounds.

PART IV
ADMINISTRATION OF THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

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

COMPOSITION OF REGISTERED HOLDING COMPANY SYSTEMS -- SUMMARY OF CHANGES

On June 30, 1954 there were 29 public utility holding company systems which were subject to the regulatory provisions of the Act as registered holding company systems. Included were 25 registered holding companies which function solely as holding companies, 10 other registered holding companies which were also operating companies, 133 electric and gas utility subsidiaries and 156 non-utility subsidiaries, a total of 324 companies. For the convenience of discussion these 29 registered systems are referred to as "active systems" and a

table showing the composition of such systems as of June 30, 1954 appears in appendix table 9. In addition there were 6 companies which had registered as holding companies but which had disposed of all of their utility subsidiaries.

On June 30, 1953 there were 35 active registered holding company systems aggregating 372 companies. [Footnote: Not included in these totals were 11 other companies which had registered as holding companies, but as of June 30,1953 no longer owned any public utility subsidiaries.] The six systems which had ceased to be active registered systems as of June 30, 1954, comprised eight registered holding companies, 11 electric and gas utility subsidiaries and six non-utility subsidiaries. [Footnote: These systems consisted of American Power & Light Company, Derby Gas & Electric Corporation, Kinzua Oil & Gas Corporation, North Continent Utilities Corporation, Republic Service Corporation, Southwestern Development Company, and their respective subsidiaries.] One public utility company registered as a holding company during 1954, because it had entered into a contract for the purchase of another utility company, but ceased to be a registered holding company in the same fiscal year following the cancellation of this contract.

Active registered systems added one public utility subsidiary and four non-utility subsidiaries in 1954. Fifteen public utility subsidiaries with net assets aggregating $265 million and two non-utility subsidiaries with assets of $5 million were divested by their respective holding company parents and as a result were no longer subject to the Act as components of registered systems. [Footnote: During the 19-year period from Dec. 1,1935 to June 30,1954 registered holding companies have divested themselves of 829 subsidiaries with aggregate assets of over $11,768,000,000 which, as a result of such divestments, ceased to be subject to the Act as of June 30,1954 as components of registered systems. These companies included 259 electric utility companies with assets of $9,201,000,000, 158 gas utility companies with assets of $874,000,000, and 412 non-utility companies with assets of over $1,693,000,000.] Twenty-three companies were absorbed by mergers or consolidations, 9 were eliminated by dissolution, and 16 companies ceased to be associated with the active systems as a consequence of exemptions and other changes in status. The following table shows the changes which occurred during the year in the composition of active registered holding company systems.

[table omitted]

SIGNIFICANT DEVELOPMENTS IN AND LITIGATION INVOLVING HOLDING COMPANY SYSTEMS

American & Foreign Power Company, Inc.

During the fiscal year the Commission entered an order granting American & Foreign Power Company, Inc. an exemption as a holding company and as a subsidiary of Electric Bond and Share Company pursuant to sections 3 (a) (5) and 3 (b) of the Act. After the close of the fiscal year, the Commission disposed of certain remaining claims in prior reorganizations proceedings for fees and expenses arising out of the section 11 (e) proceedings. As a result of the order active regulatory supervision over the company has been reduced to a minimum, consisting of only such attention as is required by section 3 (c) of the Act in the continuing but limited surveillance of companies exempted from the statute. A summary of the proceedings before the Commission and the courts leading to the corporate simplification of this system pursuant to section 11 (e) of the Act appears in the 18th Annual Report.

American Gas and Electric Company

American Gas and Electric Company controls the largest of the regional integrated holding company systems. During the fiscal year the Commission approved a voluntary proposal for the acquisition by Indiana & Michigan Electric Company, a subsidiary operating company, of all of the assets of Citizens Heat, Light and Power Company, another subsidiary operating company, following which the latter was dissolved. The transaction was consummated on April 26, 1954.

As the result of two other proposals approved by the Commission. American Gas and Electric Company acquired all of the outstanding common stock of Flat Top Power Company, a non-affiliated public-utility company 8 and The Ohio Power Company, a subsidiary of American Gas and Electric Company, acquired the electric generating and distribution facilities of the village of Arlington, Ohio. The company also holds 37.8 percent of the common stock of Ohio Valley Electric Company, recently organized to generate power for the-Atomic Energy Commission's plant at Portsmouth, Ohio.

Pending for determination by the Commission is a proposal filed pursuant to section 11 (e) of the Act providing for, among other things, the merger of two system operating companies, The Ohio Power Company and Central Ohio Light & Power Company.

American Natural Gas Company

American Natural Gas Company is solely a holding company with four direct subsidiaries, Michigan Consolidated Gas Company, Milwaukee Gas Light Company, Michigan-Wisconsin Pipe Line Company and American Natural Gas Service Company. An indirect subsidiary, Milwaukee Solvay Coke Company, was owned by Milwaukee Gas at the end of the fiscal year.

At the beginning of the fiscal year the Commission had pending for decision a question concerning the retainability of the interest of American Natural Gas in Milwaukee Solvay, a non-utility, as an "other business" under section 11 (b) (1) of the Act. The Commission decided to permit the retention of this interest on the ground, that circumstances giving rise to its earlier order permitting retention had not changed sufficiently to require divestment, subject however, to the Commission's continuing jurisdiction to determine whether future conditions may require such action.

American Power & Light Company

The various proceedings before the Commission and the Federal Courts leading to the dissolution and liquidation of this system were reported in the 19th and earlier Annual Reports. On December 29, 1953 the Commission released jurisdiction over fees and expenses claimed by certain participants in the proceedings which terminated with the plan of dissolution approved by the Commission on March 21, 1953. This action disposed of the remaining questions connected with the reorganization of the American Power & Light system. The company has filed an application for an order pursuant to section 5 (d) of the Act declaring that it has ceased to be a holding company.

Central Public Utility Corporation

At the beginning of the fiscal year the Commission had pending for decision the approval of a plan filed pursuant to section 11 (e) of the Act by Central Public Utility Corporation ("Cenpuc"). This plan provided for the elimination from the system of Central Indiana Gas Company, Cenpuc's only domestic public utility subsidiary; the dissolution of Central Natural Gas Corporation, a non-utility subsidiary; the merger with Cenpuc of Islands Gas and Electric Company, an exempt holding company subsidiary; and an application for exemption pursuant to section 3 (a) (5) of the Act of Cenpuc and its subsidiaries to be granted upon consummation of the preceding steps. Subsequently Cenpuc filed an amendment to this plan requesting that the proposals relating to the merger of Islands Gas with Cenpuc and the application for exemption be eliminated. The Commission approved the plan providing for the distribution by Cenpuc to its stockholders on a pro rata basis of the reclassified stock of Central Indiana Gas Company and the liquidation and dissolution of Central Natural Gas Corporation. Those provisions of the original plan, which the company had requested to have withdrawn, were not considered.

During the year the Commission issued three other orders pertaining to this system under section 11 (e) of the Act. In one the Commission authorized the withdrawal of an application for approval of a plan providing for the

recapitalization of Islands. In another it approved certain applications for fees and expenses incurred in connection with an earlier plan of reorganization approved by the Commission on June 13, 1952, and in the third it approved, and released jurisdiction with respect to, the procedures for the selection of a new board of directors of Central Indiana Gas Company following its divestment by Cenpuc.

Cities Service Company

Cities Service Company is a registered holding company under commitment pursuant to section 11 (b) of the Act to dispose of all of its utility interests. The only public utility interests still owned by Cities at the beginning of the fiscal year included two domestic gas utility subsidiaries, Arkansas-Louisiana Gas Company and The Gas Service Company, and one foreign gas utility, Dominion Natural Gas Company, Ltd., a subsidiary company exempt pursuant to section 3 (b) of the Act. A contract was entered into with a neighboring public utility company, Missouri Public Service Company, for the sale to it by Cities Service of its holdings of all of the common stock of The Gas Service Company subject to the requisite regulatory approvals. Following hearings before the Commission, in which the Missouri Public Service Commission and the Kansas State Corporation Commission, appeared as parties, Cities Service and Missouri Public Service withdrew their respective applications. On April 6, 1954 the Commission approved a proposal for the sale of the stock of Gas Service Company at competitive bidding. The sale was consummated on April 20, 1954.

During the fiscal year the Commission also issued an order releasing jurisdiction over fees and expenses arising out of a plan to bring the system of Arkansas Natural Gas Corporation (formerly a registered holding company subsidiary and now known as Arkansas Fuel Oil Corporation) into compliance with section 11 (b) of the Act.

Consolidated Natural Gas Company

This company is a holding company controlling four gas utility subsidiaries, and a gas transmission subsidiary. During the fiscal year the Commission considered two proposals relating to the sale and acquisition of properties. In one the Commission authorized the sale by Hope Natural Gas Company, a subsidiary, of certain gas leases, wells and equipment to The Manufacturers Light and Heat Company, a subsidiary of Columbia. Gas System, Inc., also a registered holding company. In the second case, New York State Natural Gas Corporation, a non-utility subsidiary, requested approval of a proposal to acquire certain gas producing and transmission properties from The Manufacturers Light and Heat Company. The Commission dismissed the application for lack of jurisdiction.

Eastern Utilities Associates

Eastern Utilities Associates is solely a holding company controlling an electric utility system operating in the states of Rhode Island and Massachusetts. The plan for the reorganization of this holding company system pursuant to section 11(e) of the Act was described in the Commission's 19th Annual Report. During 1954 $7 million of collateral trust bonds were issued as contemplated by the plan. The Commission also approved various claims for fees and expenses in connection with the reorganization.

Electric Bond and Share Company

Pursuant to the provisions of plans approved by the Commission under section 11 (e) in previous fiscal years, Electric Bond and Share Company is in the process of reducing to less than 5 percent its holdings of the common stocks of its only domestic utility subsidiary, United Gas Corporation, with the intention of qualifying for an exemption under section 3 (a) (5) of the Act and of transforming itself into a registered investment company under the Investment Company Act of 1940.

Several remaining residual matters pertaining to the effectuation of plans filed in prior years were acted upon by the Commission during the fiscal year. Among these were transactions pertaining to the disposal of (a) portions of Bond and Share's holdings of United Gas common stock, which holdings had been reduced as of June 30, 1954 to 12.1 percent of such outstanding stock and (b) all of Bond and Share's holdings of 4,256 shares of common stock of Portland Gas and Coke Company, which had been received as a liquidating distribution from Bond and Share's former subsidiary, American Power and Light Company.

Applications for fees and expenses incurred by various participants in connection with Bond and Share's final comprehensive plan of reorganization were also considered by the Commission during the fiscal year, and the Commission issued an order authorizing and directing Bond and Share to pay certain fees and expenses. Certain other applications for approval of fees and expenses were pending at the close of the fiscal year.

Electric Power & Light Corporation

At the close of the prior fiscal year appeals were pending from an order of the United States District Court for the Southern District of New York sustaining the Commission's determinations with respect to fee claimants in the proceedings for the reorganization and dissolution of Electric Power & Light Corporation, a registered holding company subsidiary of Electric Bond and Share Company.

On February 25, 1954 the United States Court of Appeals for the Second Circuit affirmed in part and reversed in part the decision of the District Court. In its reversal the court of appeals held, in effect, that the Commission's jurisdiction to pass upon fees and expenses in a section 11 (e) reorganization of a subsidiary does not extend to fees proposed to be paid by a parent registered holding company to individuals retained by it to perform services in connection with the subsidiary's reorganization. The Commission and a stockholders' committee petitioned the United States Supreme Court for certiorari on June 21, 1954. Certiorari was granted on the Commission's petition on October 14, 1954 and the Committee's petition was denied on the same date.

.Engineers Public Service Company

The application of the Commission to the United States District 'Court for the District of Delaware for enforcement of its order approving and denying fees and expenses claimed by participants in the proceedings for the reorganization of Engineers Public Service Company, which was referred to in the 19th Annual Report, was decided .011 February 16, 1954. The district court awarded fees to certain claimants in amounts larger than had been allowed by the Commission. Subsequently the Commission issued a supplemental order approving the payment of additional compensation to one claimant, and filed a notice of appeal in the United States Court of Appeals, Third Circuit, with respect to those portions of the district court's order relating to the allowances to two other claimants.

General Public Utilities Corporation

General Public Utilities Corporation ("GPU") is a holding company controlling the electric utility system which emerged from the reorganization of the former Associated Gas and Electric Company system. Its seven domestic electric utility subsidiaries operate in the States of New York, New Jersey and Pennsylvania.

Earlier proceedings regarding the integration and simplification of this company's system are described in the 19th Annual Report. Hearings before a hearing examiner were held during the year on a request by GPU that the Commission modify its order, entered December 28, 1951 pursuant to section 11 (b) (1) of the Act insofar as said order directed GPU to divest itself of its subsidiaries Northern Pennsylvania Power Company and the Waverly Electric Light and Power Company. GPU seeks to retain these companies as a part of its integrated system. The matter was still under consideration at the end of the fiscal year.

International Hydro-Electric System

During the fiscal year a number of steps were taken in further consummation of the plan for the reorganization of International Hydro-Electric System ("IHES")

into an investment company. Details of this plan were summarized in the 19th Annual Report. Steps taken included the retirement of IHES' preferred stock and the sale of 125,000 shares of the common stock of New England Electric System thus reducing IHES' holdings to 5.07 percent of the outstanding shares. At the end of the fiscal year steps remaining to be taken in consummation of the plan included disposition of applications for fees and expenses aggregating approximately $1,500,000, disposition of tax claims, resolution of a controversy now pending before the United States District Court for the District of Massachusetts concerning an election for members of the Board of Directors, and the formulation of definitive plans for conversion of IHES into an investment company.

The 19th Annual Report contained a description of the proposal of IHES' Trustee to sell certain properties of Eastern New York Power Corporation, subsidiary of IHES, to the New York State Electric and Gas Corporation. On appeal by the City of Plattsburg, New York, the United States Court of Appeals for the First Circuit on November 12, 1953 affirmed the order of the district court approving the contract of sale.

Interstate Power Company

During the fiscal year the Commission issued an order authorizing Interstate Power Company of Delaware to sell, and Wisconsin Power and Light Company/, a non-affiliated exempt holding company, to acquire, all of the outstanding capital stock of the Delaware company's subsidiary, Interstate Power Company of Wisconsin. On November 30, 1953 this transaction was consummated. Wisconsin Power and Light has indicated its intention of ultimately merging Interstate Power Company of Wisconsin into itself. The Delaware company now has only one public utility subsidiary, East Dubuque Electric Company.

Koppers Company, Inc.

A description of developments with respect to Koppers Company, Inc. and its former subsidiary, Eastern Gas & Fuel Associates, were reported in the 17th Annual Report.

During 1954 Koppers further reduced its common stock holdings in Eastern, as required by the Commission's order of June 26, 1945, by selling 100,231 shares of such stock to the public. After the sale, Koppers filed an application requesting the Commission to modify the order of June 26, 1945 so as to permit it to continue ownership of its remaining holdings of 13,000 shares of the common stock of Eastern, and requesting an order under section 5 (d) of the Act declaring that it had ceased to be a holding company. The Commission granted both of these requests and dismissed a pending application by Koppers for exemption

pursuant to section 3 (a) of the Act on the ground that the relief granted under section 5 (d) of the Act rendered such application moot.

An application by Eastern requesting an exemption pursuant to section 3 (a) of the Act was still pending at the close of the fiscal year.

Upon application by the Commission for enforcement of its order approving and denying various applications for fees and expenses incident to the reorganization of Eastern Gas & Fuel Associates, the United States District Court for the District of Massachusetts, affirmed the Commission's denial of reimbursement to Koppers for expenses it had incurred in connection with such reorganization. The court reversed the Commission with respect to its denial of fees claimed by a stockholders' committee member by reason of securities transactions effected by the wife of such committee member while the reorganization proceedings were in progress. Both Koppers and the Commission appealed from the decision of the district court to the United States Court of Appeals for the First Circuit, where the appeals are pending.

Long Island Lighting Company

As discussed in the 19th Annual Report, Long Island has ceased to be a registered holding company. During the fiscal year 1954, however, litigation and administrative proceedings with respect to applications for fees and expenses in connection with the company's reorganization in 1950 were completed. On March 12, 1954 the United States Court of Appeals for the Second Circuit affirmed in part and reversed in part an order of the United States District Court for the Eastern District of New York which enforced in part and remanded in part the order of the Commission awarding and denying the fees and expenses claimed by various participants in the reorganization. Thereafter the Commission issued its second order approving allowances in accordance with the decision of the appellate court.

In an independent action for damages for alleged fraud in the reorganization proceedings filed by Ennis M. Nichols et al. against Long; Island, described at page 83 of the 19th Annual Report, the United; States Court of Appeals affirmed the District Court's order of dismissal, but did not indicate explicitly in its judgment that litigation of those charges was also barred in the reorganization proceedings on the ground of res judicata. Subsequently, on the basis of the decision, of the Court of Appeals, the District Court held that appellants were barred from proceeding further both in the independent action and directly in the reorganization proceedings. Thereupon, appellants petitioned the Court of Appeals to amend and clarify its earlier judgment so as to eliminate the bar to direct proceedings in the reorganization court. However, the Court of Appeals amended its judgment to state explicitly that further proceedings in the

reorganization court were likewise barred under its findings of res judicata. Appellants' petition to the United States Supreme Court for a writ of certiorari from this amended order was denied on October 14, 1954.

Market Street Railway Company

The fee litigation in connection with the dissolution of Market Street Railway Company, formerly a non-utility subsidiary of Standard, Gas and Electric Company, referred to in the 19th Annual Report,, was terminated on July 27, 1954 when the Commission issued its order approving allowances of fees and expenses to one of the participants in the reorganization proceedings in accordance with the decision of the United States Court of Appeals, Ninth Circuit. The Commission also approved an application for additional fees and expenses claimed by certain counsel in connection with a section 11 (e) plan approved by the Commission involving, among other things, the settlement of an open account indebtedness due Standard Gas and Electric Company from Market Street Railway Company.

The company has not yet been dissolved, as directed in the Commission's order dated October 24, 1950, because of a claim for a refund against the Board of Equalization of the State of California, seeking the return of sales taxes paid under protest in 1950.

Middle South Utilities, Inc.

Middle South Utilities, Inc. through its subsidiaries, Arkansas Power & Light Company, Louisiana Power & Light Company, Mississippi Power & Light Company and New Orleans Public Service., Inc., operates an integrated electric utility system in the States of Arkansas, Louisiana and Mississippi. The company also owns a 10 percent interest in Electric Energy, Inc., a large generating company organized to furnish electricity for the Paducah, Kentucky, plant of the Atomic Energy Commission.

During the fiscal year Middle South applied pursuant to section -11 (c) of the Act for an extension of time to comply with the Commission's order of March 20, 1953, requiring Middle South and its subsidiaries to dispose of their direct and indirect interests in the nonelectric properties owned by certain subsidiaries. The Commission granted a one year extension from March 20, 1954 to comply with the order, except with respect to certain water properties located at Crystal Springs, Mississippi. Subsequently, on April 15, 1954 Middle South sold the Crystal Springs water properties to Union Water Service Company, a non-affiliated company, for a base price of $50,000.

New England Electric System

New England Electric System ("NEES") and its subsidiary companies constitute the largest utility system in New England. As of December 31, 1953 the system had 30 subsidiaries, including 10 gas utility companies, 16 electric utility companies, two combined gas and electric utility companies, one service company and one real estate company.

The principal problems remaining to be resolved by the system pursuant to section 11 (b) of the Act pertain to the retainability of its gas properties. One attempt to dispose of these properties in 1951 failed because the successful bidder was unable to finance the purchase. However, considerable progress has been made toward the further segregation of the electric and gas properties of the system and in effecting divestments.

Two proposals providing for rearrangement of the gas and electric properties of certain subsidiaries and related financing transactions were approved by the Commission during the fiscal year. In one of these, the gas and electric properties of Beverly Gas and Electric Company, Gloucester Electric Company, Gloucester Gas Light Company, Salem Electric Lighting Company and Salem Gas Light Company were separated and merged respectively into a single newly organized gas company, North Shore Gas Company, and into a single newly organized electric company, Essex County Electric Company. The other proposal provided, among other things, for the transfer by Suburban Gas and Electric Company of its gas properties to the Mystic Valley Gas Company, formerly Maiden and Melrose Gas Light Company; the merger of Arlington Gas Light Company with Mystic Valley; and the merger of Suburban Gas and Electric into Suburban Electric Company, formerly the Maiden Electric Company.

On July 22, 1954, acting pursuant to authority from the Commission, NEES sold all the outstanding capital stock of Berkshire Gas Company, a gas utility subsidiary, to Pittsfield Coal Gas Company, a non-affiliated corporation, and on March 29, 1954, NEES caused Athol Gas Company, another of its gas utility subsidiaries, to sell its assets to non-affiliated interests and dissolve.

New England Gas and Electric Association

New England Gas and Electric Association is a Massachusetts trust which directly or indirectly held common stocks of nine subsidiary companies at the close of the fiscal year. Six of these' companies are utility companies furnishing either electricity or gas, one is a gas transmission company, one a heating company, and another a service company. All operate in the State of Massachusetts.

Among the physical property rearrangements and divestments during the fiscal year was a merger of one subsidiary, Plymouth Gas Light Company, with another subsidiary, New Bedford Gas and Edison Light Company. NEGEA also was authorized to sell to Public Service Company of New Hampshire, a non-affiliated exempt holding and public utility company, its holdings of all of the outstanding capital stock of New Hampshire Electric Company, an exempt holding company controlling Kittery Electric Light Company.

Shortly after the close of the fiscal year, NEGEA filed a statement on behalf of itself and its remaining subsidiaries claiming and thereby obtaining exemption from the provisions of the Act as an intrastate holding company system as provided by rule U-2, promulgated under section 3 (a) of the Act.

The North American Company
Union Electric Company of Missouri

A plan filed by The North American Company pursuant to section 11 (e) of the Act providing for its liquidation was fully described in the 18th Annual Report. In brief, under the plan North American proposed to distribute to its stockholders its holdings of all of the common stock of Union Electric Company of Missouri in the form of liquidating dividends over a two-year period ending in January 1955. Union Electric, North American's only remaining utility subsidiary, which also is a registered holding company, is expected to continue as a holding-operating company.

On January 21, 1954 North American made a second liquidating distribution to its stockholders of the common stock of Union Electric at the rate of one share of Union Electric common stock for each 10 shares of parent company common stock held.

On May 28, 1954, the Commission approved a proposal filed by North American and its non-utility subsidiary, 60 Broadway Building Corporation, providing for the liquidation and dissolution of the latter, and for a sale of its office building to the Hanover Bank of New York City for $3,100,000. North American reported that, in accordance with the plan of liquidation, the proceeds from this sale were transferred to Union Electric on July 15, 1954.

In another proposal approved by the Commission, North American's non-utility subsidiary company, Hevi-Duty Electric Company, was authorized to purchase the total issued and outstanding common stock of a non-affiliated company, Anchor Manufacturing Company.

As a result of the acquisition of all of the common stock of Missouri Edison Company, a non-affiliated public utility company, Union Electric added a

subsidiary to its system during the fiscal year. In its order the Commission reserved jurisdiction to determine at a later date the question of the retainability by Union Electric of the gas properties of Missouri Edison.

Union Electric also owns a 40 percent interest in Electric Energy, Inc., a large generating company organized to furnish electricity for the Paducah, Kentucky, plant of the Atomic Energy Commission.

Union Electric was granted an extension until December 31, 1954, of the time to dispose of certain water and ice properties and electric properties located at Clinton, Missouri, as required by the Commission's order of December 28, 1950.

Shortly after the close of the fiscal year Missouri Power & Light Company, a subsidiary of Union Electric, disposed of its water properties at Excelsior Springs, Missouri, by the sale thereof to the City of Excelsior Springs for a base price of $500,000.

Applications for fees and expenses incurred by various applicants in connection with the plans involving North American and its subsidiaries approved pursuant to section 11 (e) of the Act were also disposed of by the Commission during the fiscal year.

North Continent Utilities Corporation

At the beginning of the fiscal year North Continent Utilities Corporation had one statutory utility subsidiary, Great Northern Gas Company, Ltd., which was organized and operating in Ontario, Canada. On November 30, 1953, North Continent sold its interest in Great Northern to Alberta Consolidated Gas Utilities, Ltd., a non-affiliated Canadian company now known as Great Northern Gas Utilities, Ltd., for approximately $533,639. Subsequently, the Board of Directors of North Continent took steps to dissolve the corporation and the Commission authorized the company to distribute its remaining assets in the form of liquidating dividends to its stockholders. In January 1954 the Commission issued an order pursuant to section 5 (d) of the Act declaring that North Continent had ceased to be a holding company and that its registration as a holding company had ceased to be in effect.

Northern New England Company
New England Public Service Company

Proceedings pertaining to the liquidation of Northern New England Company and New England Public Service Company have been described in the 18th Annual Report. During 1954 the Commission issued orders allowing various fees and expenses. One fee application remains for determination.

Northern States Power Company (Del.)
Northern States Power Company (Minn.)

In the 19th Annual Report reference was made to appeals taken by the Commission and by Standard Gas and Electric Company (formerly the parent of Northern States (Del.)) from a decision of the United States District Court for the District of Minnesota affirming in part and reversing in part an order of the Commission approving and denying fees and expenses arising out of proceedings for the dissolution of Northern States Power Company (Del.). The United States Court of Appeals for the Eighth Circuit affirmed the decision of the district court on April 19, 1954 and Standard Gas filed a petition for certiorari with the United States Supreme Court, which was denied on October 14, 1954.

The 19th Annual Report also described consolidated proceedings involving issues as to compliance by Northern States (Minn.) with section 11 (b) (1) of the Act and whether the company was entitled to an exemption as a holding company pursuant to section 3 (a) (2) of the Act. On February 1, 1954 the Commission granted a severance of the exemption issues and on September 16, 1954, following the presentation of briefs and oral arguments, including a brief and oral argument of the city of St. Paul in favor of exemption, the Commission issued its opinion and order granting an exemption effective October 15, 1954.

The order was based, among other things, on the findings that Northern States is predominantly a public-utility company and that an exemption would not be detrimental to the public interest.

In addition to the above proceedings, the Commission authorized Northern States to acquire from the Minneapolis Street Railway Company and the St. Paul City Railway Company, two non-affiliated companies, certain electric generating and distribution facilities for a base purchase price of $1,500,000." Authorization was also granted to permit United Power and Land Company, a wholly owned subsidiary, to sell, and Northern States to acquire, all of United's utility assets and certain of its non-utility assets.

Pennsylvania Gas & Electric Corporation

The 19th Annual Report described this company's reorganization plan pursuant to section 11 (e) of the Act. The plan was consummated during 1954, and thereafter the Commission approved fees for services rendered in connection with the plan and related expenses.

Republic Service Corporation

During the fiscal year this company amended its reorganization plan pursuant to section 11 (e) of the Act, which was described in the 19th Annual Report, in certain minor respects, and the Commission issued its order approving the plan as amended. There emerged from this reorganization an intrastate holding company system consisting of the newly organized Republic Service Corporation (Pennsylvania) and its subsidiary, Cumberland Valley Electric Company (Pennsylvania). On December 8, 1953 Republic of Pennsylvania filed a statement with the Commission on behalf of itself and Cumberland claiming and thereby obtaining exemption as provided by rule U-2, promulgated under section 3 (a) of the Act.

Southwestern Development Company

Earlier proceedings involving the reorganization of this holding company system were described in the 18th Annual Report. On November 18, 1953 Southwestern Development Company and its subsidiaries filed applications for approval of certain transactions designed to consolidate the seven companies of the system into a single gas utility company, which in turn would hold all the common stock of a single nonutility company. At the time the application was filed, Southwestern had four gas utility subsidiaries, Amarillo Gas Company, Clayton Gas Company, Dalhart Gas Company, and West Texas Gas Company. It also controlled two nonutility subsidiaries, Amarillo Oil Company, and Red River Gas Company. Fifty-one percent of the voting securities of Southwestern were owned by Sinclair Oil Corporation, which had been granted exemption as a holding company by an order of the Commission pursuant to section 3 (a) of the Act. The proposed transactions involved the change of the name of Amarillo Gas to Pioneer Natural Gas Company and the merger or consolidation into that company of Southwestern, West Texas, Dal-hart and Clayton. It was also proposed that Red River Gas Company be merged into Amarillo Oil and that the latter emerge as a subsidiary of Pioneer. The Commission granted the application and later entered a second order declaring that Southwestern had ceased to be a registered holding company. Fees and expenses which arose out of the consolidation-proceedings were allowed by the Commission in a subsequent order.

On June 2, 1954 the Commission issued an order releasing jurisdiction over certain fees and expenses claimed in connection with the original plan for the reorganization of Southwestern which was approved by the Commission on December 21, 1951.

Standard Power and Light Corporation
Standard Gas and Electric Company
Philadelphia Company

As a result of consummation of various reorganization plans approved by the Commission pursuant to section 11 (e) of the Act, which were described in the 18th and 19th Annual Reports, these three registered holding companies have eliminated all of their previously outstanding senior securities and, except for short-term bank notes and intra-system debt, have reduced their respective capitalizations to a single class of stock.

The remaining steps required of these three companies to complete compliance with outstanding orders of the Commission under section 11 (b) of the Act have been delayed pending determination of certain tax liabilities and the disposition of approximately $6,000,000 of fee and expense claims arising out of the reorganization proceeding. A question of major importance, which must be settled before the liquidation of Standard Gas and Philadelphia Company can be completed, is the dispute between these companies and the Department of the Treasury as to their Federal income tax liabilities for the years 1942 to 1950, inclusive. The companies anticipate that the examination and review of these tax matters by the Treasury Department will be completed by the middle of the fiscal year 1955. The Commission approved the payments of approximately $2,000,000 of fees and expenses to all but two of the more than 60 participants in the various proceedings for the reorganization of the Standard Power system under section 11 of the Act. There remain for determination by the Commission one fee claim for $3,500,000, one undetermined claim, and certain expenses. Upon a challenge by the claimant of the large fee to the jurisdiction of the Commission the United States District Court for the District of Delaware directed that he be permitted to file his claim with the court, but that proceedings thereon be stayed until the Commission had an opportunity to hear and determine such claim.

On May 5, 1954 Standard Power filed a plan pursuant to section 11 (e) of the Act proposing the settlement of all claims between itself and H. M. Byllesby and Company. The alleged claims and cross claims have not heretofore been passed upon by the Commission, although various aspects of them, and the transactions out of which they arose, have been considered. In addition, there is pending in the United States District Court for the District of Delaware, an action for an accounting brought on behalf of Standard Power against Byllesby and others.

On July 8, 1954 a plan for the liquidation of Equitable Auto Company, a wholly owned subsidiary of Philadelphia, was approved by the Commission and subsequently consummated.

The uncertainties respecting the amounts of fee claims and Federal tax liabilities to be borne by Standard Gas and Philadelphia have affected the timing of Standard Power's plans to become a registered investment company as

disclosed in the 19th Annual Report. No application for this purpose has been filed with the Commission as yet.

As of the close of the fiscal year 1954, Standard Power's assets consisted mainly of 53.6 percent of the common stock of Standard Gas and small amounts of the common stocks of present and former public utility subsidiaries of Standard Gas and Philadelphia. Standard Gas' assets consisted principally of all of the common stock of Philadelphia and minor investments in other companies. Philadelphia Company's assets comprised 13 percent of the common stock of Duquesne Light Company, 51 percent of the common stock of Pittsburgh Railways Company and miscellaneous other holdings.

The United Corporation

The United Corporation, a registered holding company, has reached the final stages of compliance with the integration and simplification standards of section 11 (b) of the Act. The company has reduced its public utility interests to not more than 4.9 percent of the total voting securities of any one utility company and is in the process of transforming itself into a closed-end, non-diversified investment company. The proposals approved by the Commission leading toward the transformation of United Corporation into an investment company and proceedings before the Commission and the Federal courts relating thereto were described in the 18th Annual Report.

The 19th Annual Report contained a description of the litigation instituted by certain stockholders of United Corporation in the United States Court of Appeals for the District of Columbia Circuit, involving certain orders of the Commission approving the final plan for the corporate simplification of the United Corporation system pursuant to section 11 (e) of the Act. A protective committee for the option warrant holders had intervened in these proceedings. The Court of Appeals affirmed the Commission's orders approving the plan and held that it had jurisdiction to review the orders in their entirety, including those provisions subject to enforcement by a district court. The United States Supreme Court granted certiorari to the warrant holders' committee on October 12, 195385 and denied the petition of the stockholders on January 11, 1954. On January 4, 1954 the Supreme Court determined that the Court of Appeals had erroneously taken jurisdiction over those provisions of the plan which the Commission had reserved for district court enforcement. These related to the cancellation of United Corporation's option warrants without compensation to the holders thereof and the amendment of the corporation's charter and by-laws to provide for cumulative voting and a 50 percent quorum at stockholders' meetings. The Supreme Court affirmed the decision of the Court of Appeals in respect of other portions of the Commission's order which were not subject to district court enforcement. Subsequently, the Supreme Court denied the petitioners' application for a stay

and for leave to file a petition for rehearing. On March 18, 1954, counsel for the Committee representing the holders of option warrants filed an application with the Commission requesting, among other things, the reopening of the proceedings before the Commission so as to permit presentation of further evidence in support of modification of the Commission's opinion and order requiring cancellation of the warrants. The application was denied, and subsequently, on October 11, 1954, the Commission made application to the United States District Court, District of Delaware, for enforcement of this provision of United Corporation's plan as well as the provision for amendment of its charter and by-laws.

At the beginning of the fiscal year there was pending in the United States Court of Appeals for the District of Columbia Circuit a petition by certain stockholders of the corporation under section 24 (a) of the Act for review of the Commission's order dated May 2, 1952 approving a program for the investment of $24,500,000 of the company's surplus funds pursuant to section 9 (c) (3) of the Act. The petition also sought review of an order of the Commission dated June 24, 1952, approving a proposal by United Corporation to make a public offering of its holdings of the common stock of South Jersey Gas Company. The Court of Appeals dismissed the petition. Subsequently the Commission granted United Corporation's application for an amendment of the Commission's order of May 2, 1952 which would allow greater flexibility in respect of the acquisition of securities pursuant to its investment program.

During the fiscal year the Commission participated in three proceedings in the Federal courts relating to its orders approving and denying applications for fees and expenses arising out of the various proceedings for the reorganization of United Corporation. On September 15, 1953 the United States District Court for the Northern District of New York, affirmed an order of the Commission which denied reimbursement to United Corporation for expenses and fees incurred by it in the reorganization of its former subsidiary, Niagara Hudson Power Corporation. An appeal filed by United Corporation in the United States Court of Appeals for the Second Circuit on December 15, 1953 was pending at the close of the fiscal year.

On March 2, 1954, the United States District Court for the District of Delaware affirmed in part and reversed in part an order of the Commission dated June 4, 1952 allowing and denying fees in connection with the reorganization proceedings of United Corporation. The Commission's order made determinations with respect to 14 applications. Three were granted in the amounts requested; eight were granted in substantially reduced amounts; and three applications were denied. The District Court affirmed part of the order, but reversed and remanded the Commission's order as to one application with directions to grant increased allowances. No appeal was taken.

The 19th Annual Report contains a description of the Commission's order dated June 16, 1953 approving and denying applications for fees and expenses which arose from the dissolution of Public Service Corporation of New Jersey, a former subsidiary of United Corporation, pursuant to section 11 (e) of the Act. A petition for review was filed in the United States Court of Appeals for the Third Circuit by the counsel to Public Service, whose application for fees was granted in reduced amount, and by United Corporation, whose expenses in connection with the reorganization of Public Service were disallowed by the Commission. The Court of Appeals reversed that portion of the Commission's order approving a reduced allowance for the counsel to Public Service and affirmed the Commission's action denying allowances of expenses to United Corporation. A petition for certiorari filed by United Corporation with the United States Supreme Court on May 27, 1954 was denied on October 14, 1954.

REVISION OF RULES, FORMS AND PROCEDURES

Early in the fiscal year the Commission initiated a program to reexamine all rules, forms and procedures under the Act. The purpose of this program was to make it possible for the Commission better to carry out its functions with a reduced staff. The program has resulted in substantial revision of rules and forms, thereby reducing duplicative filing requirements, eliminating the demand for material no longer needed in administering the Act, and streamlining procedures where streamlining seemed appropriate.

Revisions of Rules and Regulations

Rule U-11 was revised on October 5, 1953 so as to facilitate investment in the equity securities of public utilities by certain individuals and corporations. Under the revised rule any individual who has previously been authorized by the Commission to acquire as much as five percent of the voting securities of two or more electric or gas utility companies or holding companies may acquire unlimited amounts of additional securities of such companies without obtaining prior authorization by the Commission. A company which is not itself a holding company or a subsidiary of a registered holding company and which has previously been authorized to acquire as much as five percent of the voting securities of two or more electric or gas utilities or holding companies may acquire additional voting securities of such companies up to, but not including, 10 percent of the total voting power without prior approval. Previously each acquisition above 5 percent required separate approval. Experience has shown, however, that Commission examination of subsequent acquisitions above 5 percent served no useful purpose, once the creation of an affiliation had been approved, until the acquisitions became sufficient to cause the acquirer to

become a holding company. Both the industry and the Commission are saved needless labor and expense by the revision.

A new rule, rule U-13, was adopted on December 24, 1953 to facilitate the conversion of certain registered holding companies into investment companies as a means of compliance with the provisions of section 11 (b) of the Act. Two registered holding companies, Electric Bond and Share Company and The United Corporation, have disposed of the greater part of their domestic utility interests and have been authorized by the Commission to convert themselves into investment companies to be registered as such pursuant to the Investment Company Act of 1940. Standard Power and Light Corporation and the International Hydro-Electric System have indicated a similar intention. The new rule exempts nonutility companies acquired by these registered holding companies, pursuant to an overall investment program previously approved by the Commission, from the obligations and duties imposed upon them by the statute as subsidiaries or affiliates.

Rule U-20 was amended effective September 15, 1954 to prescribe Form U-1 for the filing of all applications and declarations and amendments thereto under sections 6 (b), 7, 9 (c) (3), 10,12 (b), 12 (c), 12 (d) and 12 (f) of the Act. Previously, a separate form, Form U-A, was required to be used for the filing of amendments. The practical effect of the revision was to eliminate Form U-A in the great majority of cases arising under the Act.

Rule U-22 was amended effective September 15, 1954 for the purpose of extending the privilege of incorporation by reference in the filing of all applications and declarations under the Act. Formerly, the rule permitted applicants and declarants to incorporate by reference only to other documents filed under this statute. The rule, as amended, permits incorporation by reference to documents filed with the Commission under any Act administered by it.

A new rule, rule U-29, was adopted effective April 30, 1954, to require the filing under separate cover by registered holding companies and their subsidiaries of their published reports to stockholders and certain other information, all of which was previously incorporated as exhibits to the annual reports filed by registered holding company systems. The objectives of this revision were to pave the way for the consolidation of annual reporting requirements under the Securities Exchange Act of 1934 and the Public Utility Holding Company Act of 1935, as more fully described below, and to permit more efficient disposition of voluminous records after they have ceased to be the subject of active use.

The Commission adopted an amendment to rule U-50 which, along with companion revisions of certain rules under the Securities Act of 1933, was designed to eliminate certain mechanical and administrative impediments which

hindered the prompt public offering of securities following the receipt of bids from prospective underwriters. Offerings subject to rule U-50 are required to be acted upon by the Commission under both statutes. Formerly, the company selling the securities was required to obtain two sets of orders under each statute. The first orders, in which all provisions of the registration statement and declaration were cleared, except the price of the sale, to be determined at competitive bidding, and the successful bidders' reoffering price to the public, were entered prior to the published invitations for bids. The second orders, giving this information, were entered following determination of the winning bid and offering price and were required to be obtained before the securities could be offered for sale to the public. The rules as amended permit immediate award of the securities to the successful bidder and public offering without the necessity of the second set of clearance orders in all cases where two or more bona fide bids are received unless in a particular case the Commission should reserve jurisdiction. In its prior experience under rule U-50 the Commission had only on rare occasions disapproved an award where two bids were received.

Rule U-40 was amended so as to exempt the acquisitions by registered holding companies and their subsidiaries of securities of companies whose principal business is the ownership or licensing of trade names, trade marks, and service marks used by public utilities in the ordinary course of their business. Previously the acquiring company was required to obtain a specific order of approval from the Commission. This revision was adopted as a result of a petition for such an amendment filed on December 4, 1953, pursuant to section 4 (d) of the Administrative Procedure Act and rule XIX of the Commission's Rules of Practice.

Pending Proposals for Revision

Rule U-45 (b) (6) regulates the manner in which the consolidated Federal income tax of a registered holding company system may be allocated among the associate companies in the system. It provides in substance that the tax shall be allocated so that each company included in the consolidated tax return for the system will bear that percentage of the consolidated income tax which the income tax liability of such company on a separate return basis would be to the aggregate income tax liabilities of the individual companies based on separate returns. Early in 1953 the Commission had occasion to consider a specific request by a registered holding company for a modification of the requirements of this rule. Since the issues raised by this request appeared sufficiently broad in scope to warrant reconsideration of the rule, the Commission published a notice inviting comments on the rule. Numerous comments and recommendations were received from various registered holding companies and from 10 regulatory bodies.

Thereafter the Commission published a notice proposing a change in the rule, the effect of which would have been to eliminate intercompany dividends in allocating the tax. After receiving extensive comments from interested members of the public and holding a public hearing on the proposal, the Commission directed its staff to make further studies of the problem. Since the end of the fiscal year the Commission has revised rule U-45 (b) (6) so as to permit the allocation of taxes among companies in registered holding company systems in accordance with either of the first two methods specified in Section 1552 of the Internal Revenue Code of 1954, subject, however, to certain limitations.

With minor exceptions, rule U-50 requires competitive bidding in connection with the issuance or sale of securities by registered holding companies and their subsidiaries. During the fiscal year the Commission instituted a study as to whether competitive bidding is a condition which should be imposed upon the statutory exemption afforded by section 6 (b) of the Act. On November 25, 1953 the Commission published a notice of a proposed amendment to rule U-50 which would exempt from the competitive bidding requirements of the rule securities issued by certain public utility subsidiaries of registered holding companies. Such amendment would implement the exemption provisions of section 6 (b) of the Act which, subject to such terms and conditions as the Commission deems appropriate in the public interest or for the protection of investors or consumers, exempt such issues if they have been expressly authorized by a State commission. Extensive written comments on the proposed amendment were received from representatives of the industry, public regulatory bodies and members of the general public, and on February 18, and March 31, 1954 public hearings were held on the proposal. At the end of the fiscal year the Commission had not acted on the proposal.

The employee stock option plan as a means of incentive compensation for executives and employees has been used only to a very limited extent in the public utility industry. The Commission has not permitted a declaration in respect of any stock purchase plan or stock option plan to become effective. In the fiscal year 1953 the Commission received from holding companies a number of requests concerning the issuance of stock to officers or employees of a registered holding company or any of its subsidiary companies pursuant to an employees' stock option plan. On May 15, 1953, the then Director of the Division of Corporate Regulation, acting upon direction of the Commission, sent a letter to each registered holding company stating that the Commission would give expeditious consideration to stock purchase plans meeting the prescribed standards which, in effect, would have made such plans stock option plans. On February 12, 1954, the Commission promulgated for comment a proposed new rule, Rule U-51, which would make it possible for registered holding companies and their subsidiaries to use employee stock option plans with appropriate safeguards to protect the public interest and the interest of investors and

consumers. A public hearing on the proposed rule was held on April 8, 1954. After the close of the fiscal year, the Commission announced that, following thorough consideration of the entire record in the matter, it had decided not to adopt the proposed rule U-51 and it also announced withdrawal of the May 15, 1953 letter referred to above.

The Public Utility Holding Company Act prohibits a registered holding company or subsidiary from having as an officer or director any officer, partner, or representative of any bank, trust company or investment banker, except as permitted by regulations of the Commission as not adversely affecting the public interest and the interests of investors and consumers. Rule U-70, as presently in effect, grants exemptions from this prohibition to persons whose only financial connections are with commercial banking institutions and small banking investment firms meeting certain described requirements. During the fiscal year the Commission published a proposal to revise this rule so as to eliminate the numerous complex exemptions inserted from time to time over the years to meet specific situations which are no longer of particular significance. The proposed revision would simplify the rule and give registered holding companies and their subsidiaries some additional latitude in the selection of directors. At the end of the fiscal year, the Commission had not acted on the proposal.

During the year the Commission promulgated notices of proposals to adopt statements of policies setting forth the requirements which it considered should be met by public utility companies subject to the regulatory provisions of the Act in their indentures securing-first mortgage bonds and in the protective provisions pertaining to their preferred stocks. In the past, the requirements imposed upon issuers of mortgage bonds and preferred stocks have varied from time to time and from issuer to issuer with the result that there have been charges of unequal treatment by some issuers. The object of the proposed statements of policies is to reduce this variation and to provide all interested persons with information as to the standards respecting indenture and preferred stock charter provisions which these types of security issues will be measured against. Voluminous comments were received from representatives of registered holding company systems and from interested members of the public and these are under study by the staff.

Revisions of Forms

Generally speaking, the forms prescribed for reporting to the Commission by registered holding companies and their subsidiaries had received little attention during the past several years, and much of the required data was either available in other sources or no longer essential. In other respects the reports were inadequate. The three principal forms used by registered systems were revised during the fiscal year by the elimination of some items, the restatement of others

and an overall attempt to simplify language. The financial statement requirements in these forms have been strengthened, and now conform generally to the basic accounting regulations promulgated by the Commission under the Securities Act of 1933 and Securities Exchange Act of 1934.

Form U5S, which is the annual system report required to be filed by registered holding companies pursuant to the requirements of the Act, was redesigned so that a single report may now be used to satisfy the annual reporting requirements under both the Public Utility Holding Company Act and the Securities Exchange Act for all associate companies in a particular holding company system. As an example, this has enabled one registered system to reduce the number of separate reports required to be filed by the various system companies under both statutes from 11 to one. The revision of Form U5S should result in a real reduction in the time required to be spent by the Commission's staff in examining annual reports of companies subject to both the Public Utility Holding Company Act and the Securities Exchange Act.

Form U-13-60, which is the annual report form for mutual and subsidiary service companies associated with registered holding company systems, was also simplified. Items calling for material contained in the system annual report on Form U5S and for detail no longer deemed necessary were eliminated.

Form U-1, which is used for filing most applications and declarations in respect of financing, acquisitions of securities and assets and certain other transactions regulated by the Act, was revised and brought up to date during the fiscal year. One important new requirement was that the financial statements, required to be filed as exhibits to the form, be prepared in accordance with the Commission's Regulation S-X. The privilege of incorporation by reference of material filed under all statutes administered by the Commission, instead of only to the Holding Company Act, was part of the revision.

Processing of Fee Applications for Services Rendered in Section 11 Reorganization Proceedings

At the beginning of the present fiscal year the Commission was faced with a substantial backlog of applications for fees rendered in prior Section 11 reorganizations. To facilitate handling this backlog, a new procedure was inaugurated in December 1953 for disposing of such applications. Under the new procedure, after fee applications have been filed, the Commission enters an order directing the company or companies who will pay the fees to file with it a report setting forth, in a manner so as to indicate the proposed allocations thereof among the affected companies, the amounts of fees and expenses which those companies have already paid or, after negotiation with applicants, have agreed to pay, and in cases where negotiations were unsuccessful, the amounts which

such companies recommend for payment. To avoid any possibility that its original order might be construed as a waiver of its jurisdiction over fee agreements negotiated pursuant thereto, the Commission reserves jurisdiction therein of its right to exercise the full power with respect to fees and expenses which are conferred upon it by the Act.

While the company is carrying on the negotiations and preparing the report to the Commission referred to above, the staff of the Division of Corporate Regulation independently studies and prepares an analysis of the fee applications on file and makes a preliminary Division recommendation to the Commission of the amounts which should be approved as fees for each fee applicant. The Commission is then in a position, upon receiving the company report, to compare the figures agreed upon or recommended by the company with those independently recommended by its staff and to determine whether it can approve and direct payment of some or all of the fees agreed upon or the fees recommended or compromise figures without a public hearing. Although this new procedure is not adaptable to all of the fee applications pending before the Commission, the Commission has found generally that its use in appropriate cases has greatly facilitated disposition of the cases and has reduced to a minimum the necessity of holding extensive fee hearings. Since December 1953, the new procedure has been employed for handling fee applications related to reorganizations of five holding company systems.

COOPERATION WITH STATE AND LOCAL REGULATORY AUTHORITIES

The Commission has continued to pursue its long established policy of cooperating to the fullest extent with state public utility commissions and municipal regulatory bodies on all matters of mutual interest. Aside from day-to-day contacts, most of which are informal in nature, there were significant instances during the past fiscal year of cooperation on the part of the Commission with state and local authorities on public utility matters.

An underlying objective of the Act is to supplement and strengthen local regulation of public utilities. Notices of proceedings and of proposals to amend or adopt rules, forms and regulations under the Act, which are considered likely to be of interest to state and local authorities, are sent to those agencies. All matters of general interest are circulated in this manner among the members of the National Association of Railroad and Utilities Commissioners.

In response to the Commission's published notice dated November 25, 1953, inviting comments on the proposed amendment to rule U-50, which would exempt from the competitive bidding requirements of the rule securities issued by certain state regulated public utility subsidiaries of registered holding companies,

comments and recommendations were received from 41 state commissions and from the Public Utilities Commission of the District of Columbia.

The proposal by Cities Service Company, a registered holding company, to sell all of its holdings of the common stock of The Gas Service Company to Missouri Public Service Company, discussed more fully in a preceding section of this report, was also the occasion for active participation by state regulatory authorities. Following the filing with the Commission of the proposed contract between Cities Service and Missouri Public Service, the public utility commissions of the States of Missouri, Kansas, Nebraska and Oklahoma, in which Gas Service operated, were notified of the pending proceedings and of the date set for the hearing and were kept fully advised of all subsequent developments. The Missouri Public Service Commission and the Kansas State Corporation Commission appeared and were admitted as parties in the proceedings before the Commission.

FINANCING OF REGISTERED PUBLIC UTILITY HOLDING COMPANY SYSTEMS

The volume of securities sold for cash or issued in exchange for refunding purposes by registered holding companies and their subsidiaries during the fiscal year 1954 exceeded that for the preceding year, even though 17 companies with assets of $270 million were removed from the jurisdiction of the Act as a result of divestments pursuant to section 11. A major improvement in the markets for new securities and continuance of the high rate of post-war public utility expansion appear to be the principal contributory factors in the past year's record.

In 1954 registered systems sold $902.9 million of securities to the public and to institutional investors as compared with $712.2 million in 1953. In both years this external financing accounted for 26 percent of the total volume of financing by the entire electric and gas utility industries. The aggregate volume of security sales upon which the Commission was required to act pursuant to sections 6 and 7 of the Act, including both sales to the public and intra-system sales, increased to $1,154.5 million in 1954 from the $993.2 recorded in the previous year, despite a modest decline in security sales by subsidiaries to their holding company parents from $281.0 million in 1953 to $251.6 million in 1954.

The following table sets forth in detail for the two years the volumes of securities of various types issued and sold by registered holding companies and their subsidiaries under sections 6 and 7 of the Act. Portfolio sales and issuances in connection with reorganizations are excluded.

[table omitted]

As indicated by the preceding table, the number of issues acted upon by the Commission in 1954 was 100 less than the number for 1953, whereas dollar volume of financing increased $161.3 million during the past year. This reflects principally a decline in the number of medium term note issues sold by subsidiaries to their respective parents.

The electric and gas utility and non-utility operating companies of registered systems sold $218 million of common stocks in 1954. [Footnote: Represents sales of securities by all electric, gas and nonutility operating companies of registered systems, including sales to registered holding company parents, but excluding sales of securities by one operating company to another. Also excludes all sales of securities by those registered holding companies which function solely as holding companies.] This represents the largest volume of equity financing accomplished by such operating companies in any fiscal year since 1949. Of this amount, $119 million were sold to parent holding companies. The balance of $99 million represented sales of stock to the public by operating companies which were also top registered holding companies, and by other operating companies in which there was a public interest resulting from partial divestments. While such a comparison may be somewhat affected by differences in the methods of subsidiary financing employed in various systems, it is significant that the total sales of common stocks by the operating companies of registered systems accounted for 25 percent of their security sales in 1954, while total sales of common stocks by all other operating companies in the electric and gas industries not subject to the Act showed a corresponding ratio of 18 percent.

The financing of registered holding companies (exclusive of holding companies which are also operating companies) followed a much different pattern. In the fiscal year 1954 they sold $139.0 million of debt securities and $22.5 million of common stock. They sold $119.5 million of common equity securities in 1953, $108 million in 1952 and an average of more than $80 million in each of the three fiscal years 1949 to 1951. The amounts of common equity and debt securities sold for new money purposes in each of the past six fiscal years by these companies are shown in the following table.

[table omitted]

The debt financing of $139 million by these registered holding companies in 1954 represented almost entirely debenture issues by holding companies in those systems whose operating subsidiaries have no long-term debt securities in the hands of the public.

The effect of the comparatively small volume of common stock sales by registered holding companies in 1954 was to reduce to 12.3 percent the

percentage of the aggregate external financing of registered systems which was represented by common stocks. In 1953, 26 percent of the total external financing of registered systems was accounted for by sales of common stocks.

The sharp decline in holding company common stock financing during 1954 reflects in part the carry-over of funds derived from the sales of unusually large amounts of holding company common stocks in 1952 and 1953 as indicated above. Another factor in the year's results was the financing by one large registered holding company, The Columbia Gas System, Inc., which presented unusual problems. That company finances all of its subsidiaries' requirements and faced the problem of raising $130 million to finance the expansion program of its system. Because of the usual lag in the development of earnings power on recent property additions and the lag in the procurement of rate revisions applied for, the company's earnings dropped to a point where management considered it unwise to attempt to raise the needed capital by the sale of common stock. As an alternative Columbia's management proposed and the Commission approved the sale of $90 million of sinking fund debentures in the fiscal year 1954, representing 62 percent of the total external debt financing of all registered systems in that year. The debentures included $50 million subordinated debentures convertible into common stock beginning on January 1, 1955. This issue represented the second convertible issue ever authorized by the Commission under section 7 of the Act (the other having been issued in connection with reorganization under section 11 of the Act), and it reflected the extraordinary circumstances present in the case. Columbia sold $22 million of common stock in 1953 and $20 million in 1952. The consolidated capitalization of the Columbia system as of June 30, 1954, reflecting both debenture issues, showed a debt ratio of 55.2 percent and a common equity ratio of 44.8 percent.

The continued high level of financing activity by registered systems in 1954 was typical of the electric and gas utility industries as a whole. The first six months of the fiscal year 1954 witnessed a decline of nearly one percent in the cost of public utility bond money with a corresponding improvement in the price structure of the common and preferred stock markets. It is apparent that this development acted as a potent stimulant to both financing plans and expansion plans throughout the year. The drop in financing costs also stimulated a modest revival of refunding operations. Registered systems sold $20 million of refunding issues in 1954 and all other electric and gas utilities sold $291 million of securities for that purpose. The latter total includes two bond issues aggregating $105 million sold for the purpose of refunding two issues which had been outstanding only about 12 months.

Plant construction expenditures by the electric and gas utility industries for the fiscal year 1954 recorded the modest increase predicted in the 19th Annual Report. Industry estimates indicate that construction expenditures for the next

two fiscal years may .amount to approximately $3.8 billion in 1955 and approximately $3.5 billion in 1956.

The rights offering continued to dominate the common stock financing of registered systems in 1954, despite the relaxation in 1953 of the Commission's former policy of requiring that sales of common stock, be made in this manner except where unusual conditions prevailed. Of the 10 issues offered in 1954 pursuant to sections 6 and 7 of the Act, only two, amounting to 10 percent of the total dollar volume, were sold by means other than rights offerings. 65 percent of the common stock sold in 1954 by all other electric and gas utilities was offered through rights offerings.

[table omitted]

The trend toward non-underwritten rights offerings noted in 1953 has continued during the past fiscal year. Also in evidence was an increase in the use of the oversubscription privilege in underwritten offerings. These developments are summarized in the following table:

[table omitted]

Offerings of securities by issuing companies pursuant to sections 6 (b) and 7 of the Act and portfolio sales by registered holding companies under section 12 (d) are required to be made at competitive bidding in accordance with the provisions of rule U-50. Automatic exemptions from competitive bidding requirements for certain types of sales including nonunderwritten sales made to stockholders pursuant to preemptive rights are provided by clauses (1) through (4) of paragraph (a) of the rule. Under paragraph (a) (5) the Commission may by order exempt an offering from competitive bidding if it appears unnecessary or inappropriate to carry out the provisions of the Act. The following table shows the volume of sales of securities at competitive bidding pursuant to rule U-50 by registered holding companies and their subsidiaries, including portfolio sales, for 1954 with cumulative totals from May 7, 1941, the effective date of the rule.

[table omitted]

Included in the total of $668 million of security sales for the fiscal year 1954 are two portfolio divestments of common stocks amounting to $36 million, leaving total sales by issuers at competitive bidding of $632 million. The difference between the latter figure and the total external financing by registered systems of $902.9 million amounted to $271 million, which represented sales of securities pursuant to the various exemptions from competitive bidding requirements afforded by the rule. Among these exempt sales were $60 million of securities

sold pursuant to the automatic exemptions provided by clauses (1) through (4) of paragraph (a) of the rule.

The balance of $211 million represented sales of securities by six companies pursuant to exemptions from the competitive bidding requirements of rule U-50 granted by orders of the Commission under paragraph (a) (5) of the rule. Included were sales of three issues aggregating $48 million which were exempted because of unfavorable market conditions and other unusual circumstances attending the offerings. Another company was granted exemption with respect to $3 million of its common stock representing the unsubscribed portion of a non-underwritten rights offering. Two other companies, organized to construct and operate generating facilities to supply electric power to Atomic Energy Commission plants, issued $141 million of bonds and $19 million of notes pursuant to long-term construction loan commitments. These agreements extend over periods of several years and permit the issuing companies to issue their securities to insurance companies from time to time as funds are needed. Since these arrangements did not lend themselves to the mechanics of the competitive bidding procedure they were exempted by orders of the Commission pursuant to paragraph (a) (5) of rule U-50.

There were three additional issues not included in any of the foregoing totals. New England Gas and Electric Association, a registered holding company, sold its holdings of all of the preferred and common, stocks of New Hampshire Electric Company to the Public Service Company of New Hampshire, a non-affiliate, for a consideration consisting of 120,000 shares of common stock and a five year note of $2,240,000 of the latter company. Union Electric Company of Missouri, a registered holding company, acquired the common stock of Missouri Edison Company, a non-affiliate, through the issuance of shares of its common stock in exchange.

In comparison with the 628 issues of securities totalling $8,708 million sold by registered holding companies and their subsidiaries at competitive bidding from the effective date of rule U-50 to the end of the fiscal year 1954, 216 issues with volume of $1,825 million were sold by other means in accordance with orders of the Commission granting exemptions from competitive bidding pursuant to paragraph (a) (5) of the rule. The following table sets forth the cumulative totals of issues and dollar volumes of each type of security sold pursuant to these exemptions.

[table omitted]

It will be noted from the above table that only 51 issues with an aggregate dollar value of $455 million were sold through underwriters. Of the $1,370 million of securities sold by means of non-underwritten transactions exempt from

competitive bidding $752 million represented private placements of bonds. Included in the latter were $241 million of bonds sold pursuant to the construction loan commitments made by Ohio Valley Electric Corporation and Electric Energy, Inc. as described above. Two subsidiary natural gas pipe line companies sold $94 million of bonds during the period under similar agreements. Also included among these private placements was an issue of $100 million of collateral trust bonds as part of a reorganization settlement under section 11 of the Act. All notes sold during the period and more than half of the debentures sold were also in the nature of private placements. Sixteen of the preferred stock issues totalling $243 million, were refunding exchange offerings, 14 of which, with aggregate volume of $227 million, were initiated prior to the announcement by the Commission of its general policy requiring competitive bidding in such cases. Sixteen of the common stock sales, totalling $83 million, represented sales of equity investments in subsidiaries by registered holding companies to other public utility or holding companies. Sixteen other issues, aggregating $19 million, were in the nature of sales of common stock investments in small non-retainable subsidiaries directly to private individuals or small groups of individuals.

FINANCING OF ELECTRIC GENERATING COMPANIES SUPPLYING FACILITIES OF THE ATOMIC ENERGY COMMISSION

Two generating companies which have been organized to furnish power to facilities of the Atomic Energy Commission are subject to the Act because they are subsidiaries of registered holding companies. The initial equity financing of the first of these, Electric Energy, Inc. (EEI), was approved by the Commission on January 15, 1951. The purchasers of the common stock were Central Illinois Public Service Company, 20%; Illinois Power Company, 20%; Kentucky Utilities Company, 10%; Middle South Utilities, Inc., 10%; and Union Electric Company of Missouri, 40%; for an aggregate consideration of $3,500,000. Of these, Middle South and Union Electric are registered holding companies, Kentucky Utilities and Illinois Power are exempt holding companies, and Central Illinois is an independent operating public utility.

EEI has a 25-year contract to furnish the Atomic Energy Commission installation at Paducah, Ky., with 735,000 kilowatts of power. Since 1951 the Commission has approved additional equity financing of $2,700,000, and debt financing in the form of 25-year first-mortgage bonds in the amounts of $100,000,000 at 3 percent, $65,000,000 at 3 3/4 percent, and $30,000,000 at 4 1/2 percent. $740,350 in fees and expenses for the organization and financing of EEI have been approved.

Following a similar pattern, the Ohio Valley Electric Company (OVEC) and its wholly owned subsidiary, Indiana-Kentucky Electric Company, were organized to

construct generating capacity for the furnishing of 1,800,000 kilowatts to the Atomic Energy Commission's plant at Portsmouth, Ohio. The initial equity financing for this system, consisting of 200,000 common shares to be sold for an aggregate of $20,000,000, was approved by the Commission on November 7, 1952, with the shares being purchased by the sponsors in the following percentages:

American Gas & Electric Company: 37.8%

Cincinnati Gas & Electric Company: 9.0%

Columbus & Southern Ohio Electric Company: 4.3%

Dayton Power & Light Company: 4.9%

Kentucky Utilities Company: 2.5%

Louisville Gas & Electric Company: 7.0%

Ohio Edison Company: 16.5%

Southern Indiana Gas & Electric Company: 1.5%

Toledo Edison Company: 4.0%

West Penn Electric Company: 12.5%

Of the sponsors, American Gas, West Penn, and Ohio Edison are registered holding companies, Cincinnati, Kentucky, and Louisville are exempt holding companies, and the others independent operating utilities.

Subsequently the Commission has approved the issue by OVEC of $360,000,000 principal amount of 25-year 3 3/4 percent bonds, $60,000,000 of 4 percent notes to banks, due January 1, 1967, and $8,000,000 of 2 percent subordinated notes purchased by the sponsors. $1,026,532 in fees and expenses has been approved since the end of the fiscal year.

The debt financing arrangements of both EEI and OVEC permit them to issue their securities to the institutional purchasers from time to time as funds are needed. Since these mechanics did not lend themselves to the mechanics of the competitive procedure, they were exempted from Rule U-50 by orders of the Commission.

PART V
PARTICIPATION OF THE COMMISSION IN CORPORATE REORGANIZATIONS UNDER CHAPTER X OF THE BANKRUPTCY ACT, AS AMENDED

Chapter X of the Bankruptcy Act provides a procedure for reorganizing corporations in the federal courts. The Commission's duties under Chapter X are, at the request or with the approval of the court, to provide the court and investors with independent expert assistance on the various legal and financial questions that arise in the proceeding and to prepare advisory reports on plans of reorganization. The Commission has no right of appeal in a Chapter X proceeding, but it may participate in appeals taken by others.

The Commission acts in a purely advisory capacity. It has no authority either to veto or to require the adoption of a plan of reorganization or to render a decision on any other issue in the proceeding. Its recommendations are made for the benefit of the judge and the security holders, affording them its disinterested views in a highly complex area of corporate law and finance. Generally, the Commission participates only in proceedings in which there is a substantial public investor interest.

The Commission, due to budget considerations and the need to make the most effective use of its reduced personnel, is engaged in a re-examination of its functions under Chapter X of the Bankruptcy Act. In view of the impact upon the federal courts of any curtailment of the activities of the Commission under Chapter X, the Commission has sought to obtain the views of the Federal Judiciary as an aid to the Commission's study of its Chapter X activities. This problem was presented to the Judicial Conference of the United States on September 23, 1954 and it was suggested that the Federal Judges be invited to comment upon the functions of the Commission in Chapter X. The Judicial Conference approved the suggestion and a questionnaire has been sent to the Federal Judges through the Administrative Office of the United States Courts, the results of which will be carefully studied by the Commission.

SUMMARY OF ACTIVITIES

The Commission participated during the 1954 fiscal year in 49 proceedings involving the reorganization of 69 companies with aggregate stated assets of $553,998,000 and aggregate stated indebtedness of $329,286,000. During the year the Commission, with court approval, filed notices of appearances in 4 new proceedings under Chapter X involving 6 companies with aggregate stated assets of $8,520,000 and aggregate stated indebtedness of $17,373,000.

Proceedings involving 13 principal debtor corporations and 1 subsidiary debtor were closed during the year. At the end of the year, the Commission was actively participating in 36 reorganization proceedings involving 55 companies with aggregate stated assets of $489,029,000 and aggregate stated indebtedness of $307,340,000.

Problems in the Administration of the Estate

A fundamental aim of Chapter X is to make available to the court, the parties and the security holders full and accurate information regarding the debtor's affairs. The independent trustee customarily transmits to security holders a report on the history and financial condition of the debtor, the operation of its business, and the desirability of its continuance. Such reports enable security holders to consider suggestions for a plan of reorganization or proposed plans of others and aid the court in considering problems before it. The Commission has consulted through its staff with trustees in connection with their investigations and the preparation of their reports.

The Commission generally renders assistance in connection with the varied problems that arise in the administration of the estate. For example, the Commission has rendered significant aid in the discovery and prosecution of causes of action against former management or other fiduciaries who may have misused their positions of trust. In this field of activity, the Commission had occasion to investigate the affairs of Texas Gas Utilities Company in reorganization under Chapter X in the United States District Court for the Western District of Texas. The Commission's inquiry uncovered substantial evidence of mismanagement and overreaching on the part of the former president of the company. The trustee, using the evidence developed by the Commission, obtained a substantial judgment from the former president and others for the benefit of the estate of the debtor.

Activities with Respect to Allowances

The Commission makes specific recommendations to the courts respecting allowances for fees and expenses. The Commission itself receives no fees or expenses from estates in reorganization and is primarily concerned with the fairness of the result to the parties and the public investors.

The reorganization under Chapter X of Central States Electric Corporation was conducted in the District Court for the Eastern District of Virginia. The trustees brought an action in the District Court for the Southern District of New York against former officers and directors of the debtor and others. This action was ultimately unsuccessful and certain of the defendants made an application in the District Court in New York for allowances of expenses and attorneys' fees

pursuant to Article 6A of the New York Corporation Law which provides for indemnification to officers and directors of litigation expenses under certain conditions. One defendant, who was not an officer, sought such an allowance on general equitable principles. The District Court granted awards to all the applicants, and the trustees appealed. On the appeal, the Commission, as amicus curiae, urged that the state indemnification statute should not have been held applicable to a debtor in a Chapter X proceeding, pointing out among other things that the awards contemplated by the state statutes were inconsistent with the purpose of Chapter X to insure prosecution of all causes of action in favor of the estate. The Commission urged that in any event awards made for legal services and expenses in connection with an action on behalf of the debtor's estate were within the exclusive jurisdiction of the District Court in Virginia, where the reorganization proceeding was pending. The Court of Appeals agreed that the reorganization court "had the sole power to determine and measure the rights of the defendants to reimbursement." Accordingly, the Circuit Court for the Second Circuit reversed the order granting awards.

In another significant appeal involving allowances, in a case where the Commission was an active participant from the outset, the District Judge had granted overall allowances substantially in excess of the Commission's recommendations, although the allowances to certain creditors' representatives were less than the amounts recommended by the Commission. The Commission supported an appeal by the creditors' representatives. The Court of Appeals agreed that the overall fees awarded were too high in view of the size of the estate and the work involved. It pointed out among other things that the record showed that thousands of hours of the trustees' work was without commensurate accomplishment or benefit to the estate. The Court also agreed that creditors' representatives who had been responsible for increasing the size of the estate and had performed other valuable services should be awarded more than the District Judge had granted them. The Court of Appeals revised the allowances in substantial conformity with the Commission's recommendations.

Consummation of Plan

The Commission examines the corporate charters, by-laws, trust indentures, and other instruments which are to govern the internal structure of the reorganized debtor, and in general strives to assure investors the inclusion of protective features and safeguards which its experience has shown to be desirable. Another matter with which the Commission has been concerned in connection with the consummation of plans of reorganization is the problem of unexchanged securities. Chapter X provides that a period of not less than five years following the final decree may be fixed by the judge within which security holders may make the exchange called for by the plan, after which they are barred from any participation. The Commission has been anxious to assure that all security

holders obtain the new securities or cash distributable to them under the plan of reorganization. Accordingly, it has endeavored to see that adequate notice and publicity is given of the bar date, that a professional search is made where possible, and that the bar date is extended when appropriate.

In the reorganization of Chicago, Aurora & Elgin Railroad Company, the plan provided that holders of the outstanding bonds of the company would upon surrender of their bonds on or before January 15, 1954, receive in exchange therefor shares of common stock of the successor companies. In December 1953, the Commission learned that the exchange agent was holding 55,732 shares of stock and $18,370 in accrued dividends for bondholders of the debtor. The Commission petitioned for an order extending the date for exchanging the outstanding bonds and directing the exchange agent to publish a notice of the new bar date and to mail written notices to holders of the unexchanged bonds. The District Court granted the Commission's request and as a result of the notices given by the exchange agent, some 33,000 shares were claimed by and delivered to their owners. In this, as in several other cases, the extension of time granted by the court proved efficacious in reducing the number of security holders who failed to make the exchange.

PART VI
ADMINISTRATION OF THE TRUST INDENTURE ACT OF 1939

The Trust Indenture Act of 1939 requires that bonds, notes, debentures, and similar securities publicly offered for sale, except as specifically exempted by the Act, be issued under an indenture which meets the requirements of the Act and has been duly qualified with the Commission. The Act operates by requiring that indentures to be qualified include specified provisions which provide means by which the rights of holders of securities issued under such indentures may be protected and enforced. These provisions relate primarily to designated standards of eligibility and qualification of the corporate trustee so as to provide reasonable financial responsibility and to minimize conflicting interests. The Act outlaws exculpatory provisions formerly used to eliminate all liability of the indenture trustee, and imposes on the trustee, after default, the duty to use the same degree of care and skill as a prudent man would use in the conduct of his own affairs.

The provisions of the Trust Indenture Act are closely integrated with the requirements of the Securities Act. Registration pursuant to the Securities Act of securities to be issued under a trust indenture subject to the Trust Indenture Act is not permitted to become effective unless the indenture conforms to the requirements of the latter Act, and necessary information as to the trustee and

the indenture must be contained in the registration statement. In the case of securities issued in exchange for other securities of the same issuer and securities issued under a plan approved by a court or other proper authority which, although exempted from the registration requirements of the Securities Act, are not exempted from the requirements of the Trust Indenture Act, the obligor must file an application for the qualification of the indenture, including a statement of the required information concerning the eligibility and qualification of the trustee.

[table omitted]

PART VII
ADMINISTRATION OF THE INVESTMENT COMPANY ACT OF 1940

The Investment Company Act of 1940 provides for the registration and regulation of companies engaged primarily in the business of investing, reinvesting, and trading in securities. The Act requires, among other things, disclosure of the finances and investment policies of these companies, prohibits such companies from changing the nature of their business or their investment policies without the approval of their stockholders, regulates the means of custody of the companies' assets, prohibits underwriters, investment bankers, and brokers from constituting more than a minority of the directors of such companies, requires management contracts to be submitted to security holders for their approval, prohibits transactions between such companies and their officers, directors and affiliates except with the approval of the Commission, and regulates the issuance of senior securities. The Act requires face-amount certificate companies to maintain reserves adequate to meet maturity payments upon their certificates.

COMPANIES REGISTERED UNDER THE ACT

As of June 30, 1954, 384 investment companies were registered under the Act, and it is estimated that on that date the aggregate value of their assets was approximately $8,700,000,000. This represents an increase of approximately $1,700,000,000 over the corresponding total at the beginning of the 1954 fiscal year. During the latest period for which data are available, the 12 months ended March 31, 1954, about 219 registered open-end management and closed-end management investment companies reported to the Commission sales to the public of approximately $673,000,000 of their securities and redemptions and retirements of approximately $267,000,000 leaving a net investment by the public in such companies of approximately $406,000,000, compared with a

corresponding net investment for the preceding 12-month period of approximately $545,000,000.

Investment companies registered at the end of the 1954 fiscal year were classified as follows:

[table omitted]

TYPES OF NEW INVESTMENT COMPANIES REGISTERED

During the 1954 fiscal year 20 new investment companies were registered under the Act, of which 8 were open-end management companies (which redeem their shares on presentation by the shareholder) and 10 were of the closed-end management type (in which the shareholder does not have a redemption privilege). Two companies of the unit type were also registered. During the year registration was terminated with respect to 5 management companies of which 1 was open-end and 4 were closed-end.

Among the open-end management investment companies which registered during the year one was a company incorporated in Canada which secured authority to register in accordance with the Commission's policies regarding Canadian investment companies described below. Another open-end company had a stated investment policy emphasizing investments in securities of corporations with substantial interests in California. Of the closed-end companies which registered during the year, three were industrial companies which had disposed of their business assets and invested the proceeds in securities, one was organized to provide a medium for the investment of American funds in Israel, and one was an employees' securities company. The two unit investment companies registered during the year were organized for the purpose of operating periodic payment plans for the purchase of securities of open-end investment companies.

REGISTRATION OF CANADIAN INVESTMENT COMPANIES

Under the terms of the Act, an investment company not incorporated within the United States may publicly offer its own securities in the United States only by special authorization of the Commission, where the Commission has found that "by reason of special circumstances or arrangements, it is both legally and practically feasible effectively to enforce the provisions of" the Act with respect to such company. At the beginning of the fiscal year, several applications were pending upon behalf of investment companies incorporated under the laws of Canada seeking authority to register under the Act and to sell their securities in

this country. Pursuant to Commission direction, our staff held extended discussions with representatives of the Canadian companies which had applied for registration and formulated conditions and arrangements designed to facilitate registration by these companies, with adequate protection for the interests of investors comparable to that afforded investors in American companies.

In order to establish definitive standards for all registrations by Canadian companies, the Commission, after public notice and opportunity for comment by interested persons, adopted rule N-7D-1 under the Investment Company Act, which prescribes the conditions and arrangements to be entered into by a management investment company organized under the laws of Canada prior to the issuance of an order under Section 7 (d) of the Act permitting the company to register under the Act and to make an offering of its securities in the. United States. The rule is applicable only to Canadian management investment companies, and the Commission announced that any conditions and arrangements proposed by investment companies organized under the laws of other foreign countries would be considered by the Commission on a case-by-case basis in the light of the statutory standards.

Rule N-7D-1 provides, among other things, that in order to implement the statutory means of enforcement of the Investment Company Act and to assure its effectiveness, the charter and by-laws of the Canadian company must contain the substantive provisions of the Act, so that the company in effect agrees that the provisions of the Act may be enforced as a matter of contract right by shareholders either in the United States or Canada. Under the rule, a majority of the officers and directors are required to be citizens of the United States, and all of such officers and directors must agree to comply with the Act and consent to the enforcement of such agreements in a similar manner. In order to effectuate the statutory objectives, the rule also requires that the company maintain its assets in the United States, and agree that in the event of noncompliance by the company or its officers and directors with their agreements or the Commission's order permitting registration, proceedings for liquidation and distribution of assets may be instituted. The rule also imposes duties and obligations upon certain affiliated persons of Canadian investment companies. It is the Commission's view that in substance the rule will accord protection to investors equal to, although not necessarily identical with, the protection afforded by the Investment Company Act to investors in domestic companies.

Contemporaneously with the adoption, of rule N-7D-1, the Commission issued two orders granting pending applications for registration of Canadian companies where the applicants had agreed to the various undertakings prescribed by the rule. Shortly after the close of the fiscal year, the Commission granted four more applications for registration by Canadian companies. Each applicant undertook to comply with all of the requirements of the new rule. As of September 1, 1954,

four of the registered Canadian companies had made public offerings of their stock, after registration under the Securities Act of 1933, the offering price of the stock sold aggregating $102,000,000.

CURRENT INFORMATION

The basic information disclosed in notifications of registration and registration statements is required by statute to be kept up to date. During the 1954 fiscal year the following current reports and documents were filed:

Annual reports: 252

Quarterly reports: 868

Periodic reports to stockholders (containing financial statements): 686

Copies of sales literature: 1, 829

APPLICATIONS FILED

Various provisions of the Act provide that applications may be filed for exemptions or other relief which the Commission may grant if the statutory standards are met. During the fiscal year a total of 71 applications were filed, including 25 seeking exemption of proposed transactions between investment companies and affiliates and 5 seeking a determination that the applicant had ceased to be an investment company within the meaning of the Act. Since there were 49 applications pending at the beginning of the year, a total of 120 applications required examination and consideration during the year. Eighty-four were disposed of and 36 were pending at the close of the year. The sections of the Act under which these applications were filed, and the number disposed of in each category, are shown in the following table.

[table omitted]

In keeping with the Commission's policy of encouraging the free operation of business management consistent with the protection of investors, in processing applications under the Investment Company Act, the endeavor is made so far as possible to resolve any problems on an informal basis, by discussion and correspondence rather than by formal hearing procedures. By the use of such techniques it has been practicable to dispose of most applications without the necessity of formal hearings.

PART VIII
ADMINISTRATION OF THE INVESTMENT ADVISERS ACT OF 1940

The Investment Advisers Act of 1940 requires registration of persons engaged for compensation in the business of advising others with respect to securities. The Commission is empowered to deny registration to or revoke the registration of any investment adviser who, after notice and opportunity for hearing, is found by the Commission to have been convicted or enjoined because of misconduct arising out of securities transactions or to have made false statements in his application for registration. The Act makes it unlawful for investment advisers to engage in acts and practices which would constitute fraud or deceit, requires investment advisers to disclose the nature of their interest in transactions executed for their clients, and prohibits profit-sharing arrangements and assignments of investment advisory contracts without the client's consent.

[table omitted]

During the fiscal year the Commission revoked the registrations of two investment advisers. In one of the cases the Commission found, among other things, that respondent, contrary to representations made in his application for registration and amendment thereto, had previously used and been known by a name other than the name under which he registered, took powers of attorney from clients, and based his fees on profit-sharing arrangements. In the other case, the Commission found that the investment adviser corporation and its president had been convicted in a United States District Court of felonies for violating the fraud provisions of the Investment Advisers Act.

LITIGATION UNDER THE INVESTMENT ADVISERS ACT OF 1940

During the fiscal year 1954 the Commission filed a complaint to enjoin Ralph H. Seipel, a registered Investment adviser doing business as Investors Surety Company, from further violations of Sections 206 (1) and (2) of the Investment Advisers Act of 1940. The complaint charged the defendant with falsely representing, among other things, that Investors Surety Company absolutely guaranteed against loss in the stock market, that it was the only organization in the world providing professional trading services for investments and at the same time maintaining cash reserves to protect against any possible loss, that it never handled either cash or securities belonging to its many customers, that it was composed of professional traders in securities listed on the New York Stock Exchange and had been such for over 25 years, and that it maintained branch offices in the principal cities and had a foreign exchange department to convert f

PART IX
RELATED ACTIVITIES OF THE COMMISSION

COURT PROCEEDINGS

Civil Proceedings

At the beginning of the 1954 fiscal year there were pending in the courts 13 injunctive and related enforcement proceedings instituted by the Commission to prevent fraudulent and other illegal practices in the sale of securities. During the year 19 additional proceedings were instituted and 16 cases were disposed of, leaving 16 of such proceedings pending at the end of the year. In addition the Commission participated in a large number of reorganization cases under Chapter X of the Bankruptcy Act, in 9 proceedings in the district courts under section 11 (e) of the Public Utility Holding Company Act; and in 10 miscellaneous actions, usually as amicus curiae, to advise the court of its views regarding the construction of provisions of statutes administered by the Commission which were involved in private lawsuits. The Commission also participated in 36 appeals. Of these, 10 came before the courts on petitions for reviews of administrative orders; 10 arose out of corporate reorganizations in which the Commission had taken an active part; 2 were appeals in actions brought by or against the Commission; 8 were appeals from orders entered pursuant to section 11 (e) of the Public Utility Holding Company Act; and 6 were appeals in cases in which the Commission appeared as amicus curiae.

Certain significant aspects of the Commission's litigation during the year are discussed in the sections of this report relating to the statutes under which the litigation arose.

Criminal Proceedings

The statutes administered by the Commission provide for the transmission of evidence of violations to the Attorney General, who may institute criminal proceedings. The Commission, largely through its regional offices, investigates suspected violations and, in cases where the facts appear to warrant criminal prosecution, prepares detailed reports which after careful review by the General Counsel's office and consideration by the Commission, are forwarded to the Attorney General. Commission employees familiar with the case often assist the United States attorneys in its presentation to the grand jury, the conduct of the trial, and the preparation of briefs on appeal. The Commission also submits parole reports prepared by its investigators relating to convicted offenders. Where an investigation discloses violations of statutes other than those

administered by the Commission, the Commission advises the appropriate federal or state agency.

Indictments were returned against 2,245 defendants in 525 cases developed by the Commission prior to June 30, 1954. These figures include 61 defendants in 20 cases in which indictments were returned during the past fiscal year. At the close of the fiscal year, of the 481 cases disposed of as to one or more defendants, convictions had been obtained in 418, or 87 percent, against a total of 1,196 defendants. Convictions were obtained against 25 defendants in 15 cases during the past fiscal year. In addition, two defendants in two cases were convicted of criminal contempt for violation of injunctive decrees previously entered against them.

In the single appellate case decided during the fiscal year judgments of conviction were affirmed as to all 7 defendants who appealed. At the close of the fiscal year 7 cases involving 8 defendants were pending on appeal.

As in prior years, the criminal cases developed and prosecuted during the fiscal year covered a wide variety of fraudulent activities. They included fraud relating to mining and oil and gas ventures, the operation of purported investment plans, the promotion of inventions and new businesses and the manipulation of securities on a national securities exchange, as well as fraudulent practices on the part of securities brokers and dealers and their representatives. In a number of fraud cases, the defendants were also charged with willfully violating the registration provisions of the Securities Act.

Convictions for the fraudulent sale of securities in connection with oil and gas ventures were obtained in U.S. v. Hamilton (D. Mont.), U.S. v. Vasen (N. D. Ill.), U.S. v. Frank (W. D. Okla.) and in U.S. v. Henderson (W. D. Tenn.). Henderson previously had been convicted on the same charge, violating the Mail Fraud Statute in connection with the sale of fractional undivided interests in oil and gas rights, but the conviction was reversed upon appeal because of certain trial errors.

In the Vasen case, which involved a well that reached a depth of 20,450 feet, stated to be the second deepest well in existence, it was charged that as part of a scheme to defraud, the defendant made false representations such as that the well was going through an "Atlantic Ocean of oil," that geologists believed that the producing formation extended completely across the State of Mississippi and possibly up to Pennsylvania, and that the oil sands encountered assured production of thousands of barrels of oil per day. Vasen was sentenced to a prison term of 5 years to be followed by 5 years probation, and a fine of $25,000 was imposed. The Frank case included charges of misrepresentation concerning a so-called "magnetic logger" device which was held out to investors as assuring

100 percent accuracy in the location of oil pools. Frank was sentenced to a term of 18 months imprisonment. In the Hamilton case the defendant was charged with making false representations with respect to his holdings and his plans to drill for oil and gas. He falsely stated the monies received from investors would be used to drill an oil well. Hamilton was placed on probation for 5 years but the imposition of the sentence was suspended on condition that full restitution was made to all investors within a period of 1 year. In the Henderson case the defendant was sentenced to 5 years imprisonment and fined $1,000.

Convictions for the fraudulent selling of securities in mining ventures were obtained in U.S. v. Kendall (W. D. Tex.), U.S. v. Wick-ham et al. (D. Nev.), U.S. v. Cottrelle (D. Mont.) and U.S. v. Swift (N. D. Calif.). The misrepresentations followed a common pattern. The defendants claimed that the mines involved had high grade ore which was being currently produced when in fact they were barren. Cottrelle had been a fugitive for 10 years, the indictment against him having been returned in 1943. He returned voluntarily from Canada and was sentenced to 3 years imprisonment and a $2,000 fine. Swift was charged with causing false and misleading statements regarding a new "ore shute" which were published and caused the stock to rise on the exchange on which it was listed. Swift was fined $5,000. The defendants in the other cases were sentenced to terms varying from 2 to 3 years imprisonment.

The promotion of spurious inventions and new businesses continued, during the past fiscal year, to be the subject of abuses in the sale of securities. In U.S. v. Owens et al. (S. D. Fla.) the defendants set up dummy corporations and obtained money from their victims by a variety of misrepresentations and false promises. In U.S. v. Ross (S. D. Ala.) the indictment charged that the defendant made false representations concerning the establishment and financing of a tung oil plant through money obtained from investors and funds purportedly available from the defendant and the Reconstruction Finance Corporation, However, the indictment charged, the defendant converted the money to his own use. In U.S. v. Klein (N. D. Ill.) the defendant was charged with falsely representing that he was in a position to purchase a sizable small loan company in Pennsylvania at a price less than its actual worth and that the investors would receive an annual return of 10 percent pending completion of the transaction and 15 percent thereafter. Actually, the indictment charged, Klein appropriated and converted a large part of the money to his own use. Another finance company was involved in U.S. v. Palmer (D. Colo.). There it was charged that defendant, in the sale of stock of the finance company, falsely represented that the investors were insured by an agency of the Federal government, that the company was audited every 3 months by the State of Colorado, and that the company paid 6 percent dividends regardless of profit or loss. The case of U.S. v. Cox (D. N. Mex.) involved the sale of securities by means of false representations concerning the alleged returns which investors would receive upon the purchase of an interest in a dry

ice plant. In U.S. v. Estep (N. D. Tex.) the defendant sold interests in a company manufacturing an alleged fuel-less self-energizing power unit and a machine which would keep people alive forever. The defendants in these various cases received sentences of up to 5 years in prison.

In U.S. v. Martin (D. N. Mex.) the defendant was convicted of falsely representing to his customers that he had executed their orders to buy securities, that he was holding securities purchased and paid for by them, and that payments made to them represented dividends which Martin had received on the stock he was holding for them. In fact, the indictment charged, Martin had not executed customers' orders but instead had appropriated and converted to his own use the securities and money he obtained from them. The defendant was sentenced to probation for two years and the sentence was suspended.

Following an extensive investigation by the Commission, indictments were returned against 13 individual and 2 corporate defendants in the United States District Court at Detroit, Mich., charging them with violating the anti-fraud provisions of the Securities Act, the mail fraud statute, and the broker-dealer registration provisions of the Securities Exchange Act, in connection with a stock sale promotion conducted by long distance telephone and the mails from Montreal, Canada, which allegedly resulted in the defrauding of a large number of investors residing in some 40 States and the District of Columbia, of over $300,000. It is charged in the indictments that defendants used over 200 false and fraudulent representations relating to alleged "rights" which investors had as shareholders to purchase additional shares at prices below the current market price, the purported market and market price for such securities, alleged discoveries and developments which had taken place on properties owned by the corporations, the listing of the securities involved on various Canadian exchanges, guaranteed profits investors were supposed to make, and numerous other similar matters. A conspiracy indictment was also returned in connection with this "boiler room" operation against these 15 defendants and 1 other. One of the defendants was also indicted for perjury committed during the investigation. Nine of the individual defendants who were in the United States have been arraigned.

COMPLAINTS AND INVESTIGATIONS

Each of the Acts administered by the Commission specifically authorizes it to conduct investigations of possible violations. These investigations are conducted primarily by the regional offices under the general administrative supervision of the principal office.

Investigations by the Commission are classified as preliminary or docketed. Preliminary investigations are initiated when information is received indicating a possible violation of one of the Acts and are usually conducted informally by telephone inquiries, interviews and a limited amount of correspondence. Frequently this limited investigation will disclose that no violation has taken place or that through a misunderstanding or ignorance of the law one of the statutes has been inadvertently violated. When an inadvertent violation has taken place, the investigation serves the purpose of informing the violator and brings about a compliance with the law before any serious damage or loss results to the investing public. However, should a preliminary investigation reveal the likelihood of substantial violations or widespread public interest, a docketed investigation file is opened and a full-scale investigation undertaken.

The Commission by the various statutes it administers is authorized to issue subpoenas and administer oaths, and to delegate this power to staff members.' In a particular case, an officer designated by the Commission may issue a subpoena requiring the attendance of witnesses to testify under oath and may also require the production of books, records and other documents for examination. The subpoena power is used only in specific instances and only after it appears that the necessary evidence cannot be otherwise obtained. This delegation of power by the Commission is made through the issuance of an order limited to the persons designated therein as officers and to the purposes of the particular investigation. During the fiscal year, 36 such orders were issued.

After the investigation is completed, the regional office prepares a report with the Regional Administrator's recommendation for the institution of appropriate action or for closing the investigation. In all instances, these reports are first reviewed by the staff of the principal office and subsequently, if the situation warrants, presented to the Commission for consideration. Where appropriate, further steps may be taken such as civil proceedings to enjoin violations, reference of evidence to the Attorney General, where it appears that criminal prosecution is warranted, or administrative proceedings with respect to registered securities, broker-dealers and investment advisers.

During the fiscal year, the Commission expanded the area of cooperation with state securities authorities by authorizing Regional Administrators to refer to local authorities evidence obtained in informal investigations indicating violations of state statutes. The object of this procedure is to turn over to the states those cases in which it appears there is a clear violation of state law and the Regional Administrator has reason to believe that the state authorities will take appropriate action. It is believed that this program will afford the public greater protection since the enforcement activities of the Commission can be concentrated on those cases which cannot be effectively handled by the states. The Commission also

co-operates with other Federal authorities by making available evidence of violation of other Federal statutes.

The following table shows the investigative activities of the Commission during the fiscal year:

[table omitted]

SECTION OF SECURITIES VIOLATIONS

The Commission maintains a Section of Securities Violations for assistance in the enforcement of the various statutes which it administers and to provide a further means of preventing fraud in the purchase and sale of securities. This Section has developed files which serve as a clearing house of information concerning persons who have been charged with violations of various Federal and state securities statutes. The specialized information in these files has been kept current through the co-operation of the United States Post Office Department, the Federal Bureau of Investigation, parole and probation officials, state securities commissions, Federal and state prosecuting attorneys, police officers, Better Business Bureaus, and members of the United States Chamber of Commerce. By the end of the 1954 fiscal year, these records contained data concerning 59,625 persons against whom Federal or state action had been taken in connection with Securities Violations.

During the past year, additional items of information relating to 3,785 persons were added to the records of this Section, including information concerning 1,414 persons not previously identified therein.

Extensive use is made of this clearing house of information. During the past year, the Section of Securities Violations received 2,937 letters or reports and sent 1,577 communications to co-operating agencies.

ACTIVITIES OF THE COMMISSION IN ACCOUNTING AND AUDITING

The considerable quantity and variety of financial statements filed with the Commission pursuant to the various statutes give rise to many questions pertaining to accounting practices and procedures. It has been the consistent policy of the Commission to insist that such financial statements clearly and unequivocally present to the users thereof, particularly investors and prospective investors, dependable data upon which to make their financial decisions. To this end, accounting rules and regulations and changes therein considered necessary

to obtain compliance with the applicable statutes are adopted by the Commission after extensive study and research by the Office of the Chief Accountant.

Such study and research usually involve correspondence and/or consultations with persons and groups having an interest in the contemplated action, including among others the American Accounting Association, American Institute of Accountants, Controllers Institute of America, National Association of Railroad and Utilities Commissioners, economists, attorneys, investment advisers and analysts, corporate officials, and other Federal agencies. Where the desirability therefor is indicated, public hearings are held.

The Commission has prescribed uniform systems of accounts for companies subject to the provisions of the Holding Company Act, has adopted rules under the Securities Exchange Act governing accounting and auditing of securities brokers and dealers, and has promulgated rules containing in a single, comprehensive regulation, known as Regulation S-X, which govern the form and content of financial statements filed in compliance with the various Acts. These regulations are implemented by the Accounting Series releases, of which 77 have been issued, designed to make public from time to time opinions on accounting principles for the purpose of contributing to the development of uniform standards and practice in major accounting questions. The rules and regulations thus established, except for the uniform systems of accounts, prescribed the accounting to be followed only in certain basic respects. In the large area not covered by such rules, the Commission's principal reliance for the protection of investors is on the determination and application of accounting principles and standards which are recognized as sound and which have obtained general acceptance. Most financial statements filed with the Commission are required to be certified by independent public accountants or certified public accountants.

The 19th Annual Report of the Commission contained a statement of the circumstances leading up to the adoption, during the current fiscal year, of Rule 3-20 (d) of Regulation S-X, which sets forth the disclosure required with respect to all stock option arrangements in financial statements filed with the Commission.

Because of the divergence of views as to the appropriate manner of accounting for so-called emergency facilities in financial statements filed with the Commission, the Commission adopted the policy of accepting financial statements wherein the portion of the cost of properties covered by certificates of necessity is amortized over the five-year statutory period as well as statements wherein the cost of such facilities is depreciated over the probable useful life of the facilities but which give recognition to the resulting reduction in income tax benefit after the close of the amortization period. Pursuant to this policy,

registrants in filing statements on either basis make adequate disclosures as to the method followed and the effect which would have been produced if the alternative method had been followed.

The Commission again had occasion during the fiscal year to consider the problem raised by departures from cost in the handling of depreciation, and denied a formal application to adopt a requirement that economic depreciation (based on replacement at current prices) be reflected either in the accounts or by other appropriate disclosures.

During the year, several problems arose in respect to foreign issuers of securities. Foreign standards of accounting and financial reporting differ in many respects from American standards, and vary from country to country. In the few, but sizable, filings during the year by foreign issuers, there have been reflected some departures from what are considered by American standards to be generally accepted accounting procedures. In each such instance comprehensive disclosure of the circumstances and the effects upon the financial statements has been required.

During the fiscal year, the Commission disposed of a proceeding under Rule 11 (e) of its Rules of Practice against certifying accountants alleged to have failed to observe appropriate audit requirements as to financial statements of a broker-dealer filed pursuant to the requirements of rule X-17A-5 adopted under Section 17 (a) of the Securities Exchange Act of 1934. After examining the record in the proceeding, the Commission was of the opinion that while more thorough auditing procedures might have resulted in the discovery of certain fictitious commodity transactions, the record did not disclose a lack of integrity or improper professional conduct within the meaning of Rule 11 (e), and accordingly the proceedings against the accountants were dismissed. The Commission, in taking this action, noted that no member of the public suffered any loss as a result of the transactions involved.

OPINIONS OF THE COMMISSION

Findings and opinions are issued by the Commission in all cases where the matter to be decided, whether substantive or procedural, is of sufficient importance to warrant a formal expression of views. The Office of Opinion Writing, a staff office which is directly responsible to the Commission, aids the Commission in the preparation of findings and opinions in contested and other cases arising under statutes administered by it. In accordance with the provisions of the Administrative Procedure Act requiring a separation between quasi-prosecutory functions and quasi-judicial functions, the personnel of the Office of Opinion Writing is entirely independent of the divisions engaged in the

investigation and prosecution of cases. In some cases, the interested operating division, with the consent of all parties, participates in the drafting of opinions. During the fiscal year the Commission issued findings and opinions in 81 matters. This figure does not include numerous orders which, although of a dispositive nature, were not accompanied by detailed findings or a formal opinion. With minor exceptions, all findings, opinions and orders are publicly released and constitute a source of information for the bar and other interested persons.

INTERNATIONAL FINANCIAL AND ECONOMIC MATTERS

During the fiscal year registration statements covering $591,571,960 of securities issued by foreign issuers, government and private, were effectively registered under the Securities Act. Of this amount $95,430,960 represented offerings by Canadian private issuers, including one Canadian investment company, and $137,866,000 represented offerings by Provinces and cities of Canada. Of the balance, $354,000,000 represented Israeli offerings, including $350,000,000 by the State of Israel and $4,000,000 by two private issuers. The total was completed by a $4,275,000 offering of a Dutch private issuer.

The Commission acted as one of the hosts of missions from Germany and Mexico which came to the United States under the auspices of the Foreign Operations Administration to make a study of the organizations, institutions, methods and regulations of the capital markets in this country.

In September 1953 the Validation Board for German Dollar Bonds, a joint German and American Board established in this country under an Agreement dated February 27, 1953 between the United States Government and the Federal Republic of Germany, began registration of West German dollar bonds for validation. There are 92 issues of such bonds subject to validation, which is required by legislation enacted by the German Government and is a necessary step before a bondholder may participate in a settlement which may be offered pursuant to the London Debt Agreement. After the establishment of validation procedures the Commission adopted rule X-15C2-3, governing the conditions under which West German securities could again be traded in the United States markets, such trading having been suspended since December 8, 1941. At the same time the Commission withdrew its request that brokers and dealers refrain from effecting transactions in West German securities to the extent that such trading is not prohibited under the provisions of rule X-15C2-3. The preparation and adoption of this rule and the proposed re-entry of the West German dollar bond issues into the markets of the United States presented many problems which required frequent consultations between members of the Commission's staff, the Department of State and the Validation Board for German Dollar Bonds.

Many of these problems will continue as settlement offers to American bondholders are forthcoming under the London Debt Agreement.

In connection with the resumption of trading in this county in West German dollar bonds the Commission has been concerned with obtaining recent information about the various issuers of these securities and had taken initial steps in November 1952 by requesting the cooperation of the West German Government in securing such information. Information about the Federal Republic of Germany was furnished in a circular dated October 6, 1953 relating to an exchange offer made by that government to the holders of two classes of its old dollar bonds and old dollar bonds of the Free State of Prussia and the Conversion Office for German Foreign Debts. Since information about other West German issuers had not been furnished, the Commission in November 1953, after consultation with the Department of State, sent direct requests to 63 issuers of German dollar obligations, including the issuers of the 92 bond issues subject to validation, and again requested the assistance of the Government of the Federal Republic in securing this information. As a result of these efforts, 37 German issuers have sent to the Commission copies of their published annual reports (in the German language), which are available for public inspection at the Commission's Washington office, and where sufficient copies have been received, are also available for public inspection at the Commission's regional offices in New York, Chicago and San Francisco.

During the fiscal year the Department of State and the Commission continued discussions of the proposed treaty relating to the validation of Austrian dollar bonds. During this period the Commission publicly renewed its request that the securities industry refrain from trading in Austrian securities until further notice after the establishment of validation procedures. In June 1954 the Commission, after consultation with the Department of State, sent direct requests to seven Austrian issuers of dollar bonds that they furnish information which would be helpful to the American holders of such bonds. In response to these requests, three Austrian issuers have sent the Commission copies of their recent annual reports.

The International Bank for Reconstruction and Development announced that during the fiscal year it raised more portfolio capital for international investment, and from investors in more countries, than in any earlier period. It offered two issues of United States bonds, two issues of Swiss franc bonds and one issue of Canadian dollar bonds. In the distribution of these issues of bonds, the Bank made available a prospectus giving information about the Bank's structure and operation. It also filed with the Commission, pursuant to Regulation BW adopted by the Commission under the amendment to the Bretton Woods Agreements Act, information comparable to that which would be required if its securities had been registered under the Securities Act and the Securities Exchange Act.

CONFIDENTIAL TREATMENT OF APPLICATIONS, REPORTS, AND DOCUMENTS

The Commission is empowered under various of the Acts administered by it to grant upon application confidential treatment with respect to certain types of information which would otherwise be disclosed to the public in applications, reports, or other documents filed pursuant to these statutes. In the exercise of such authority, under the Securities Act, it has adopted rule 485 providing that information as to material contracts, or portions thereof, filed as a part of a registration statement will be held confidential where it determines that disclosure would impair the value of the contracts and is not necessary for the protection of investors. Circumstances under which other rules provide for confidential treatment of information include cases where disclosure would be detrimental to the national security.

The number of applications granted, denied or otherwise accounted for during the year may be noted below.

[table omitted]

The total of 93 applications filed during the year compares with 121 in the 1953 fiscal year and 145 in the 1952 fiscal year.

STATISTICS AND SPECIAL STUDIES

During the past fiscal year the Commission maintained its statistical series relating to the capital market, savings and investment. These data which are used by the Congress, other Government agencies, investment and financial institutions are also made available to the general public in the Commission's monthly Statistical Bulletin or in press releases. The various series are described below.

CAPITAL MARKETS

All New Securities Offerings

A monthly series on new securities offerings, including corporate and non-corporate securities, is published in the Statistical Bulletin of the Commission. In addition, a quarterly series covering corporate issues is published in press release form and contains an analysis of the data.

The statistics show the volume and character of all new securities offered for cash in the United States and differ in concept and coverage from the statistics of registrations shown in other parts of this report. The offerings series includes only securities actually offered for cash sale, and only issues offered for account of issuers. The series includes not only issues publicly offered but also issues privately placed, as well as other issues exempt from registration under the Securities Act such as intrastate offerings and railroad securities.

New corporate securities offered for cash sale in the fiscal year ended June 1954 amounted to $8.5 billion, comparing with $9.3 billion in the preceding fiscal year, which was the highest since 1929. Proceeds from new issues to be used for new plant and equipment expenditures totalled $5.6 billion, only $200 million less than in the 1953 fiscal year, reflecting a continuation at near-record levels of the large-scale capital expansion of corporations. Funds raised in the capital market for working capital purposes totalled $1.6 billion, $400 million lower than in the preceding year. The balance of net proceeds from new issues, amounting to $1.1 billion, was to be used for repayment of outstanding securities, bank loans and other purposes. Issues of electric, gas and water companies were of considerable importance in the past fiscal year, aggregating $3.6 billion, and accounting for 34 percent of all issues. Issues of manufacturing companies, in contrast, amounted to only $1.8 billion, or 21 percent of total issues, as compared to the preceding year when such issues amounted to $3.2 billion and comprised 34 percent of all issues. The distribution of issues among other industry groups for the current year was as follows: financial and real estate (excluding investment companies), 12 percent; communication, 11 percent; mining, 4 percent; commercial and other, 4 percent; railroad, 3 percent; and other transportation, 3 percent.

Of total corporate securities issued in the 1954 fiscal period, 63 percent were publicly offered and 37 percent privately placed. Private placements, which amounted to $3.1 billion, were $700 million lower than in the 1953 period, primarily because of the smaller volume of financing by manufacturing companies.

Statistics on non-corporate securities sold for cash are also included in appendix table 3. During the fiscal year ended June 1954, noncorporate flotations included $12.5 billion of U.S. Government securities, $6.7 billion of state and local issues, $200 million of Federal agency securities and $400 million of foreign government and other issues.

Issues Registered under Securities Act of 1933

Statistics of all securities registered under the Securities Act of 1933 are published in the Statistical Bulletin at quarterly intervals. Statistics covering data

on the number and volume of registrations during the past twenty years and more detailed information for the months of the fiscal year 1954 are given in appendix tables 1 and 2.

Corporate Securities Outstanding

Beginning this year quarterly figures on the flow of cash through securities transactions between corporations and investors have been published in the Statistical Bulletin. Previously, they had been compiled for internal use within the government. The data comprise the only series in this field and are used in preparing estimates of saving in the form of securities, in. analysis of sources and uses of corporate funds, moneyflows analysis, and estimates of changes in private debt. A description of the scope and limitations of the series appears in the Statistical Bulletin.

In the fiscal year ended June 30, 1954, proceeds from new corporate securities, net of retirements, amounted to $6.7 billion. This was a billion dollars less than in the preceding fiscal year and reflected a lower volume of new issues and a higher amount of repayments. Retirements of securities in the fiscal year totaled $3.2 billion, $400 million more than in the preceding year chiefly due to an increase in refunding activity in the final quarter of the period.

Investment Companies

From 1942 through the first quarter of 1954 data were published quarterly in the Statistical Bulletin for over 200 management investment companies registered under the Investment Company Act of 1940. The statistics included purchases and sales of their own securities, portfolio changes, and aggregates of securities investments and assets, segregated by open-end and closed-end types. These statistics were discontinued after the first quarter of 1954 due to the fact that automatic quarterly reports from investment companies are no longer required under the Commission's regulations, and also because similar data are prepared by the National Association of Investment Companies. Net sales of these companies amounted to approximately $400 million during the fiscal year ended June 1954.

STOCK MARKETS

Statistics are regularly compiled and published in the Statistical Bulletin on the market value and volume of sales on registered and exempted securities exchanges, round-lot stock transactions on the New York exchanges for accounts of members and nonmembers, odd-lot stock transactions on the New York exchanges, special offerings and secondary distributions.

The indexes of stock market prices were continued during the 1954 fiscal year. These indexes are based upon the weekly closing market prices of 265 common stocks listed on the New York Stock Exchange, and are composed of seven major industry groups, 29 subordinate groups, and a composite group. These data are published in the Statistical Bulletin and are also released weekly. Figures on round-lot and odd-lot stock transactions are also included in the weekly release: on stock market indexes.

SAVING STUDY

Estimates of the volume and composition of individuals' saving in the United States are compiled and released at quarterly intervals. The study shows the aggregate value of saving in each quarter and the form in which the saving occurred, such as investment in securities, expansion of bank deposits, increase in insurance and pension reserves, etc.

A reconciliation of the Commission's estimates with the personal saving estimates of the Department of Commerce (derived in connection with its national income series) is published annually in the National Income Supplement of the Survey of Current Business. The methods used in deriving the Commission's estimates of individuals' saving, together with a description of sources of data were published recently.

The rate of individuals' saving in liquid form during the fiscal year ended June 30, 1954 was maintained at a high level, amounting to $15.0 billion, and comparing with $15.5 billion in the 1953 fiscal year. Individuals invested $4.2 billion in securities, added $8.2 billion to their equity in insurance and Government pension reserves, such as Social Security funds, increased their currency and bank deposits by $5.4 billion, and increased their shareholdings in savings and loan associations b}^ $4.0 billion. During the same period, individuals, increased their mortgage debt by $6.5 billion and other consumer debt by $300 million.

FINANCIAL POSITION OF CORPORATIONS

Working Capital

Data are prepared and released at quarterly intervals on the working capital position of all United States corporations, excluding banks and insurance companies. These releases show the principal components of current assets and liabilities and an abbreviated analysis of the sources and uses of corporate funds. At the end of June 1954, corporate net working capital position was

estimated at an all-time high of $94.1 billion, comparing with a previous peak at the end of September 1953 of $93.3 billion. The data are used in measuring the liquid position of corporations and the figures indicate that there has been little change in liquidity since mid-1951, as measured by the ratio of cash and government securities to current liabilities. At the end of June 1954 this ratio stood at 54 percent. The highest point of corporate liquidity was reached in 1949 when the ratio was 71 percent.

Balance Sheet and Income Statements

A quarterly financial report for all United States manufacturing concerns is prepared jointly by the Commission and the Federal Trade Commission. This report, an outgrowth of the working capital series, gives complete balance sheet data and an abbreviated income account for all manufacturing companies. Data are classified by industry and size of company.

PLANT AND EQUIPMENT EXPENDITURES OF U.S. BUSINESS

The Commission and the Department of Commerce jointly compile and release, at quarterly intervals, data on the plant and equipment expenditures of U.S. business. The series is used as an index of future business activity and production, as well as capital market activity. At the close of each quarter, actual capital expenditures for that quarter are presented, and in addition, anticipated expenditures for the next two quarters are given. A survey is also made at the beginning of each year of the expansion plans of business during the coming year.

During the fiscal year ended June 1954 expenditures for plant and equipment by American concerns amounted to a record $27.9 billion, exceeding the previous record figure in the 1953 fiscal year by $800 million. The higher total for the current fiscal year resulted from peak expenditures during the closing months of 1953; in the first six months of 1954 (the second half of the 1954 fiscal year) expenditures were approximately two percent less than in the similar months of the 1953 fiscal year. According to plans at mid-1954, expenditures for the full calendar year 1954 will be about 6 percent less than in calendar year 1953, and are expected to aggregate $26.7 billion, with most of the decline attributed to lower expenditures of manufacturing and railroad companies.

PERSONNEL

The personnel of the Commission was further reduced by 74 employees in the fiscal year 1954, and as of June 30, 1954, consisted of the following:

Commissioners: 5

Staff:
Headquarters office: 447
Regional Offices: 247

Total: 699

The efforts of the Commission to perform its important functions effectively and economically continued in the past fiscal year with the need for individual positions being critically reviewed and those found unnecessary being abolished. Some of the organizational and operating changes effected by the Commission in fiscal 1954 are indicated below.

The position of Foreign Economic Adviser was abolished. Such of his functions as are required by statute are now performed by the Commission's regular divisions.

The Commission's Cleveland Regional Office became a branch office of the Commission's Chicago Regional Office. Several positions, including that of a Regional Administrator, were abolished.

The Commission's Division of Corporate Regulation was reorganized into four operating branches in lieu of the former five branches. The Commission's Division of Trading and Exchanges was reorganized, two branches replacing the former four Branches. This has reduced the number of supervisory personnel, consolidated the enforcement and interpretative activities of the Division in one branch and concentrated in the second branch other activities such as financial analysis, exchange registration and regulation, and stabilization. In addition, certain market surveillance work has been transferred to the New York Regional Office. A number of positions, including two Assistant Directorships were abolished.

FISCAL AFFAIRS

Appropriation and Expenditures

The following is a summary of the appropriation and expenditures for the fiscal year 1954 as compared to the fiscal year 1953:

[table omitted]

Fees are turned over to the General Fund of the Treasury and are not available for expenditure by the Commission.

PUBLICATIONS

Publications issued during the fiscal year include:

Statistical Bulletin. Monthly.

Volumes Nos. 24, 25, 26, and 27 of Commission's Decisions and Reports.

Official Summary of Securities Transactions and Holdings of Officers, Directors and Principal Stockholders. Monthly.

Nineteenth Annual Report of the Commission.

Securities Traded on Exchanges under the Securities Exchange Act of 1934, as of December 31, 1953.

Companies Registered under the Investment Company Act of 1940, as of December 31, 1953.

Registered Public Utility Holding Companies, December 31, 1953.

Financial Report, U.S. Manufacturing Corporations. (Jointly with Federal Trade Commission). Quarterly, 1953.

Regulation S-X as of November 3, 1953.

Rules and Regulations under the Securities Act of 1933, February 1, 1954.

Securities Required to be Exchanged for Cash or New Securities, Jan. 1, 1954.

Working Capital of United States Corporations. Quarterly.

Volume and Composition of Saving. Quarterly.

New Securities Offered for Cash. Quarterly.

Plant and Equipment Expenditures of U.S. Corporations. (Jointly with Department of Commerce). Quarterly.

The Work of the Securities and Exchange Commission, November 1, 1954.

INFORMATION AVAILABLE FOR PUBLIC INSPECTION

The Commission maintains Public Reference Rooms at the headquarters office in Washington, D. C., and at its Regional Offices in New York City and Chicago, Ill.

Copies of all public information on file with the Commission contained in registration statements, applications, declarations and other public documents are available for inspection in the Public Reference Room in. Washington. During the fiscal year 2,368 persons made personal visits to the Public Reference Room seeking public information and an additional 20,393 requests for registered public information and copies of forms, releases and other material of a public nature were received. Through the facilities provided for the sale of reproductions of public information, 1,797 orders involving a total of 81,710 page units were filled and 662 certificates attesting to the authenticity of copies of Commission records were prepared. The Commission also mailed 361,265 copies of publications to persons requesting them.

There are available in the New York Regional Office copies of recent filings made by companies which have securities listed on exchanges other than the New York exchanges and copies of current periodical reports of many other companies which have filed registration statements under the Securities Act of 1933. During the fiscal year, 10,793 persons visited this Public Reference Room and more than 7,061 telephone calls were received from persons seeking public information and copies of forms, releases and other material. In the Chicago Regional Office there are available copies of recent filings made by companies which have securities listed on the New York exchanges.

Copies of recent prospectuses used in the public offering of securities registered under the Securities Acts are available in all Regional Offices, as are copies of active broker-dealer and investment adviser registration applications and Regulation A Letters of Notification filed by persons or companies in the respective regions.

Copies of certain reports filed with the Commission are also available at the respective national securities exchanges upon which the securities of the issuer are registered.

PUBLIC HEARINGS

The following hearings were held by the Commission during the fiscal year:

[table omitted]