

44th Annual Report of the SEC

for the fiscal year
ended September 30, 1978



SECURITIES AND EXCHANGE COMMISSION

Headquarters Office
500 North Capitol Street
Washington, D.C. 20549

COMMISSIONERS

HAROLD M. WILLIAMS, *CHAIRMAN*
PHILIP A. LOOMIS, JR.
JOHN R. EVANS
IRVING M. POLLACK
ROBERTA S. KARMEL

GEORGE A. FITZSIMMONS, *SECRETARY*

CHAIRMAN'S LETTER OF TRANSMITTAL

The Honorable Walter F. Mondale
President, U. S. Senate
Washington, D.C. 20510

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

Gentlemen:

I am pleased to transmit herewith the *Annual Report of the United States Securities and Exchange Commission* for the period October 1, 1977 to September 30, 1978. Reflecting the Commission's continuing efforts to review and improve its internal procedures, this year's *Annual Report* has a new, streamlined format, which we hope will increase its utility to the Congress and to others interested in the Commission's work.

The activities and accomplishments set forth in the *Annual Report* once again reflect the Commission's long tradition of hard work and high achievement. As I did last year, I would like to take this opportunity to offer my views of the Commission's progress in addressing the major issues facing the Commission. One theme runs throughout my review of the Commission's progress. Each issue we address reflects the Commission's effort to balance judiciously its use of direct regulatory authority against its reliance on private sector self-regulatory initiatives wherever consistent with investor protection. Through this process, the Commission has cultivated one of the sources of its fundamental strength and vitality—the ability to maximize the implementation of the Congressional goals embodied in the federal securities laws with a minimum of federal intervention.

Development of a National Market System

The Securities Acts Amendments of 1975 require the Commission to facilitate the implementation of a national market system for the trading of securities. The Commission believes that such a system

should ideally be an industry undertaking, and that the Commission's role should be to identify objectives, stimulate initiatives, assess progress, and fill whatever voids may occur from time to time in the process. It was in this spirit that the Commission in January 1978 released a comprehensive policy statement setting forth six interrelated initiatives which it believed should be taken to facilitate development of the system.

During the past year, substantial progress was made in implementing three of the January initiatives—a consolidated quotation system, a nationwide network of order-routing facilities, and refinement of the existing consolidated transaction reporting system. Following the end of the fiscal year, additional progress was made in facilitating the development of a national market system. In March 1979, the Commission issued a status report assessing the progress made during the past year and indicating the Commission's views as to those steps which next should be taken to continue progress toward a national market system. The status report discussed developments towards achieving the other three January initiatives and indicated that the Commission's first priority is the achievement of nation-wide price protection for public limit orders against execution at inferior prices. In addition, the status report stated that the Commission would initiate rulemaking proceedings, which it has done, to consider redefinition of the trading environment for securities now traded over-the-counter when those securities become listed on an exchange for the first time. Finally, the Commission is actively considering rulemaking with respect to qualified securities.

Industry and Commission actions related to these areas have a high priority, and I remain confident that the basic elements of a national market system will all be in place before the end of my term as Chairman in 1982. While much remains to be done in order to attain that goal, the Commission is fully committed to insuring that Congress' mandate is implemented in a fashion which strengthens and improves our capital markets. Those markets are the finest in the world, and nothing in the evolving new system threatens that pre-eminence.

The Problems of Small Business

Small business has long been recognized as a vital part of the American economy. The 13 million or so small firms account for 55 percent of all private employment, 48 percent of the nation's business output and 43 percent of its GNP. Even these rather impressive figures fail to convey the full importance of small businesses to the diversity and vitality of our society. Individual efforts to respond to the demands of a free market provide our economy with its immense diversity, achieved to a great extent through the efforts of small businessmen.

But, in recent years, small businesses have not flourished. The opportunity cost of capital is high—as is inflation—and adverse attitudes towards risk-taking have worked to exclude small companies from our capital markets and impaired their ability to grow. The inability of small business to accumulate capital and generate the

savings required for innovation has slowed growth, diminished productivity and contributed to the increasing difficulty in maintaining the standard of living we have come to expect in the United States.

Many of the problems facing small businesses are beyond the scope of the Commission to address. However, a fundamental objective of the federal securities laws is to promote public confidence in the securities markets, so that investors will be willing to participate in the process by which capital is marshalled from the public and channelled into economic growth. This important interrelationship between investor confidence and capital formation requires that the Commission be sensitive to the effects of its activities on the capital formation process. Thus, the Commission has tried to remain cognizant of the effects of its actions on small businesses.

While we must carefully balance our efforts to facilitate venture capital formation against our primary responsibility to protect investors, we have been able to ease the regulatory burden on small business in a number of areas. Although the federal securities laws are not generally considered to be a primary contributor to the capital formation problems of small business, they do have an impact. We therefore monitor our regulatory actions to ensure that they do not inadvertently affect this sector of the economy in a negative way. Further, we are taking affirmative steps to minimize the tension which often accompanies the interaction between small business and the government.

The Commission has recently amended Rules 144 and 146, and Regulation A, to liberalize sales of restricted securities and to make small offerings more viable. In addition, we have adopted a new registration statement, Form S-18, to assist small business capital formation. This Form will allow a small, unseasoned issuer to sell up to \$5 million in equity securities without incurring the full range of disclosure and reporting burdens imposed upon other issuers.

Finally, the Commission has created a new Office of Small Business Policy in the Division of Corporation Finance, to serve as the focal point for small business matters within the Commission. As these initiatives are implemented, there should be a substantial lessening of the frustration that has historically accompanied much of the dealings by small businesses with the Commission.

Corporate Accountability

One of the oldest and most traditional of all our self-regulatory frameworks is embodied in the relationship between shareholders, management and the board of directors of a corporation. The effectiveness of this framework has been criticized, and some of the criticism is no doubt valid. But, this structure is fundamental to our society, and I believe it retains a great vitality.

The Commission has been engaged in a continuing review of mechanisms of corporate accountability since September 1977. This review has so far produced amendments to our proxy rules including disclosure of the background and relationships of nominees for

membership on the board of directors and disclosure of board and committee structure and composition, new rules regarding disclosure of management remuneration, and a heightened sensitivity in the corporate community to the need to reexamine the traditional roles played by boards of directors, management and shareholders in the accountability process. Currently, a staff report is being prepared consolidating the knowledge we gained from our hearings on corporate accountability, examining the areas appropriate for future exploration, and analyzing the roles which the public and private sectors should play in the accountability process. In addition, as a result of the increased disclosure requirements for 1979 proxy statements, the Commission will be able to quantify data regarding composition and structure of boards of directors and their committees and develop a baseline for tracking future developments. This should provide all concerned with corporate accountability a better understanding of developments and programs in this vital area.

The Commission is considering proposing for comment amendments to the proxy rules which would improve the effectiveness of the proxy solicitation process as a vehicle for communication between shareholders and their companies. If adopted, such amendments would be effective for the 1980 proxy season. One proposal under consideration would require that proxy cards permit shareholders to vote with respect to individual nominees for election to boards of directors. A second proposal would clarify the time by which shareholder proposals must be submitted in order to be included in corporate proxy materials. And a third proposal would expand the limited exemption which now exists for the furnishing of unsolicited proxy voting advice.

The Commission's efforts to enhance corporate accountability are not intended as adversary, but rather as furthering the traditional and vital mechanisms of corporate governance and self-regulation. Our continuing initiatives will hopefully provide disclosures which will enable and encourage investors and others to assess how well the corporate community governs itself, and may thus help avoid the need for federal legislative intervention.

Enforcement

A vigorous and effective enforcement program is critical to the Commission's ability to carry out its responsibility to protect investors. Our willingness and ability to take prompt enforcement action to redress violations of the statutes and regulations which we administer helps to insure the credibility of the Commission's activities and voluntary compliance with the federal securities laws. The Commission's enforcement cases discussed in this year's annual report reflect the complexity and breadth of the Commission's responsibilities.

The Commission attempts to tailor the relief obtained in its enforcement cases in order to protect the investing public, remedy the results of past violative conduct, and assure that circumstances which may have facilitated violations of the federal securities laws do not

recur. Such an approach requires that the Commission have and exercise a degree of flexibility—not only to respond to traditional areas of concern to the Congress and the Commission but to assure that the Commission is capable of meeting new challenges. A good example of this approach is the Commission's ability to obtain other equitable relief in appropriate injunctive cases. Such additional relief, including the appointment of special review persons to conduct further investigations into factual allegations made by the Commission and to make a comprehensive report of their findings, helps to place the cost and responsibility of remedying the harm caused to the investing public by violations of the federal securities laws upon those who are responsible for the violations. In this manner, the Commission's enforcement staff may devote its energies to other problem areas in the knowledge that the public will be protected, and that the full facts surrounding violations will be made known. This approach has enabled the Commission to maximize the effective use of its limited staff resources.

Nevertheless, our resources are inadequate to police all securities law violations which may take place. As a result, our enforcement activities are designed not only to address specific wrongdoings, but also to alert the private sector as to the kinds of activities which we believe violate the securities laws.

Private actions, brought by aggrieved individuals to protect their own rights, supplement the Commission's own enforcement program, and significantly increase the likelihood that securities law violations will be challenged and corrected. Increasingly, however, the ability of private parties to enforce provisions of the federal securities laws has been challenged in the courts.* To the extent courts determine that the federal securities laws do not imply private rights of action, the ability of aggrieved individuals to seek redress for personal wrongs will thereby be curtailed. The resulting burden on the Commission would seriously impair its ability to enforce the federal securities laws.

Disclosure Developments

Assuring the disclosure of corporate information necessary to enable investors to make an intelligent investment decision is one of the Commission's primary responsibilities. The Securities Act of 1933 generally requires that before securities may be offered to the public a registration statement must be filed with the Commission, and a prospectus containing the most significant information in the registration statement must be furnished to investors. In addition, the Securities Exchange Act of 1934 contains disclosure provisions designed to provide current information on a periodic basis about companies in whose securities there is a substantial public interest. The Commission is endeavoring to integrate the various types of

* See, e.g., *Touche Ross & Co. v. Redington*, ___ U.S. ___ (June 18, 1979); *Transamerica Mortgage Advisors, Inc. v. Lewis*, ___ F.2d ___ (9th Cir.), cert. granted ___ U.S. ___ (1978).

disclosures under both acts to reduce compartmentalized, duplicative or inadequate disclosures and to minimize the Commission's regulatory role. To this end, the short registration Form S-16, which incorporates by reference all current 1934 Act reports on file that already contain basic firm-oriented information, has been expanded in a number of respects. Primary underwritten offerings are now permitted on this Form by certain high-quality issuers and their subsidiaries, as well as rights offerings and offerings of securities pursuant to dividend and interest reinvestment plans. As we gain further experience with this new concept, we will be exploring ways to broaden the categories of issuers and transactions covered by the Form. In addition, the Commission is encouraging companies to use information filed with the Commission as the primary means of communication with shareholders rather than creating alternative documents such as annual reports which may be less useful to investors. To this end, we have published a guideline which encourages companies to combine their annual report on Form 10-K with their annual report to shareholders and we also are exploring revising our forms, as discussed below.

The Commission's Advisory Committee on Corporate Disclosure, which reported its recommendations to the Commission in 1977, favored the integration of the 1933 and 1934 Acts into a continuous disclosure system. The Commission presently is implementing many of the Advisory Committee's other recommendations, including a revision of the Commission's Form 10-K to make it a more flexible document, and the encouragement of corporate disclosure of forward-looking information, such as projections of earnings. Because of the increasing importance attached to such "soft" information—as opposed to objectively verifiable historical facts, or "hard" data—the Commission has encouraged companies voluntarily to disclose management projections and has published staff guides for such disclosures. In addition, we have adopted a "safe harbor" rule designed to afford protection from liability for reasonably-based projections disclosed in good faith that subsequently are not met.

Our interest in encouraging the disclosure of other "soft" and "firm-specific" information is continuing. We are also encouraging the use of a "management report on operations," as a part of the annual report to shareholders, to aid users of financial information in interpreting a company's accounting and financial reports.

Oversight of the Accounting Profession

One of the major areas of current Commission concern is its oversight of the accounting profession. Where feasible, we intend to emphasize self-regulatory initiatives from within the profession.

Our first report to Congress regarding the accounting profession, in July 1978, reflects this approach. We did not attempt to tell the profession how it should go about meeting the objectives of self-regulation. Rather, we set forth with particularity the major objectives that we believed the profession should meet in order to be effectively self-regulating. And, while the record is far from complete concerning

the effectiveness of the profession's voluntary efforts, we told the Congress that the profession was making adequate progress in developing initiatives of its own to achieve self-regulatory objectives. Consequently, we recommended that these private initiatives be allowed to continue to evolve.

The Commission, through its Chief Accountant's Office, has given close attention to the profession's self-regulatory efforts over the past year. In July 1979, the Commission issued its second annual Report to Congress on the Accounting Profession and the Commission's Oversight Role, assessing progress made toward the articulated objectives.

The coming years should also see major developments in several substantive accounting and auditing areas. The Commission, aided by an Advisory Committee on Oil and Gas Accounting, is in the process of implementing its September 1978 decision to consider a new accounting principle—reserve recognition accounting—for oil and gas producers, a task which will take several years to complete.

In addition, the Commission is closely following the work being done by the Financial Accounting Standards Board in the development of a conceptual framework for the accounting profession. The result of the FASB's project should be a set of principles which can serve as a guide for the profession to work toward as it develops and refines accounting and disclosure principles and methodologies. It is a safe prediction that, during the coming decades, the economic, political and technological changes in this country and the world—and their impact on the nature and methods of American business—will be enormous. Accountants and financial managers will need such a conceptual framework, one that is sufficiently flexible and broad to accommodate these new developments.

Appropriate accounting for the effects of changing prices is a fundamental problem which demands imaginative and progressive solutions. In 1976, the Commission provided an important impetus to this effort in ASR No. 190, which introduced a limited requirement for disclosure of the replacement costs for certain assets. The Commission remains fully committed to insuring that users of financial statements receive adequate information about the impact of changing prices on corporate earnings and assets. The FASB has proposed that certain large publicly-held enterprises provide disclosures regarding certain effects of price changes on earnings, assets, liabilities, and owner's equity in periods of rising prices. These disclosures would supplement, but not replace, historical cost financial statements. While the Commission will consider amending or rescinding its replacement cost rule if an acceptable final standard is adopted by the FASB, the Commission would not view positively a delay in the adoption of that standard.

Investment Management

For the past 40 years, the Commission has regulated virtually every aspect of the investment company industry. There has been little, if

any, self-regulation. The Commission's presence has been formal and pervasive.

This is now beginning to change. The Commission is rethinking the fundamental assumptions on which our regulatory program in this area has historically been based, and I expect, over time, dramatic changes will be visible in the way we interact with the private sector in regulating investment companies.

The Division of Investment Management is currently engaged in a thorough review of the Investment Company Act and all the rules and administrative practices thereunder. As a result of this re-evaluation, a significant regulatory shifting has already begun. First, we are moving towards simpler rules that are easier to understand, less costly to comply with, and state objectives and policy rather than describe method. Second, we are encouraging investment company directors—especially those who are disinterested—to assume their responsibilities to the companies that they serve. As this shift to private sector responsibility occurs, we will enhance the Commission's oversight capabilities to assure compliance with the new regulatory scheme, and thereby ensure that there is no diminution in investor protection.

The Division has also begun a thorough re-evaluation of the Investment Advisers Act and our regulatory program under it to determine whether they are adequate in light of the significant growth of and change in the advisory profession in recent years. As a first step in this re-evaluation, the Commission has recently acted to improve the quality of information regarding investment advisers which is available to the public. To the extent our experience leads us to adopt new rules affecting investment advisers, I expect our approach to be similar to that taken in the investment company area. Indeed, the staff has already begun to consider the possibility of self-regulation for investment advisers.

I firmly believe that these initiatives, which will be continued in the years to come, will return to the private sector the responsibility for managing the investment company industry, and will improve investment advisory regulation as well.

Options

On February 15, 1979, The Commission's Options Study released its report on the efficacy of existing self-regulatory and Commission oversight of the burgeoning options markets. This Study, which commenced in 1977 with the announcement of a moratorium on the expansion of trading in exchange-listed options, extended to all aspects of standardized options trading and the regulation of such trading.

Following the release of the report, the Commission approved a plan which will lead to lifting the moratorium. The plan calls for close cooperation among the self-regulatory organizations and the Commission in the implementation of some 75 specific actions designed to correct the deficiencies found by the Options Study in current surveillance and sales practices.

The Study identified specific problems, and established specific

regulatory objectives. But, we hope to rely on the industry itself to take the initiatives which will lead to a lifting of the moratorium, rather than ourselves prescribing specific corrective action. The response of the industry to the results of the Study has in general been encouraging, and I expect the Commission's goals to be met without undue delay.

Market Surveillance

In order to insure that self-regulation is consistent with our mandate to protect investors, it is important that we have effective oversight of what the self-regulatory organizations—whether in options or equities—are doing and how well they are doing it. To this end, the Division of Market Regulation has recently strengthened its ability to oversee the performance of the self-regulatory organizations. The Division has established a new inspection unit to oversee the activities of these entities in carrying out their own surveillance, inspection and enforcement functions. This unit will advise the Commission, on a regular basis, as to the current performance of the self-regulatory organizations. Further, a consultant has been engaged to advise the Commission regarding improvements in its surveillance system. Our goal is not to duplicate the surveillance capabilities of the self-regulatory organizations, but rather to insure that the aggregate surveillance capacity is adequate, that there are no gaps and that there has been an appropriate allocation of surveillance functions among the self-regulators and the Commission.

Implementation of the Foreign Corrupt Practices Act

One of the most challenging projects facing the Commission is the implementation of the Foreign Corrupt Practices Act. This Act, signed into law December 19, 1977, requires every public issuer of securities to make and keep accurate books and records and to establish and maintain a system of internal accounting control which provides reasonable assurance that specified objectives of reliability are met. The primary impetus for the enactment of the Act were disclosures in the mid-1970's of widespread corporate bribery. The Commission has already brought several cases alleging violations of the Act, and recently adopted rules designed to implement provisions of the Act. These rules, codified as new Regulation 13B-2, expressly prohibit the falsification of corporate books, records, or accounts and prohibit the officers and directors of an issuer from making false, misleading or incomplete statements to any accountant in connection with any audit or examination of the issuer's financial statements or the preparation of required reports. In addition, the Commission has proposed to require a management statement on internal accounting controls. In the coming years, the Act will play an increasingly significant role in our regulatory and enforcement programs.

Management Developments and Resource Allocation

Fiscal year 1978 was marked by the launching of several important management initiatives intended to make more efficient use of limited

Commission resources and strengthen the Commission's ability to deliver services to both investors and regulated entities. Major strides were taken in the area of information handling, including the replacement of the agency's computer, the development of important program tracking systems and the pilot implementation of a computerized micrographics system. In the area of personnel management, the Commission offered its first formal upward mobility program, creating new professional and administrative opportunities for seasoned clerical staff. A unique arrangement with the Civil Service Commission has provided the Commission with an unusual opportunity to begin to develop a performance appraisal system that will aid in manpower planning, career counseling and management development. The Office of Data Processing and the Office of the Comptroller commenced design of the agency's first comprehensive financial management reporting and budgeting system, while the Office of the Executive Director initiated a major study of all fees collected by the Commission. In addition, under the guidance of the Office of Consumer Affairs, a uniform small claims processing procedure was implemented by all of the major self-regulatory agencies.

The Commission is proud it has achieved the reputation of being one of the most effective federal regulatory agencies with one of the smallest staffs in government. However, over the past few years, the Commission has been given broad new statutory responsibilities—particularly by the Securities Acts Amendments of 1975 and the Foreign Corrupt Practices Act. Its workload under pre-existing statutes has also increased dramatically, and major demands on its resources have been made to meet new obligations under statutes such as the Freedom of Information, Sunshine and Privacy Acts. In addition, the Commission has undertaken a number of special studies and hearings to improve its regulatory efforts.

Yet at the same time as the Commission's workload is burgeoning, its resources are shrinking. Indeed, under current budgetary proposals, the Commission will have 44 fewer authorized positions in fiscal 1980 than it had in fiscal 1975, before much of the workload explosion took place. As a result, we must constantly reassess our resource capability in light of current needs, and shift personnel as best we can to try to staff adequately our priority programs.

The Commission supports the President's efforts to control inflation and to contain the federal budget. We are therefore prepared to work within necessary budgetary constraints, and to be even more selective in allocating scarce resources and in setting priorities than we have been in the past. However, even under current staffing levels, we are concerned that some of our responsibilities may not be discharged as fully or as well as has come to be expected from the Commission, and any further restraints could have a significant detrimental effect on both our enforcement and regulatory programs.

* * *

These are important times for the Commission. We are developing and implementing new concepts in securities regulation and

enforcement, and we have been pleased and gratified at the cooperation and support which we have received from the Congress in our efforts. I look forward to a continued excellent relationship in the future. Should the Commission be able to assist the Congress in its legislative programs, we stand ready to do so at your request.

Sincerely,

Harold M. Williams
Chairman

COMMISSIONERS AND PRINCIPAL STAFF OFFICERS

(As of April 1, 1979)

| COMMISSIONERS | Term expires June 5 |
|--|------------------------|
| HAROLD M. WILLIAMS of Calif., Chairman | 1982 |
| PHILIP A. LOOMIS, JR., of Calif. | 1984 |
| JOHN R. EVANS of Utah | 1983 |
| IRVING M. POLLACK of New York | 1980 |
| ROBERTA S. KARMEL of New York | 1981 |

Secretary: GEORGE A. FITZSIMMONS

Executive Assistant to the Chairman: DANIEL L. GOELZER

PRINCIPAL STAFF OFFICERS

BENJAMIN MILK, Executive Director
EDWARD F. GREENE, Director, Division of Corporation Finance¹
LEE B. SPENCER, Deputy Director²
WILLIAM C. WOOD, Associate Director
MARY E. T. BEACH, Associate Director
MICHAEL J. CONNELL, Associate Director²
STANLEY SPORKIN, Director, Division of Enforcement
WALLACE L. TIMMENY, Deputy Director
IRWIN M. BOROWSKI, Associate Director
THEODORE SONDE, Associate Director
DAVID P. DOHERTY, Associate Director
THEODORE A. LEVINE, Associate Director
ANDREW M. KLEIN, Director, Division of Market Regulation
SHELDON RAPPAPORT, Deputy Director
LLOYD H. FELLER, Associate Director
DOUGLAS SCARFF, Associate Director³
SYDNEY H. MENDELSON, Director, Division of Investment
Management
MARTIN C. LYBECKER, Associate Director
JOEL GOLDBERG, Associate Director
AARON LEVY, Director, Division of Corporate Regulation
GRANT GUTHRIE, Associate Director
RALPH C. FERRARA, General Counsel
PAUL GONSON, Associate General Counsel
DAVID FERBER, Solicitor to the Commission

ANDREW L. ROTHMAN, Director, Office of Public Affairs
CHILES T. A. LARSON, Deputy Director
A. CLARENCE SAMPSON, Chief Accountant
STEVEN J. GOLUB, Deputy Chief Accountant²
(VACANT), Director of Economic and Policy Research
ROGER W. SPENCER, Deputy Director
WILLIAM STERN, Acting Director, Office of Opinions and Review
HERBERT V. EFRON, Associate Director
R. MOSHE SIMON, Assistant Director
WARREN E. BLAIR, Chief Administrative Law Judge
LAWRENCE H. HAYNES, Comptroller
RICHARD J. KANYAN, Service Officer
JAMES C. FOSTER, Director, Office of Personnel
JOSEPH F. OLIVO, JR., Director, Office of Reports and Information Services
JOHN D. ADKINS, Director, Office of Data Processing
JUSTIN P. KLEIN, Director, Office of Consumer Affairs
MATTHEW R. SCHNEIDER, Director of Legislative Affairs²

¹ Former Director Richard H. Rowe, left the Commission on March 15, 1979

² This position was added subsequent to the close of the fiscal year

³ Former Associate Director, Kathryn B. McGrath, left the Commission on December 31, 1979

REGIONAL AND BRANCH OFFICES

REGIONAL OFFICES AND ADMINISTRATORS

- Region 1. New York, New Jersey.—William D. Moran, 26 Federal Plaza, New York, New York 10007.
- Region 2. Massachusetts, Connecticut, Rhode Island, Vermont, New Hampshire, Maine.—Willis H. Riccio, 150 Causeway St., Boston, Massachusetts 02114.
- Region 3. Tennessee, Virgin Islands, Puerto Rico, North Carolina, South Carolina, Georgia, Alabama, Mississippi, Florida, part of Louisiana.—Jule B. Greene, Suite 788, 1375 Peachtree St., N.E., Atlanta, Georgia 30309.
- Region 4. Illinois, Indiana, Iowa, Kansas City (Kansas), Kentucky, Michigan, Minnesota, Missouri, Ohio, Wisconsin.—William D. Goldsberry, Room 1204, Everett McKinley Dirksen Bldg., 219 S. Dearborn St., Chicago, Illinois 60604.
- Region 5. Oklahoma, Arkansas, Texas, part of Louisiana, Kansas (except Kansas City).—Michael J. Stewart, 8th Floor, 411 West Seventh St., Fort Worth, Texas 76102.
- Region 6. North Dakota, South Dakota, Wyoming, Nebraska, Colorado, New Mexico, Utah.—Robert H. Davenport, Two Park Central, Room 640, 1515 Arapahoe Street, Denver, Colorado 80202.
- Region 7. California, Nevada, Arizona, Hawaii, Guam.—Leonard H. Rossen, Suite 1710, 10960 Wilshire Boulevard, Los Angeles, California 90024.
- Region 8. Washington, Oregon, Idaho, Montana, Alaska.—Jack H. Bookey, 3040 Federal Building, 915 Second Ave., Seattle, Washington 98174.
- Region 9. Pennsylvania, Maryland, Virginia, West Virginia, Delaware, District of Columbia.—Paul F. Leonard, Room 300, Ballston Center Tower No. 3, 4015 Wilson Boulevard, Arlington, Virginia 22203.

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Miami, Florida 33131.—Suite 1114 DuPont Plaza Center, 300
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Philadelphia, Pennsylvania 19106.—Federal Bldg., Room 2204,
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St. Louis, Missouri 63101.—Room 1452, 210 North Twelfth St.
Salt Lake City, Utah 84111.—Suite 810, Boston Bldg., One
Exchange Place.
San Francisco, California 94102.—450 Golden Gate Ave., Box
36042.

COMMISSIONERS

HAROLD M. WILLIAMS, *Chairman*

Chairman Williams was born on January 5, 1928, in Philadelphia, Pennsylvania. He received his B.A. from UCLA in 1946, graduating Phi Beta Kappa at the age of 18. Three years later he was awarded his J.D. degree from Harvard University Law School. He joined a Los Angeles law firm in 1949 where he specialized in tax and corporation law and remained until 1955 except for an interruption to serve as a U.S. Army legal officer during the Korean emergency. He joined Hunt Foods and Industries, Inc., in 1955 as Associate Tax Counsel. He subsequently became Tax Counsel, Vice President-Finance and Executive Vice President. In 1964, he became President of Hunt-Wesson Foods, Inc. In 1968, he was elected President of Hunt Foods and Industries, Inc., and with the formation of Norton Simon, Inc., later that year—resulting from consolidation of Canada Dry Corporation, Hunt Foods and Industries, Inc., and McCall Corporation—he was named Chairman of the new company's Finance Committee. In 1969, he assumed the additional post of Chairman of the Board of Norton Simon, Inc. In July of 1970, Mr. Williams became Dean and Professor of Management of the UCLA Graduate School of Management. During his administration, the School achieved national ranking, including recognition as the leading graduate business school in a public university. During the 1973 energy crisis, Mr. Williams took leave to serve as full-time Energy Coordinator for the City of Los Angeles. While at UCLA, Mr. Williams also served as Director of Norton Simon, Inc., Phillips Petroleum Company, ARA Services, Inc., CNA Financial Corporation, Signal Companies, Inc., and Montgomery Street Income Securities, and as a Trustee of the Aerospace Corporation. In his service to the community, Mr. Williams acted as Co-Chairman for the Public Commission on Los Angeles County Government, a subcommittee chairman of the Mayor's *ad hoc* Committee on Los Angeles City Revenues, a member of the State of California Com-

mission for Economic Development and of the California Citizens Commission on Tort Reform, and a member of the SEC Advisory Committee on Corporate Disclosure.

PHILIP A. LOOMIS, JR.

Commissioner Loomis was born in Colorado Springs Colorado, on June 11, 1915. He received an A.B. degree, with highest honors, from Princeton University in 1938 and an LL.B. degree, cum laude, from Yale Law School in 1941, where he was a Law Journal editor. Prior to joining the staff of the Securities and Exchange Commission, Commissioner Loomis practiced law with the firm of O'Melveny and Myers in Los Angeles, California. Commissioner Loomis joined the Commission's staff as a consultant in 1954, and the following year he was appointed Associate Director and then Director of the Division of Trading and Exchanges. In 1963, Commissioner Loomis was appointed General Counsel to the Commission and served in that capacity until his appointment as a member of the Commission. Commissioner Loomis is a member of the American Bar Association and the American Law Institute. He received the Career Service Award of the National Civil Service League in 1964, the Securities and Exchange Commission Distinguished Service Award in 1966, and the Justice Tom C. Clark Award of the Federal Bar Association in 1971. He took office as a member of the Securities and Exchange Commission August 13, 1971, and is now serving for the term of office expiring June 5, 1984.

JOHN R. EVANS

Commissioner Evans was born in Bisbee, Arizona, on June 1, 1932. He received his B.S. degree in Economics in 1957, and his M.S. degree in Economics in 1959 from the University of Utah. He was a Research Assistant and later a Research Analyst at the Bureau of Economics and Business Research at the University of Utah, where he was also an instructor of Economics during 1962 and 1963. He came to Washington in February 1963, as Economics Assistant to Senator Wallace F. Bennett of Utah. From July 1964 through June 1971 Commissioner Evans was minority staff director of the U.S. Senate Committee on Banking, Housing and Urban Affairs and served as a member of the professional staff from June 1971 to March 1973. He took office as a member of the Securities and Exchange Commission on March 3, 1973, and is now serving for the term expiring June 5, 1983.

IRVING M. POLLACK

Commissioner Pollack was born in Brooklyn, New York, on April 8, 1918. He received a B.A. degree, cum laude, from Brooklyn College in 1938 and an LL.B. degree, magna cum laude, from Brooklyn Law School in 1942. Prior to joining the Commission's

staff he engaged in the practice of law in New York City after serving nearly four years in the United States Army, where he gained the rank of Captain. Mr. Pollack joined the staff of the Commission's General Counsel in October 1946. He was promoted from time to time to progressively more responsible positions in that office and in 1956 became an Assistant General Counsel. A career employee, Mr. Pollack became Director of the Division of Enforcement in August 1972 when the SEC's divisions were reorganized. He had been Director of the Division of Trading and Markets since August 1965, and previously served as Associate Director since October 1961. In 1967 Mr. Pollack was awarded the SEC Distinguished Service Award for Outstanding Career Service, and in 1968 he was a co-recipient of the Rockefeller Public Service Award in the field of law, legislation and regulation. Mr. Pollack took the oath of office on February 13, 1974 as a member of the Securities and Exchange Commission, and is now serving for the term expiring June 5, 1980.

ROBERTA S. KARMEL

Commissioner Karmel was born May 4, 1937, in Chicago, Illinois. She received a B.A. from Radcliffe College in 1959 and an LL.B. from New York University School of Law in 1962. From 1962 to 1969, Mrs. Karmel worked in the New York Regional Office of the Securities and Exchange Commission as an attorney, then attorney branch chief, then assistant regional administrator. From 1969 to 1972 she was an associate with Willkie, Farr & Gallagher in New York. Mrs. Karmel was a partner in Rogers & Wells from 1972 through September 1977, and an adjunct professor at Brooklyn Law School from 1973 through 1977. She has been a member of the American Bar Association Federal Regulation of Securities Committee since 1973. She has also served on the Association of the Bar of the City of New York Committee on Securities Regulation, Committee on Administrative Law, and Committee on Professional Responsibility. She is the author of numerous articles in legal journals. Mrs. Karmel took the oath of office as a member of the Securities and Exchange Commission on September 30, 1977, for a term expiring on June 5, 1981.

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Regulation of the Securities Markets

During the fiscal year, the Commission worked to fulfill its continuing responsibility to strengthen the nation's securities markets and to protect investors who trade in those markets.

The Commission took significant steps to enhance competition in the securities industry; to improve the availability of transaction and quotation information; to increase efficiency in the execution and clearance of securities transactions; and to make it practical for brokers to execute investors' orders in the best market available. Many of those steps brought closer the realization of a national market system and a national system for the prompt and accurate clearance and settlement of transactions in securities, both of which the Congress directed the Commission to help establish.¹

Securities Markets and Facilities

The National Market System—The past year was most significant in the development of a national market system.

In December 1977, the Commission adopted amendments to Rule 19c-1 under the Securities Exchange Act removing certain remaining restrictions on the ability of exchange members to effect transactions in listed securities otherwise than on exchanges. This action assured that a member of an exchange would be permitted to effect

over-the-counter agency transactions in listed securities with any person not also represented as agent by that member (i.e., precluding only "in-house agency cross" transactions), thereby permitting brokers greater flexibility in seeking the best market in which to effect agency transactions.²

On January 26, 1978, the Commission issued a statement on the development of a national market system (January Statement). In that Statement, the Commission set forth its views as to those steps which it believed should be taken in 1978 to facilitate development of a national market system as envisioned by the Congress in the Securities Acts Amendments of 1975 (the 1975 Amendments).

The program described in the January Statement consisted of six interrelated initiatives: the development and implementation of three new national market system facilities, a consolidated quotation system (CQS), a nationwide network of order routing facilities and a central public agency limited order file; the refinement of an existing national market system facility, the consolidated transaction reporting system (Consolidated System); the commencement of rulemaking proceedings to consider designation of certain categories of securities as qualified for trading in the national market system; and the continued consideration of off-board trading

rules in light of the progress made toward a national market system.³

During the remainder of the fiscal year the Commission and the industry made significant progress toward achievement of some of the objectives of a national market system and, more particularly, certain of the initiatives described in the January Statement. In addition, through comments and industry proposals submitted in response to the January Statement, the self-regulatory organizations and the securities industry have increased their collective commitment to enhance and perfect market linkage and information systems and to address unresolved policy and technological concerns.

Coincident with the issuance of the January Statement, the Commission announced the adoption of Rule 11Ac1-1 under the Exchange Act, which required each self-regulatory organization, as of August 1, 1978, to collect and disseminate to securities information vendors quotations and quotation sizes for all equity securities as to which last sale information is included in the Consolidated System. Quotations and quotation sizes are required by the rule to be firm at the prices and in the amounts displayed by vendors, subject only to exceptions for revised quotations or quotation sizes and for unusual market conditions.

Although Rule 11Ac1-1, unlike Rule 17a-15, does not require reporting self-regulatory organizations to file plans for the dissemination of quotation information, the Commission, in the release announcing the adoption of Rule 11Ac1-1, encouraged the exchanges and the National Association of Securities Dealers (NASD) to consider joint implementation of Rule 11Ac1-1 on a voluntary basis.⁴

In response to this statement, in April 1978, representatives of the American Stock Exchange (Amex), Boston Stock

Exchange (BSE), Cincinnati Stock Exchange (CSE), Midwest Stock Exchange (MSE), NASD, New York Stock Exchange (NYSE), Pacific Stock Exchange (PSE) and Philadelphia Stock Exchange (Phlx) met to discuss the possibility of developing a joint plan for the implementation of the Rule. On July 25, 1978, the Amex and NYSE jointly filed with the Commission a "Plan for the Purpose of Implementing Rule 11Ac1-1 under the Securities Exchange Act of 1934" (CQ Plan) and, on July 28, 1978, the Commission temporarily declared that plan effective pursuant to Section 11A(a)(3)(B) of the Exchange Act for a period of 180 days.⁵

The CQ Plan (1) establishes joint procedures to govern the collection, processing and dissemination of quotation information by participating market centers; (2) provides for the selection and evaluation of an exclusive processor to collect quotation information from participating market centers and make that information available to quotations vendors; and (3) establishes fees relating to the receipt of quotation information. Pursuant to the CQ Plan, on August 1, 1978, the BSE, MSE, NYSE, PSE and Phlx commenced disseminating quotations to vendors in a single data stream processed by the Securities Industry Automation Corporation (SIAC) and, at this time, all exchanges reporting quotations⁶ other than the CSE are participating.⁷ The implementation of the CQ Plan and the resultant availability to brokers, dealers and investors of firm quotations from all reporting market centers is an important step in meeting the statutory goals of a national market system.⁸

Significant steps also have been taken toward implementation of comprehensive market linkage systems. In the January Statement, the Commission called for prompt development of market linkage systems to permit orders in quali-

fied securities to be promptly and efficiently transmitted from one qualified market center to another.

On March 9, 1978, the Amex, BSE, NYSE, PSE and Phix jointly filed with the Commission a "Plan for the Purpose of Creating and Operating an Inter-Market Communications Linkage" (ITS Plan). The ITS Plan provides the basis for the implementation of an Intermarket Trading System linking the various participants and providing facilities and procedures for (1) routing of orders and administrative messages between and among participants and (2) participation, under certain conditions, by members of all participating markets in opening transactions in those markets. On April 14, 1978, the Commission, noting that the ITS Plan represented a positive response to the January Statement, issued a temporary order pursuant to Section 11A(a)(3)(B) of the Exchange Act approving the implementation of the ITS⁹ and in August 1978, the Commission extended that approval for an additional year.¹⁰ As of the end of the fiscal year, all reporting self-regulatory organizations other than the CSE and NASD were participating in the ITS and over 100 securities were being traded in the system.

The other linkage system, the Cincinnati Stock Exchange multiple-dealer facility (CSE system), represents an experiment in the use of a fully automated electronic trading system. The Commission, on April 18, 1979, approved the CSE Pilot on a nine month experimental basis.¹¹ The CSE System, through an electronic communications network maintained by the CSE, enables CSE members, without the necessity of maintaining a presence on the floor of the CSE or any other exchange, to participate in a market conducted in accordance with certain auction-type trading principles by entering bids and offers for securities for their own ac-

count and as agents for their customers' accounts. In addition, CSE rules permit a specialist on any national securities exchange, without becoming a member of the CSE, to enter bids and offers in the system as principal or as agent in any security in which that specialist is registered on another exchange. Orders entered into the CSE System are stored in the CSE's computer facilities and queued for execution as follows: priority is governed first by price (*i.e.*, the highest bid and lowest offer) and second, as between orders at the same price, by time of entry. However, public agency orders as defined in the CSE's rules, regardless of time of entry, are granted priority over other orders at the same price.

The Commission believes that these systems evidence considerable progress in the application of automation and computer and communications technology to overcome some of the problems associated with market fragmentation. In the Commission's view, the ITS and the CSE System both offer valuable opportunities to the Commission and the brokerage community to assess the ability of differing types of market linkage systems to integrate trading in physically separate locations and to observe the effects of these linkage systems on the operation of the markets.

In response to its universal message switch initiative, announced in the January Statement, the Commission received two different types of proposals. The NYSE submitted a letter generally expressing support for enhancing order switching mechanisms but noting that a variety of such facilities, including its own common message switch, were currently available. The NYSE further noted that those switches commercially available from brokerage services firms currently permit brokers to route orders directly to the market of their choice.

Notwithstanding its belief that a universal message switch is now functionally available, the NYSE expressed its willingness, later concurred in by the Amex, to provide other exchanges access to its switch.

In contrast to this proposal, the NASD described a national order routing system (NORS) as a part of the overall national market system configuration. NORS would be designed to link all exchanges and third market makers with any broker or dealer establishing access to the system and would permit the routing of designated orders to a specific market center or undesignated orders on the basis of the best machine displayed quotation.

Because of the difference in scope of these proposals, the Commission, in June, requested further comment from the various self-regulatory organizations and other potential users of the routing system on the basic policy question of whether order-by-order routing of retail orders to the best market in size should be a characteristic of the national market system.¹² At the end of the fiscal year the Commission was evaluating the responses to its June 1978 request.

An additional area of significant progress during fiscal year 1978 was the proposal, in October 1978, of two rules dealing extensively with the operation of the Consolidated System and the manner in which vendors of market information display transaction and quotation information to their subscribers.¹³ The Commission hopes to take further regulatory action with respect to these proposals in the near future.

Although there has been considerably less tangible progress toward achievement of the other three initiatives described in the January Statement (*i.e.*, implementation of a central agency limit order file, consideration of off-board trading rules, and initiation of rulemak-

ing with respect to qualified securities), the dialogue between the Commission and the securities industry with respect to these matters has refined both the Commission's views on these subjects and those of the industry. At the end of the fiscal year, the Commission was continuing to evaluate the comments which had been received with respect to these initiatives.

National system for clearance and settlement of securities transactions— During the fiscal year, substantial progress was made in the Commission's effort to foster development of a national clearance and settlement system.

The United States Court of Appeals for the District of Columbia Circuit affirmed the Commission's order of January 13, 1977 which granted the application of National Securities Clearing Corporation (NSCC) for registration as a clearing agency.¹⁴ The Commission views the registration of NSCC as a key step in achieving the national clearance and settlement system envisioned by the Congress. Although the court did not disturb NSCC's registration, it did remand to the Commission for further consideration the matters of competitive bidding for NSCC's facilities management contract and geographic price mutualization.

The Commission took several important steps toward achieving a competitive national clearance and settlement system. The Commission has reviewed the transaction completion rules of the securities exchanges and of the National Association of Securities Dealers, Inc. (NASD). Some of those rules unnecessarily restricted competition among clearing agencies. Others failed to comply with the Exchange Act for other reasons.¹⁵ As a result of this review, over 100 exchange and NASD rules were amended or deleted. This step removed many impediments to development of

a national clearance and settlement system.

The Commission also held hearings in March and April 1978 on this subject. The Commission received data, views and arguments concerning the extent to which NSCC had satisfied the conditions imposed upon it by the Commission in its order granting NSCC registration as a clearing agency.¹⁶ In addition, the Commission received other information which has proven useful in formulating further steps toward achieving a national clearance and settlement system.

Progress toward a national system also was evident in other areas. The expansion of interfaces among clearing agencies has permitted most brokers and dealers to clear through a single clearing agency (one account processing) all transactions regardless of the market of execution. Expanded interfaces among depositories have further immobilized securities certificates and allowed most participants to move securities throughout the country, to effect pledges and to make deliveries by book entry. These developments have reduced costs and accelerated the settlement process.

During the year, the Commission took two important steps in immobilizing certificates. First, Rule 17f-4 under the Investment Company Act was adopted. The rule establishes the conditions under which registered investment companies, or custodians for registered investment companies, may deposit investment company securities in a securities depository.¹⁷

The Commission also worked toward increasing insurance company participation in securities depositories. Insurance companies are large holders of securities but, principally because of certain requirements of state laws, have been inhibited from widespread participation in securities depositories. The

National Association of Insurance Commissioners recently formed a task force on the use of book entry and depository systems by insurance companies. Members of the Commission staff met with the task force and were appointed by the task force to serve on an advisory committee which will seek solutions to both the legal and practical problems restricting insurance company participation.

Charges for Market Information—In May 1978, the Commission began a review of a dispute between the Options Price Reporting Authority (OPRA) and two commercial vendors of transaction and quotation information. The dispute concerns fees charged by OPRA to vendors for access to options last sale information.¹⁸

OPRA is the exclusive processor of market information for the options exchanges, and the dispute arose when OPRA decided to charge an "access fee" to those persons having direct access to the high speed communications line for last sale reports of options transactions. The Commission held a hearing to provide interested persons an opportunity to present both oral and written views on the issues raised, including the question of whether the Exchange Act authorizes an exclusive processor, such as OPRA, to charge a fee to vendors as a condition of access to market information, such as options last sale reports.

Trading by exchange members—Section 11(a)(1) of the Exchange Act, as amended in 1975, prohibits, with specified exceptions, any member of a national securities exchange from effecting any transaction on that exchange for its own account, the account of an associated person, or an account with respect to which it or any of its associated persons exercises investment discretion. Under Section 11(a), the Commission has broad authority to fashion either

more flexible or more restrictive standards. Section 11(a) became effective, as applied to most exchanges members, on February 1, 1978.

During the fiscal year, the Commission made significant progress in completing its regulatory program under Section 11(a)(1). Based on proposals published in the preceding two years and on an exhaustive public discussion relating to those proposals and the Section generally, the Commission announced in March and April 1978 several important actions. First, the Commission adopted a rule under which member transactions for accounts covered by the general prohibition of Section 11(a)(1) may be effected as long as those transactions are referred to independent members for execution and meet certain conditions. The exemption was designed to put members and non-members in the money management business on the same footing, to the extent practicable, in light of the purposes of this provision.

Second, the Commission adopted separate exemptions for (1) member transactions effected for affiliates which a member itself would be permitted to effect under Section 11(a)(1) and rules thereunder and (2) members' bond transactions. These exemptions were designed to remove unintended burdens imposed by Section 11(a)(1) in the exchange markets and, at the same time, to avoid permitting members and their affiliates any special trading advantages over public customers and other non-members. Finally, the Commission resolved several major interpretive issues under Section 11(a)(1) and rules thereunder, including the meaning of the phrase "investment discretion."

The Commission also approved programs designed by the NYSE and Amex to supplement the market making capacity of specialists by creating new classes of market makers who would be

exempt from the prohibitions of the Section. These programs were established for a temporary period in order to permit the Commission to review them to determine whether the predicted market benefits are being realized.

Options Trading—In July 1977, the Commission requested those national securities exchanges on which options are traded to refrain from expanding their options trading programs.¹⁹ The Commission's request, which was honored, was based upon concerns that the rapid growth in options trading since 1973 had been accompanied by trading abuses.

In October 1977, the Commission announced commencement of a comprehensive investigation and study of the nation's standardized options markets²⁰ and a proposed rule to halt temporarily any expansion of trading in standardized options pending completion of the study and resolution of the Commission's concerns as to the adequacy of existing regulation.²¹

On June 22, 1978, the Commission requested the NASD and each national securities exchange which traded, or had proposed to trade, standardized options to continue to honor the Commission's request for a voluntary moratorium on further expansion until the Commission had evaluated the findings of the Options Study.²² The Commission made that request because it hoped to resolve its concerns with respect to the standardized options markets in a cooperative effort with the self-regulatory organizations, rather than formalizing the moratorium by rulemaking.²³

On August 3, 1978, the Commission announced that the NASD, the NYSE and the five options exchanges had agreed to its request.²⁴ Accordingly, the Commission postponed final action on its proposal to halt any trading expansion by rule. The Commission also said it would consider whether to continue

or terminate the moratorium on expansion of options trading promptly after reviewing the report of the Options Study. (Subsequent to the close of the fiscal year the Commission received the Report of the Options Study and, in February 1979, issued a release setting forth the circumstances under which expansion of options trading could take place.)

Effects of the Absence of Fixed Commission Rates—In 1975, the Commission prohibited the national securities exchanges from prescribing fixed minimum commission rates and from requiring their members to charge no less than those rates. The Commission has submitted to the Congress five reports covering the first twenty months of commission price competition through December 31, 1976, describing what effect the absence of any schedule of fixed rates of commission is having on the maintenance of fair and orderly markets and on the development of a national market system for securities.

Analysis of commission rates is now integrated into the Commission's ongoing monitoring of the financial condition of the industry. In that connection, the Commission released to the public on May 22, 1978, a "Staff Report on the Securities Industry in 1977," which detailed among other findings, the results of its commission rate survey.

From May 1, 1975, to the end of September 1978, individual investors' effective commission rates when measured as a percent of principal value declined 13.9 percent. Institutional customers, due to their larger average order size and greater bargaining power, have negotiated discounts averaging 48.8 percent from the exchange prescribed minimum rates. When the rates are measured as cents per share, the declines were 6 percent for individuals and 48.5 percent for institutions. Individuals paid an average of 28.2 cents per share on their

September 1978 orders, which averaged 394 shares in size. Institutional orders averaged 1,859 shares in size and commissions averaged 13.4 cents per share for these customers.

Broker-dealers were affected by the elimination of fixed minimum commission rates largely depending upon the extent they serve institutional investors. Some firms which did a large portion of their total business with institutions merged with more diversified firms. A group of new discount broker-dealers have entered the industry to offer investors a reduced level of services at reduced commission rates. Broker-dealers' gross revenue for the first nine months of 1978 was one-third higher than the comparable 1977 period, due to record-setting volume in the second and third quarters of 1978. This jump in revenue more than doubled pre-tax profits.

The Commission's economic staff has continued to monitor the impact of negotiated commission rates. Competitively determined commission rates do not appear to have adversely affected the development of a national market system or the maintenance of fair and orderly markets.

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

Regulatory burdens on small brokers and dealers—The Commission is aware of the need to evaluate the costs and competitive impact of its regulations on brokers and dealers. Accordingly, in adopting regulatory requirements, the Commission weighs the benefits to investor protection and other statutory goals against possible compliance and competitive burdens. In addition, the Commission has endeavored to tailor regulatory requirements to particular business practices or ways of doing business so as to avoid imposing regulatory burdens. This effort can particu-

larly benefit smaller, more specialized brokerage firms.

In 1975, the Commission's financial and operational reporting system and its financial responsibility rules were substantially restructured to reflect this approach. Based on three years' experience with their operation, the Commission has undertaken a comprehensive review of these rules with a view toward eliminating any unnecessary requirement. Although this review is generally directed toward improving the efficiency and effectiveness of the regulatory system as a whole, the possible benefits to brokers and dealers doing a limited securities business are receiving particular attention.

Through such efforts, the Commission has attempted to minimize the effects of its rules on smaller broker-dealers and to help assure their continued participation in the securities markets without sacrificing the Commission's primary statutory objective of protecting investors.

Lost and stolen securities—The Commission's program for the reporting of missing, counterfeit or stolen securities became fully operational during fiscal 1978. The Commission arranged with the United States Attorney General to enter files of the National Crime Information Center on securities thefts into the data base maintained by the Securities Information Center, Inc. (SIC), the organization designated by the Commission to receive reports and respond to inquiries regarding corporate and municipal securities. The Federal Reserve Banks perform the same functions with respect to government securities. The Commission made arrangements with the National Crime Information Center for the exchange of information on lost or stolen securities. As of September 1, 1978, approximately 190,000 reports of missing, lost, stolen or counterfeit securities, with an aggregate

market value of nearly \$1 billion, had been received by the SIC.

Securities confirmations—The Commission adopted, effective December 18, 1978, a new rule prescribing delivery and disclosure requirements for confirmations of securities transactions sent by brokers and dealers to customers.²⁵ The confirmation is an important disclosure document that provides an investor with information pertinent to each securities transaction. The Commission's adoption of new confirmation disclosure and delivery requirements represents an effort to review old regulatory requirements so as to enhance investor protection while eliminating regulatory burdens for which the compliance costs appear to exceed the public benefit. The Commission is continuing to evaluate whether additional disclosure on customer confirmations for transactions in particularly debt securities would be appropriate.

Broker-dealer practices—On September 28, 1978 the Commission published a release²⁶ giving notice to broker-dealers that certain practices regarding customer accounts are inconsistent with just and equitable principles of trade and may in some instances violate the antifraud provisions of the Federal securities laws. These practices are as follows:

(a) issuance to customers of checks drawn on distant banks, a practice referred to as "remote checking";

(b) retention of interest and dividend payments rather than disbursing such payments to customers promptly upon receipt, without affording customers adequate prior notice and a reasonable opportunity to elect either immediate or deferred payment;

(c) imposition of increased commission rates without adequate prior notice;

(d) imposition of custodial fees on "inactive" customer accounts without adequate prior notice; and

(e) failure to promptly transfer customer accounts.

Uniform dispute resolution procedures for investors—A program to implement uniform, fair and efficient dispute resolution procedures for investors was undertaken by the Commission in May 1976, in connection with its establishment of an Office of Consumer Affairs. The purpose of this program is to improve the ability of investors to resolve disputes with broker-dealers in a satisfactory manner, and at less cost than litigation. In April 1977, the Commission agreed to consider proposals from the Securities Industry Conference on Arbitration (SICA), a voluntary group of securities industry and public representatives which would contemplate utilization of existing arbitration facilities of the self-regulatory organizations.²⁷

On November 15, 1977 SICA submitted to the Commission a proposal for a uniform small claims procedure for investor-broker disputes. SICA proposed that the securities industry self-regulatory organizations adopt a uniform set of rules for the simplified arbitration of customer claims against broker-dealers involving less than \$2500. Any such dispute could be resolved by a single arbitrator on the basis of pleadings and documentary evidence without a hearing, although a hearing could be requested by the customer claimant or an arbitrator. On May 4, 1978 the Commission approved, pursuant to Section 19(b) of the Exchange Act and Rule 19b-4 thereunder, the adoption of a set of rules similar to the SICA proposal, by the NYSE and the Amex.²⁸ The uniform small claims rules were approved subsequently for adoption by other organizations.²⁹

The Commission expects to receive further proposals from SICA regarding uniform investor dispute resolution procedures, including a uniform arbitration

code for adoption by self-regulatory organizations.

The Commission will review the operation of these arbitration facilities as part of its general oversight responsibilities with respect to self-regulatory organizations.

Municipal securities dealers—On July 17, 1978, the Commission published for comment proposed amendments to Form MSD, which is used for municipal securities dealers, registration by banks and separately identifiable departments or divisions of banks.³⁰ The proposed amendments were designed to simplify or to clarify, in several respects, the scope of information solicited by the Form.

Transfer agent rules—The Commission's first substantive rules governing the performance of transfer agents became effective during the fiscal year.³¹ These rules (1) prescribe for registered transfer agents performance time standards for the transfer of securities from one record owner to another for the completion of the registrar function and for responding to inquiries concerning the status of items previously presented for transfer; (2) provide for early warning to the regulatory agencies of inadequate transfer agent performance; (3) apply limitations on the expansion of transfer agent activities when transfer agents are repeatedly unable to meet the time standards for performance of the transfer or registrar functions; (4) require the making and keeping of certain records; and (5) provide exemptions from the performance time standards and record-keeping sections for certain registered transfer agents.

Oversight of Self-Regulatory Organizations

Securities exchanges—As of September 30, 1978, ten exchanges were registered with the Commission as national securities exchanges: American Stock

Exchange, Inc. (Amex); Boston Stock Exchange, Incorporated (BSE); Chicago Board Options Exchange, Incorporated (CBOE); Cincinnati Stock Exchange (CSE); Intermountain Stock Exchange (ISE); Midwest Stock Exchange, Inc. (MSE); New York Stock Exchange, Inc. (NYSE); Pacific Stock Exchange Incorporated (PSE); Philadelphia Stock Exchange, Inc. (Phlx); Spokane Stock Exchange (SSE). The Commission issued on November 8, 1978 an order terminating the exemption from registration as a national securities exchange of the Honolulu Stock Exchange, which had ceased operation earlier in the fiscal year.

In connection with the Commission's oversight of the delisting of securities traded on exchanges, the Commission during the fiscal year granted applications by exchanges to strike 116 equity issues and 25 debt issues from listing and registration. The Commission also granted applications, submitted by issuers, requesting withdrawal from listing and registration for 35 equity issues and 5 debt issues.

In November 1977, the Commission initiated a review of its past practices in granting applications for unlisted trading privileges. Since the initiation of that review, the Commission has not granted any applications for unlisted trading privileges. The Commission's review of its policies is designed to develop standards which the Commission will apply in considering whether the extension of unlisted trading privileges is consistent with the maintenance of fair and orderly markets.

During the fiscal year, the national securities exchanges reported to the Commission approximately 250 disciplinary actions, imposing a variety of sanctions upon member firms and their employees.

National Association of Securities Dealers, Inc.—The National Association

of Securities, Inc. (the "NASD") is the only securities association registered with the Commission. At the close of the fiscal year, 2,798 brokers and dealers were NASD members.

During the past fiscal year, the NASD reported to the Commission final disposition of 230 disciplinary complaints in which 105 member firms and 230 individuals were named as respondents.

At the beginning of fiscal 1978, 15 proceedings for review of NASD disciplinary decisions were pending before the Commission, and during the year 16 additional cases were brought up for review. The Commission reviewed 17 of these cases, and reduced the sanctions to be imposed in some of those cases.

The Commission also reviewed 35 NASD applications to admit a broker or dealer to membership or to permit a person to become associated with a member where the broker or dealer or person is subject to a statutory disqualification. The Commission denied the registration of one individual and instituted proceedings to deny the registration of two others. It has taken no adverse action with respect to the other 32 notices.

The Commission began during the year to review an NASD proposed rule to prohibit its members from giving discounts to customers in distributions of securities offered at a fixed price. The proposal was written in response to a 1976 judicial decision (*Papilsky v. Berndt*³²) which held that such discounts were lawful in some circumstances, absent a contrary Commission or NASD ruling. The matter involves complex issues which, depending upon their resolution, could have far reaching impact on underwriting practices.

During the fiscal year the Commission worked with self-regulatory organizations to simplify and eliminate duplication in the self-regulatory system for brokers and dealers. In September 1978, the Commission temporarily approved

four plans proposed by self-regulatory organizations for allocating their responsibilities to perform various regulatory functions for brokers and dealers which belong to more than one self-regulatory organization. The plans represent agreements reached between the NASD and four exchanges: the Boston Stock Exchange, Inc., the Cincinnati Stock Exchange, Inc., the Midwest Stock Exchange, Inc., and the Pacific Stock Exchange, Inc.

The plans reflect progress toward reducing unnecessary regulatory duplication by assigning to the NASD much of the responsibility for conducting on-site examination of dual members and for processing various applications. At the close of the fiscal year, the Commission was considering plans proposed with respect to other self-regulatory organizations.

Municipal Securities Rulemaking Board—As in the case of national securities exchanges and the NASD, the Commission reviews proposed rule changes of the Municipal Securities Rulemaking Board (the MSRB). During the fiscal year, the MSRB filed seventeen rule proposals. The Commission considered several of those proposals and others which were pending from the previous fiscal year.

The Commission approved a series of rule proposals designed to establish basic standards of fair and ethical conduct for municipal securities professionals.³³ The rules establish requirements in particular areas such as: (1) suitability of recommendations and transactions; (2) professional advertising; (3) administration of discretionary and other accounts; (4) supervision of employees; (5) determination of prices and commissions; (6) disclosures in connection with new issue municipal securities; and (7) advertisements of such securities. The rules provided the first regulation of this

type for most municipal securities professionals, since the rules of fair practice of the NASD do not apply to transactions in municipal securities and exemptions are available for many persons subject to comparable rules applicable to brokers and dealers who are not members of the NASD.

The Commission also approved a rule establishing terms and conditions for the sale of new issue municipal securities during the underwriting period.³⁴ The rule requires municipal securities underwriting syndicates to establish procedures for allocating securities among competing orders; to disclose those procedures to syndicate members and, upon request, to others; and to reveal information concerning certain customers to syndicate members.

In addition, the Commission approved two new examinations for municipal securities professionals.³⁵ The first examination is required in order for a person associated with a municipal securities broker or municipal securities dealer to become qualified as a financial and operations principal. The second examination is required in order for a person to become qualified as a municipal securities representative.

Clearing Agencies—The Commission has granted temporary registration to 12 clearing agencies pending the development of permanent standards for registration.

On June 1, 1977, the Commission proposed for public comment standards which clearing agencies would have to meet in order to be granted permanent registration.³⁶ The Commission received numerous comment letters on the proposed standards and on March 6, 1978, proposed revised standards for public comment.³⁷ The Commission again received many comment letters on the revised proposed standards and is considering them.

Inspections of self-regulatory organi-

zations—During the fiscal year, the Commission's staff conducted inspections of NASD district offices located in Los Angeles, New York and San Francisco. These inspections involved a review and evaluation of the organization and staffing of those offices, the procedures and quality of their broker-dealer examination, disciplinary and customer complaint processes, the adequacy of their surveillance for compliance with Commission and NASD rules, and the composition and effectiveness of the District Committees. In the Los Angeles and New York district offices, the Commission's staff noted areas in which the NASD's compliance programs could be enhanced. The staff was generally satisfied with the NASD's compliance program at its San Francisco district office.

In its inspection of the Los Angeles district office, the staff noted shortcomings in that office's ability (1) to conduct adequate financial, operational and sales practices examinations; (2) to meet planned examination cycles; (3) to respond fully and promptly to customer inquiries and complaints; (4) to process appropriately requests for extensions of time for delivery of payment for securities pursuant to Regulation T of the Board of Governors of the Federal Reserve System; and (5) to follow up on examinations in order to institute disciplinary actions in a timely fashion. It appeared that these deficiencies were attributable, in large part, to a lack of adequate and experienced staff during 1976 and 1977. These matters were reviewed with officials from the NASD's headquarters office and its Los Angeles district office upon completion of the inspection, and were also discussed with these officials in follow-up meetings later in the fiscal year. The District's manpower quota was increased from 16 to 20, to authorize an additional full time attorney, a supervisor and two examiners, and the NASD pro-

vided assurances that the district's operations were current.

The inspection of the New York district office revealed several deficiencies, including (1) the relative inexperience of, and a high rate of turnover among, the examiner staff; (2) a lack of adequate supervision of the examination process; (3) the narrow scope of the examinations conducted by the NASD's staff, particularly with respect to sales practices; (4) the failure of the examiners to follow specified examination procedures; (5) the failure of the staff to take adequate follow-up steps to assure that noted deficiencies were corrected; and (6) problems regarding the processing of requests for extensions of time for payment of securities pursuant to Regulation T. Revised procedures have been implemented or are under consideration as a result of this inspection.

On November 15, 1977, the Commission's staff inspected the Amex to determine the adequacy of its surveillance programs for monitoring compliance with Amex rules regarding position limits. In addition, the staff reviewed the Amex's procedures for monitoring the use of market maker accounts with clearing firms by specialists and Registered Option Traders to determine whether the Amex's procedures would detect violations of Regulation T.

The staff found deficiencies in the regulatory and surveillance programs designed to monitor or provide for regulation of options positions. The staff also raised a number of as yet unresolved questions based on conflicting interpretations by the FRB and the Amex regarding the availability of "exempt credit" for Registered Options Traders.

The Commission's staff inspected the Amex and NYSE on November 7, 1977, and on January 25 and 26, 1978, respectively. The purpose of these in-

spections was to review and evaluate the enforcement by the Amex and NYSE of their delisting policies to determine whether those exchanges are fulfilling their regulatory responsibilities.

The staff concluded that the NYSE's regulatory responsibilities, in relation to its delisting policies and procedures, were being carried out satisfactorily. With respect to the Amex, the staff found that it had no program of centralized management and control for delisting securities. The Amex subsequently has taken steps to correct the deficiencies found.

On April 20–21, 1978, the Commission's staff conducted an inspection of the NYSE's processing of Regulation T extension requests. The inspection disclosed that the NYSE procedures for review of Regulation T extension requests do not assure compliance with that Regulation's requirement that extensions be granted only in exceptional circumstances. In addition, inadequacies were found in member firm's supervisory procedures, and NYSE surveillance thereof, for compliance with Regulation T requirements. By letter dated September 19, 1978, the Division of Market Regulation informed the NYSE of its findings and suggested possible alternative solutions to the problem. The Commission's staff is discussing with the NYSE the implementation of new procedures for the processing of extension requests and is also reviewing whether the procedures of other exchanges and the NASD are adequate to assure compliance with the requirements of Regulation T.

On October 3–5, 1977, the Commission's staff conducted an inspection of the CBOE which focused primarily upon the CBOE's examination program and its procedures for enforcing member compliance with its rules concerning option selling practices. The Commission's inspection team noted a number

of areas in which it felt that the CBOE's surveillance systems, like those of other options exchanges, should be strengthened. The staffs of the Commission and the Options Exchanges were working on solutions to a number of problems as the fiscal year ended.

On May 18–19, 1978, the Commission's staff reviewed the CBOE's closing rotations procedures. The Commission's staff was concerned about the need for uniform procedures among the options exchanges and the unfairness to public customers of daily closing rotation procedures because of limitations that are imposed on public customers but not on professionals on exchange floors. Based in part on the results of this inspection, the Commission approved a four month experiment by the options exchanges to extend trading until 4:10 New York time and to suspend daily closing rotations.

On July 27 and 28, 1978, the Commission's staff inspected the Phlx with respect to (1) operation and surveillance of the trading floor for stocks; (2) regulation of specialists and alternate dealers; (3) functioning of the Business Conduct, Floor Procedures, and Stock Life Committees; and (4) processing of Regulation T extension requests submitted by member firms. At the end of the fiscal year, the Commission's staff was continuing to analyze data gathered in the course of this inspection. After completion of this work, a report discussing the staff's findings will be transmitted to the Phlx.

On September 27 and 28, 1978, members of the Commission staff conducted an inspection of the NYSE Arbitration Department. The purpose of the inspection was to determine whether the NYSE's procedures result in the fair and efficient resolution of disputes between broker-dealers and their customers. As of the end of the fiscal year, the Commission staff was in the process of reviewing the data gathered during

the course of the inspection and, after evaluation, will make any necessary recommendations to the NYSE and to the Commission. The inspection included interviews with the staff of the Arbitration Department, review of the system of documentation for matters submitted for arbitration, and review of a sample of case files. The subjects of inquiry included the time necessary to conclude arbitration proceedings, the manner in which arbitrators are selected, the number of locations in which hearings may be held, the types of cases and issues involved, the appropriateness of awards, the extent of participation by the NYSE staff in the resolution of disputes, and the referral of matters which may be of concern to the appropriate disciplinary authorities of the NYSE and/or other organizations.

Revenues and expenses of self-regulatory organizations—The regulatory

functions of the various exchanges and the NASD with regard to their broker-dealer members are financed through various fees and dues, such as listing fees and transaction charges. The nature of some of these revenue sources makes the financial condition of self-regulatory organizations dependent upon price fluctuations and trading volume.

Furthermore, the various self-regulatory organizations are quite different in the extent of their dependence on particular sources of revenue. Some sources of revenue, such as transaction, clearing and depository fees, change directly with changes in share volume. Others are relatively fixed, such as listing fees and membership dues. Additional analysis and statistical detail on share volume and revenues and expenses of each self-regulatory organization is presented in the Appendix of this report.

The Disclosure System

Corporate Governance; Management Background and Remuneration

During the fiscal year, the Commission took significant steps toward providing new disclosures to investors regarding the structure and function of corporate boards of directors, and toward implementing required disclosures of new material information regarding the background and remuneration of directors.

As a result of many recent events, including numerous corporate disclosures revealing questionable and illegal payments, the Commission became concerned about the adequacy of corporate accountability and conducted a broad re-examination of its rules relating to shareholder communications, shareholder participation in the corporate electoral process and corporate governance generally.³⁸ The Commission held public hearings which commenced in Washington on September 29, 1977, and continued for five and a half weeks, with sessions in Los Angeles, New York and Chicago. On July 18, 1978, the Commission proposed rule, form, and schedule amendments designed to increase the information available to investors regarding (1) the structure, composition, and functioning of issuers' boards of directors; (2) resignations of directors; (3) attendance at board and committee meetings; (4) voting policies and procedures of certain institutions

subject to the proxy rules that exercise voting rights with respect to equity securities held for their own accounts or for the accounts of others; and (5) the terms of settlement of proxy contests. The Commission also requested comments on a rule proposal that would enable shareholder-proponents to review management statements opposing shareholder proposals prior to the mailing of issuers' proxy materials.³⁹

Final rules adopting many of the proposals were issued after the close of the fiscal year. Generally, those amendments require disclosures in the areas described above including disclosure of certain economic and other relationships of directors and nominees. However, the proposals on institutional investors' voting policies were withdrawn.

The staff is also engaged in the preparation of a comprehensive report which would address some of the more complex questions raised during the course of the corporate governance proceedings. The report is expected to address such issues as existing checks on corporate conduct, available shareholder remedies, the functions of the board of directors and its various committees, and the respective roles of the private sector, shareholders, the Commission, the self-regulatory organizations, and Congress in corporate accountability. After review and perhaps publication of

the staff report, the Commission will consider what further action, if any, is appropriate and will determine whether to publish additional rulemaking proposals or to recommend or support new legislation affecting corporate accountability.

The Commission also published proposed amendments to various forms, reports, and schedules intended to standardize and improve its disclosure requirements relating to management remuneration.⁴⁰ In view of the development of complex and varied management remuneration packages and the necessity for accurate and complete remuneration disclosure, the amendments were intended to provide clearer and more concise reporting of all types and formats of remuneration, including security-based and other non-cash arrangements. In addition, these proposed amendments were intended to provide a clearer method for reporting of personal benefits or "perquisites" provided to management, in recognition of the considerable concern engendered in the corporate and legal communities by the Commission's interpretive releases regarding how such benefits should be disclosed. (After the close of the fiscal year, the Commission adopted amendments to the remuneration disclosure requirements.)

In connection with its efforts to consolidate, for easier reference, substantially all disclosure requirements into one uniform schedule, the Commission also adopted standardized items, which set forth in one regulation the current disclosure requirements concerning directors and executive officers, management remuneration, legal proceedings and security ownership of certain beneficial owners and management.⁴¹ The Commission's action at the time also involved amendments to the disclosure requirements regarding the identity and background of corporate officials and

events which are material to investors' evaluation of the ability and integrity of management.⁴² These amendments, for example, will require disclosure with respect to the previous five year period of any injunctions or consent decrees relating to business practices or violations of Federal or State securities laws and certain civil actions involving violations of such laws to which directors and officers are subject, as well as disclosure of other directorships held by each director or nominee.

Small Business Hearings

On December 14, 1977, the Commission announced that it would hold public hearings concerning the effects of its rules and regulations on the ability of small businesses to raise capital and the impact on small businesses of the disclosure requirements under the Securities Acts.⁴³ The Commission, on March 6, 1978, published a release listing the issues to be considered at the hearings.⁴⁴ The general areas of inquiry for which the Commission requested oral presentations and written submissions included the following:

- (a) The Definition of a Small Business Issuer;
- (b) Possible Revision of Disclosure Obligations Imposed on Small Businesses;
- (c) Role of Underwriters, Accountants and Attorneys in a Small Business Securities Offering;
- (d) Intrastate Offerings and Rule 147;
- (e) Regulation A;
- (f) Rule 240; and
- (g) Private Placements and Rule 146.

In a companion release dated March 6, 1978, the Commission proposed Form S-18 and related actions concerning simplified registration and reporting requirements for small issuers.⁴⁵ The Form was proposed to be available for offerings of up to \$3 million by domestic or Canadian corporate issuers

which are not subject to the Commission's continuous reporting requirements. The Form calls for narrative disclosure somewhat less extensive than that presently required by Form S-1 and audited financial statements substantially similar to those required by Regulation A. In addition, the proposal relaxed certain financial statement requirements by allowing such issuers to include in their initial annual report filed with the Commission audited financial statements substantially similar to those required by Regulation A.

Between April 12, 1978 and May 18, 1978, the Commission conducted a series of hearings in Washington, D.C.; Los Angeles, California; Denver, Colorado, Atlanta, Georgia; Chicago, Illinois; and Boston, Massachusetts. The commentators discussed a number of deletions, additions, and modifications of registration and reporting requirements in an effort to aid small businesses and new ventures. Commentators also emphasized that there are a number of factors other than the Federal securities laws that have a substantial impact on access to the public marketplace.

Based on the hearings and other available information and suggestions, the Commission adopted revisions to Rule 144, Rule 146, and Regulation A. The Commission relaxed Rule 144's quantitative resale restrictions;⁴⁶ and proposed an amendment to Rule 144 which would permit certain persons who have held securities covered by the Rule for a five year period to sell such securities without any volume limitations. (This proposal was adopted after the end of the fiscal year with a holding period of three years for exchange listed securities and four years for securities not listed but issued by a reporting company).⁴⁷ An amendment was adopted to Rule 146 to allow the use of Regulation A type financial information for Rule

146 offerings up to \$1.5 million.⁴⁸ Pursuant to requisite Congressional authorization, the Commission raised the ceiling on the amounts of securities which may be sold under Regulation A within a twelve month period from \$500,000 to \$1,500,000.⁴⁹

In conjunction with the Commission's ongoing review of problems facing small businesses, additional proposals—including Form S-18—were still in various stages of staff formulation and review at the end of the fiscal year. (Subsequent to the close of the fiscal year, the Commission adopted, on March 29, 1979, Form S-18 as revised to reflect certain recommendations of commentators. The form is available for offerings of up to \$5 million dollars, of which up to \$1.5 million may be sales by existing security holders.)

New Developments in Disclosure Policy

Advisory Committee On Corporate Disclosure—In November, 1977, the *Report of The Advisory Committee on Corporate Disclosure* was presented to the Commission and the public.⁵⁰ The Report represented the culmination of a 21-month investigation by a 17-member Committee which was assisted by the staff of the Commission and a number of other professional and self-regulatory organizations.

The transmittal letter accompanying the Report indicated that although not all members agreed unreservedly, the conclusions reached were that the disclosure system established by the Commission is sound and does not need radical reform or renovation. However, the letter also urged that the Commission be mindful of the possibilities extant for such reform, and the Report goes on to recommend that the Commission review its practices in 13 major areas: (1) the Commission's disclosure objectives; (2) the Commission's rule-

making and monitoring practices; (3) the development of industry guidelines; (4) soft information; (5) segment reporting; (6) social and environmental information; (7) proxy statement disclosure; (8) further integration of the Securities Act and the Exchange Act; (9) reporting requirements under the Exchange Act; (10) financial statement disclosures; (11) disclosure problems of small companies; (12) dissemination of company filings; and (13) reorganization of the Commission's file-keeping system.

In a release issued in February, 1978,⁵¹ the Commission summarized the major aspects of the Report and announced its preliminary response to the recommendations.

In the area of industry guidelines, the Commission has issued two releases⁵² announcing its intent to develop guides for railroads and for gas and electric utilities, and the staff is reviewing the letters received on these projects with a view to making further recommendations to the Commission.

Projections of Future Economic Performance.—In connection with projections of financial information, the Commission reviewed the administrative record on several prior rule-making proposals and hearings, completed its review of the Advisory Committee's recommendation that the Commission issue a public statement encouraging the disclosure of earnings forecasts and other forward-looking information by registrants, and approved, after the end of the fiscal year, proposed guidelines for disclosure of such information. The guidelines included, in accord with the Advisory Committee's recommendation, a proposed rule that would provide a "safe-harbor" from the liability provisions of the Federal securities laws for reasonably based and adequately presented projections or forecasts that are made in good faith, but ultimately prove to be erroneous.

In a release⁵³ issued in December, 1977, the Commission adopted amendments to its disclosure forms implementing the Advisory Committee's recommendations concerning the disclosure of industry segment and geographic information, and integrating such disclosure with the registrant's description of business information. To provide the public with further guidance concerning the issues presented by segment disclosure, the Division of Corporation Finance later issued an interpretative release responding to some of the more frequently-asked questions.⁵⁴

Integration of Documents and Other Disclosure Revisions.—The Advisory Committee also recommended that the Commission continue its efforts to integrate the disclosure aspects of the Securities Act and the Exchange Act and pursuant to this goal, the Commission has taken several actions. On April 11, 1978, the Commission adopted amendments to Form S-16, the simplest and shortest registration form; the amendments, for the first time, made the form available for registration of securities to be offered directly to the public in primary offerings.⁵⁵ Issuers eligible to use form S-16 are required to file periodic reports under the Exchange Act containing information about their business management and financial operations. Since these reports are generally available, the form requires only limited further disclosure concerning the offering, and basic disclosure regarding the issuer is included through incorporating these reports by reference. Further amendments to Form S-16 were proposed on September 7, 1978⁵⁶ making the short form available for primary offerings by larger, well established subsidiary issuers. (These proposals were adopted after the close of the fiscal year.)

Another significant action relating to the format of disclosure involves the

Commission action of August 16, 1978 inviting comment on a proposed new version of Form 10-K, the annual reporting form under the Exchange Act.⁵⁷ The Advisory Committee recommended that Form 10-K be amended to eliminate what are, in the Committee's view, unnecessary requirements, to add new requirements and to allow the information required to be presented in a more effective and flexible format.

A number of comments were received on this concept and the Commission's staff is reviewing them with a view to making specific recommendations to the Commission. It is expected that a number of the revisions to Form 10-K which might be proposed would allow that document to be prepared in a "free-writing" style similar to the annual report to security holders, rather than in the rigid format now required under Form 10-K. One result of this approach might be that registrants would be encouraged to combine the two documents—the annual report to security holders and the annual report on Form 10-K—thereby improving the comprehensiveness of information disseminated by registrants while easing the burdens of preparing and filing the required documents.

The Commission has also taken steps to further the Advisory Committee's recommendation that disclosure requirements under the Securities Act and Exchange Act relating to the same categories of information be uniform among forms and reports. In December, 1977,⁵⁸ the Commission adopted the first two items of Regulation S-K, which provide uniform requirements for registrants to provide disclosure in various reports and forms of their business and properties by focusing on their industry segments and geographic areas. In July 1978,⁵⁹ the Commission adopted additional uniform items regarding disclosure of management background and remuneration, material legal proceedings, and bene-

ficial ownership of management and certain substantial security holders. The approach of Regulation S-K is intended to make compliance with disclosure requirements simpler by providing one convenient reference source and assuring that information required to be disclosed on a particular subject does not vary from one form to another.

Elsewhere in this Report, a description is provided of actions taken concerning the Advisory Committee's recommendations on corporate governance and small business financings and disclosure.

Tender Offers, Large Acquisitions and Corporate Repurchases

Sections 13(d) and (e), and 14(d), (e) and (f) of the Exchange Act, enacted in 1968 and amended in 1970, provide for full disclosure in cash tender offers, other stock acquisitions involving changes in ownership or control, and corporate repurchases of stock. These provisions were designed to close gaps in the full disclosure provisions of the securities laws and to safeguard the interest of persons who tender their securities in response to a tender offer or have their securities repurchased by the issuer.

On April 21, 1978, the Commission adopted amendments to Regulation 13D as well as a new Schedule 13G relating to disclosure by certain beneficial owners of equity securities pursuant to Section 13(d) of the Exchange Act.⁶⁰ Among other things, the new provisions (1) provide a definition of the term "beneficial ownership" for the purpose of Section 13(d) of the Exchange Act; (2) make the disclosure in Schedule 13D acquisition statements more meaningful to investors and the reporting of that information less burdensome to beneficial owners; and (3) provide a short form acquisition statement to be used by certain institutional investors and certain employee benefit plans acquiring se-

curities in the ordinary course of their business and not for purposes of control.

Concurrently with the adoption of the amendments to Regulation 13D, the Commission proposed for comment amendments to Regulation 13D which would implement Section 13(g) of the Exchange Act.⁶¹ The principal effect of the proposed amendments is to require persons who own more than five percent of a class of equity securities specified in Rule 13d-1(c) and who are not presently required to file under Section 13(d) of the Exchange Act, to file annually the applicable information required by Schedule 13G. (The gaps in reporting under Section 13(d) were closed with the adoption of these amendments, essentially as proposed, on November 22, 1978,⁶² subsequent to the end of the fiscal year.)

Various technical and interpretive issues raised by the amendments to Regulation 13D were also addressed in a staff interpretive release,⁶³ and further amendments to Regulation 13D were adopted relating to the availability of Schedule 13G to a parent holding company and to the beneficial ownership of pledged securities, including securities pledged to a broker-dealer in connection with margin account transactions.⁶⁴

To satisfy the obligation under Section 13(g) to tabulate and make promptly available the information contained in Schedules 13D, 13G, and 14D-1, the Commission, after the close of the fiscal year, proposed and adopted amendments to the cover pages of those forms.⁶⁵ These proposals require persons filing the schedules to abstract certain data from within the schedule in order to facilitate the entry of such data into a proposed computer system.

On November 17, 1977, the Commission also proposed for comment a new rule and related schedule with respect to going private transactions by

public companies or their affiliates.⁶⁶ The effect of these transactions is the elimination or substantial reduction of the public equity interests, thereby resulting in the corporation or its successor becoming a privately held firm. If adopted, the proposals would provide definitions, specific disclosure and dissemination requirements, substantive protections and particular antifraud provisions with respect to going private transactions.

The Foreign Corrupt Practices Act

In December 1977, the President signed the Foreign Corrupt Practices Act of 1977 (FCPA), which amended certain sections of the Federal securities laws. The Act prohibits issuers from, among other things, corruptly making payments to officials of foreign governments in order to induce such officials to use their authority or influence to obtain business in the country for the issuer.

The Act also requires issuers to comply with certain related provisions including the maintenance of a system of internal accounting controls which provides reasonable assurance that certain objectives are met. The Act will significantly assist the Commission in its continuing program against fraud by management of publicly held companies.

Subsequent to the end of the fiscal year, the Commission adopted rules that prohibit the falsification of an issuer's books and records and the making of false, misleading or incomplete statements to an accountant in connection with any audit or examination of the financial statements of the issuer or the preparation of reports or documents filed with the Commission. These rules are intended to assure that an issuer's books and records accurately and fairly reflect its transactions and dispositions of assets; to protect the integrity of the

independent audit of issuer financial statements required under the Exchange Act; to promote the reliability and completeness of financial information that issuers are required to file with the Commission, or disseminate to investors under the Exchange Act; to promote compliance with the new Sections 13(b)(2)(A) (FCPA provisions); and to prevent the concealment of questionable or illegal corporate payments and practices. The Commission believes that these rules, while intended to deal with a much broader range of practices than the problem of questionable or illegal corporate payments and practices, will serve to discourage repetition of the serious abuses which the Commission has uncovered in this area.

It bears emphasis that the internal accounting control provisions of the FCPA are not exclusively concerned with the preparation of financial statements. An equally important objective of the new law, as well as pre-existing provisions of the Federal securities laws, is the goal of corporate accountability. In this context the Act embodies certain requirements of integrity in corporate recordkeeping and includes assurances that there is proper control over and accountability for the use of corporate assets and that corporate transactions are executed in accordance with management's general or specific authorization.

Accordingly, the Act establishes requirements concerning the internal activities of reporting companies that are supportive of the disclosure system mandated by the Exchange Act, but should not be analyzed solely from that point of view. The new requirements may provide an independent basis for enforcement action by the Commission, whether or not violation of the provisions may lead, in a particular case, to the dissemination of materially false or misleading information to investors.

Certain cases brought by the Commission under the Act are discussed in this report in the "Enforcement Program" section.

Oversight of the Accounting Profession

Report on the Accounting Profession and the Commission's Oversight Role—In July 1978, the Commission submitted to Congress its first Report on the Accounting Profession and the Commission's Oversight Role. This was in accordance with the Commission's undertaking during the hearings held on the accounting profession by the Subcommittee on Reports, Accounting and Management of the Senate Committee on Governmental Affairs one year earlier to report periodically on the accounting profession's response to the challenges which Congress and others have placed before it and on related Commission initiatives.

The questions raised concerning the accounting profession and its future have centered principally on the profession's capability, absent direct government regulation, to regulate and discipline its members and to assure their independence; and to set auditing and accounting standards. The Report contained the views of the Commission and the staff on the major issues confronting the accounting profession, and analyzed in detail the recent progress made by the Commission and, under its active oversight, the profession, in dealing with them.

During the fiscal year, the profession's major self-regulatory initiatives were focused on the new Division of Firms of the American Institute of Certified Public Accountants. The SEC Practice Section of that Division, monitored by a Public Oversight Board composed of distinguished individuals from outside the accounting profession, is to provide leadership in addressing issues

of importance to the profession and its independence, such as the range of services appropriate for accountants to offer clients, and is responsible for the development and conduct of a continuing program of peer reviews of member firms.

Based on its review of events during the preceding year, the Commission indicated that it was too early to assess the long-run effectiveness of the profession's efforts at self-regulation, but that it regarded the section's creation as a major accomplishment and a potentially viable foundation for a meaningful program of self-regulation. The Commission indicated, therefore, that the profession's initiatives showed sufficient promise to be permitted to continue to evolve, and that it would not at that time recommend legislation, such as that introduced in Congress during the year, which would institute formalized procedures for self-regulation of the profession.

The Commission has worked with the accounting profession to define the objectives of the self-regulatory program, and to assure that the profession's proposed implementation is consistent with those objectives. As described in the staff report, the Commission has monitored the profession's efforts in this area closely. In addition, the Commission was active during the year in overseeing the profession's initiatives concerning the independence of auditors and the accounting and auditing standard-setting processes.

Accounting Standards for Oil and Gas Producers—During the fiscal year the Commission conducted an extensive public proceeding on accounting standards for oil and gas producers. The Commission's proceeding was conducted pursuant to both the Federal securities laws and the Energy Policy and Conservation Act of 1975 (EPCA), which re-

quires that the Commission assure the development and observance of accounting practices for the oil and gas industry. The impact of the requirements of EPCA, among other things, contributed to the uniqueness of the Commission's proceeding in this matter.

In August 1978, the Commission announced that it had determined, among other things, to require disclosure in financial statements of supplemental financial and operating data, including information on future net revenues from production of proved oil and gas reserves. It also specified a form of successful efforts accounting to be followed, and proposed an alternative full-cost method.

Based on its conclusions that development of new financial accounting measurement standards will be necessary to achieve meaningful reporting of earnings and financial position for oil and gas producing companies, the Commission announced that it had determined to work toward the development of a method of accounting that recognizes valuations of proved oil and gas reserves in the balance sheets and income statements of oil and gas producers, a method which the Commission designated "reserve recognition accounting." Because of the inherent imprecision of reserve valuation, the Commission also indicated that it will closely study the feasibility of this method and its usefulness before determining the ultimate method of reporting.

Although the Commission's conclusions in this matter differed from those of the FASB, the Commission, in announcing its determinations, emphasized that its policy toward the FASB remained unchanged, and reiterated its strong general support of the FASB's role in addressing financial accounting issues.

Investment Companies and Advisers

Comprehensive Review of Regulatory System

The Division of Investment Management undertook during the fiscal year comprehensive reviews of the Investment Company Act and the Investment Advisers Act. These reviews were implemented with a view to ensuring that the Acts and the Commission's administration of them are consistent with both the protection of investors and the needs of regulated investment managers in light of current and anticipated trends in business.

The Division established a special study group to review the Investment Company Act and the rules, regulations, and administrative practices under it, with the purpose of simplifying and reducing the burden of regulation, to the extent possible, consistent with the protection of investors. One objective of the study is to replace administrative review of proposed investment company activities with rules codifying general conditions under which such activities are permissible. Such rules could obviate certain routinely granted applications for exemptive relief and requests for interpretive advice. More significantly the study is exploring ways of reducing the extent to which the staff becomes involved in decisions of investment companies and their managements which involve the exercise of both business judgment and legal and fiduciary re-

sponsibility. A major focus of this effort will be on strengthening and structuring the role of disinterested directors of investment companies in making and overseeing such decisions.

The result should be a regulatory system which relies primarily on investment companies and their managers, and particularly the disinterested directors, to discharge their duties properly and to make full and fair disclosure, but which preserves a strong oversight function for the Commission through its inspection and enforcement programs. (Subsequent to the close of the fiscal year, the Commission proposed rules regarding: the pricing of redeemable investment company securities; the receipt of brokerage commissions by affiliated brokers in connection with stock exchange transactions; transactions with portfolio affiliates; reorganization of portfolio companies; and certain joint purchases of insurance coverage. It also proposed and adopted three rules regarding unit investment trusts. Moreover, it proposed to rescind an obsolete rule regarding the receipt of brokerage commissions by affiliated brokers in connection with over-the-counter transactions.)

The Investment Advisers Act review is concentrating on whether the existing regulatory structure is adequate in light of the dramatic growth of the advisory industry in recent years. Subjects to be

examined by the review include: whether or not there should be professional and financial qualifications for investment advisers; whether there should be specific antifraud rules dealing with abuses to which the advisory industry may be particularly vulnerable; whether there should be different regulations for different types of advisers; and to what extent the Advisers Act should apply to entities such as banks, insurance companies, mini-accounts, and certain kinds of publications. (Subsequent to the end of the fiscal year, on January 24, 1979, the Commission adopted major amendments to the investment adviser registration form and adopted a new rule requiring advisers to make certain disclosures to their clients. These actions should greatly increase the amount of material information about investment advisers which is available to the Commission and the public.)

Institutional Disclosure

The Commission adopted during the fiscal year Rule 13f-1 and related Form 13F implementing the institutional disclosure program mandated by Section 13(f) of the Exchange Act which was added by the Securities Acts Amendments of 1975.⁶⁷ Section 13(f) empowers the Commission to adopt rules creating a reporting and disclosure system to collect specific information as to the equity securities held in accounts over which certain institutional investment managers exercise investment discretion. The reporting system required by Section 13(f) is intended to create in the Commission a central repository of historical and current data about the investment activities of institutional investment managers.

Under Rule 13f-1, an institutional investment manager exercising investment discretion with respect to accounts having \$100 million or more in exchange-traded or other specified eq-

uity securities, on the last trading day of any of the twelve months of a calendar year, must file Form 13F with the Commission, within forty-five days after the last day of such calendar year. The new rule took effect beginning with calendar year 1978. Banks must also file Form 13F with the appropriate banking agency.

The release announcing adoption of Rule 13f-1 sought comments concerning the usefulness and costs associated with quarterly, as opposed to annual reporting. As of the end of the fiscal year, the Division of Investment Management was reviewing the numerous comments it had received concerning that matter. (Subsequently to the close of the fiscal year the Commission, on January 5, 1979, issued final rules requiring quarterly reporting.)

Integrated Registration and Reporting System

The Commission adopted during fiscal 1978 a rule and forms creating an integrated registration and reporting system designed to reduce both the number of forms and the duplicative information filed by management investment companies.⁶⁸ The need to integrate the various registration and reporting requirements under the Securities Act and the Investment Company Act has been recognized since 1941, and the Commission's action achieved this important goal.

The integrated registration and reporting system provides for a unified registration statement form (Form N-1 for open-end companies and Form N-2 for closed-end companies) which may be used both to register securities under the Securities Act and to meet the requirements for filing a registration statement under the Investment Company Act. The unified registration statement includes most of the information previously contained in registration state-

ment Form N-8B-1 under the Investment Company Act, and Forms S-4 and S-5 under the Securities Act. The Commission also adopted a revised notification of registration, Form N-8A, under the Investment Company Act. The new form permits investment companies filing a notification of registration simultaneously with a registration statement to file a special short-form notification of registration.

As part of the integrated registration and reporting system, the Commission adopted Rule 8b-16 requiring the annual updating of registration statements filed under the Investment Company Act. This is a new requirement for

closed-end management investment companies. The effect of Rule 8b-16 will be to ensure that the staff of the Commission and the public have access to complete and current information about all registered management investment companies.

The Commission revised Form N-1R, the annual report form under the Investment Company Act for management investment companies. The annual amendment of registration statements filed under the Investment Company Act required by Rule 8b-16 permits elimination of separate narrative annual reports previously required to be filed as part of Form N-1R.

Enforcement Program

During the past fiscal year, the Commission has continued to maintain a vigorous and effective enforcement program as a means of accomplishing its investor protection goals. The significant cases brought and disposed of reflect the variety of fraudulent conduct detected and prosecuted by the Commission. They also show the channelling of the enforcement effort into specific problem areas.

The Commission's enforcement activities, which are designed to combat securities fraud and other illegal conduct, encompass civil and criminal court actions, as well as administrative proceedings. Where violations of the securities laws are established, the sanctions which may result range from censure by the Commission to prison sentences imposed by a court.

The enforcement program is designed to achieve as broad a regulatory impact as possible within the framework of resources available to the Commission. In view of the capability of self-regulatory and state and local agencies to deal effectively with certain securities violations, the Commission seeks to promote effective coordination and cooperation between its own enforcement activities and those of other agencies.

Settlement of Commission Actions

A high percentage of the Commission's judicial and administrative en-

forcement actions are settled before any trial of the action is held. These actions are primarily remedial in nature and are aimed at preventing future violative conduct and at remedying the results of past violations. The Commission has been successful in obtaining settlements which meet both of these goals without the necessity for prolonged litigation which could impose a serious burden upon limited personnel resources.

Typically, defendants consent to such settlements without admitting or denying the factual allegations contained in the Commission's complaint (in the case of injunctive actions) or order for proceedings (in the case of administrative proceedings). Accordingly, in the following discussion of significant enforcement actions, it should be assumed that the defendant consented to any indicated settlement without admitting or denying the factual allegations.

Questionable Payments

The Commission continued its enforcement interest in the area of questionable and illegal corporate payments in fiscal 1978, and expects that its interest in this area will continue in fiscal 1979. While more than 400 corporations have made disclosures of such payments, the Commission is continuing to investigate evidence of violative

conduct in this area both by companies which have disclosed such activities and by other corporations as well.

Previous Commission enforcement activities disclosed a widespread pattern of illegal and unethical corporate activity and contributed to the enactment by the Congress of the Foreign Corrupt Practices Act of 1977 (Sections 13(b)(2), 30A and 31(c) of the Exchange Act) which was signed into law in December 1977. The Act prohibits issuers from, among other things, corruptly making payments to officials of foreign governments in order to induce such officials to use their authority or influence to obtain business for the issuer in the country.

The Act also requires issuers to comply with certain related provisions, including the maintenance of a system of internal accounting controls which provides reasonable assurance that certain objectives are met. The Act will significantly assist the Commission in its continuing program against fraud by management of public companies.

The relief obtained in these cases is designed to be both remedial and prospective. For example, in the *Seagrams* case discussed below, the Final Order prohibits the defendants (1) from filing inaccurate annual and other reports with the Commission pursuant to Section 13(a) of the Exchange Act, regarding, among other things, (a) any accounting practices employed to disguise illegal activities, (b) the illegal contribution of funds for the benefit of political candidates, (c) the illegal disposition of wines and spirits for gratuities, promotion, or entertainment, and (d) the establishment or maintenance of any fund of corporate monies or other assets which are not accurately and fairly accounted for, in reasonable detail, on the books and records of the defendants; (2) from making or aiding and abetting the making of false and

fictitious entries in books and records under their control; and (3) orders the defendants to file with the Commission reports on Form 8-K disclosing all material matters relevant to the complaint.

The following cases illustrate the Commission's efforts in this area.

*SEC v. Beatrice Foods Co.*⁶⁹—On August 17, 1978, the Commission filed a complaint against Beatrice Foods Co. (Beatrice) and contemporaneously, a Judgment of Permanent Injunction was entered against Beatrice upon its consent.

The complaint charged violations of the reporting and proxy solicitation provisions of the Exchange Act in connection with Beatrice's payment of discounts or rebates to its dairy customers in possible violation of state minimum pricing or milk marketing laws. The complaint alleged that during the period from 1971 through 1976, payments totaling in excess of \$11.7 million were accounted for falsely and improperly on Beatrice's books and records or passed through unrecorded bank accounts.

The complaint also alleged that at various times the existence of certain of these unrecorded accounts came to the attention of Beatrice's internal audit staff but references to these accounts were omitted from internal audit reports. In addition, the complaint alleged that on the one occasion when the existence of an unrecorded bank account was discovered by Beatrice's public accounting firm, the discovery was not disclosed in the audit report.

*SEC v. The Seagram Company Ltd.*⁷⁰—On September 8, 1978, the Commission filed a complaint against The Seagram Company Ltd. (Seagram) and its principal subsidiary, Joseph E. Seagram & Sons, Inc. (JES). The complaint alleged the failure by Seagram and JES to disclose in their annual and periodic reports filed with the Commission certain illegal and questionable political

contributions and certain illegal and questionable trade practices.

The complaint alleged that Seagram and JES failed to disclose that Seagram maintained a special account in Canada, from which various payments were made, including questionable and illegal payments and political contributions made through JES. The complaint further alleged that JES made additional payments in cash and merchandise to retailers of wine and spirits in possible violation of Federal and state liquor laws and regulations. These payments were not reflected or were inaccurately reflected on the respective books and records of Seagram and JES. Finally, the complaint alleged that JES paid an advertising agency \$435,000 in order to reimburse that agency for the advertising expense incurred on behalf of a primary candidate for a state election in 1970. It was alleged that this expenditure was falsely reflected on the books of JES.

Simultaneously with the filing of the complaint, Seagram and JES consented to the entry of a Final Order.

*SEC v. The Goodyear Tire & Rubber Company*⁷¹—On December 21, 1977, the Commission obtained a Judgment of Permanent Injunction and other injunctive relief against The Goodyear Tire & Rubber Company (Goodyear) upon Goodyear's consent. The Commission's complaint had alleged various violations of the securities laws in connection with the maintenance of unrecorded cash funds totaling over \$1.5 million and the making of both illegal domestic political contributions and various questionable foreign payments. The Commission charged that questionable payments were made in at least twenty foreign countries in order, among other things, to secure price increases, settle tax problems, acquire licenses to do business, secure government purchase of Goodyear products, expedite customs

clearance and other regulatory matters, influence the outcome of civil litigation and settle labor difficulties.

It was further charged that one payment represented Goodyear's share of an industry-wide payment to secure an increase in the government-controlled price of tires in a Latin American country. In order to maintain these unrecorded funds and make the questionable payments, the Commission charged that there had been falsifications of corporate books and records, and filings of materially false and misleading annual and periodic reports and proxy statements with the Commission.

*SEC v. Jos. Schlitz Brewing Co.*⁷²—The Commission, on April 7, 1977, filed a complaint against the Jos. Schlitz Brewing Co. (Schlitz) alleging that Schlitz had made undisclosed payments to various persons and entities, in violation of Federal and state liquor laws, to induce these persons to purchase from Schlitz. The complaint also alleged the undisclosed receipt of payments by certain of Schlitz's Spanish affiliates in violation of Spanish tax and currency exchange laws. The complaint sought an injunction against violations of the antifraud, proxy and reporting provisions of the Federal securities laws as well as additional equitable relief, including the appointment of a Special Counsel to investigate Schlitz's practices and report on his findings.

Based upon its view that the alleged payments might be material facts to investors, the court denied a motion by Schlitz to dismiss the Commission's complaint.

The Court's determination of materiality was premised on the alleged payments' reflection on the integrity of management and on the potentially adverse consequences to Schlitz's licenses as a result of its illegal conduct. The court also cited with approval the Commission's May 12, 1976 report to the

Senate Banking Housing and Urban Affairs Committee in finding that the amount of business dependent on the questionable payments was relevant to a determination of materiality.

On July 7, 1978 the same Court entered a Final Judgment of Permanent Injunction by Consent against Schlitz, enjoining it from violations of the provisions of the Federal securities laws alleged in the Commission's complaint.⁷³

*SEC v. The Boeing Company*⁷⁴—On July 28, 1978, the Commission filed a civil injunctive action against Boeing Company (Boeing) alleging violations of the antifraud, reporting and proxy provisions of the Exchange Act and the rules thereunder. Simultaneously with the filing of the complaint, Boeing consented to the entry of a Judgment of Permanent Injunction.

The complaint alleged that since about 1971, Boeing engaged in an undisclosed course of business whereby (1) it made payments of approximately \$27 million to officials of foreign governments or instrumentalities thereof and approximately \$6 million to individuals or entities controlled by them, who were officers or controlling shareholders of foreign airlines, in connection with sales of Boeing airplanes; (2) Boeing entered into contractual arrangements with various consultants and commission agents pursuant to which Boeing disbursed at least \$19 million without adequate records and controls sufficient to insure that such disbursements were actually made for the purpose indicated or that services were received by Boeing commensurate with the amounts of such disbursement; (3) Boeing executed multiple consulting contracts with foreign consultants which facilitated the payments of large sums of money into accounts maintained by those consultants outside their home country; (4) in two instances Boeing represented to a

foreign government or an instrumentality of a foreign government that it would not pay commissions to any person when, in fact, it did pay substantial commissions.

As part of the equitable relief obtained in the case Boeing was required to establish a Special Review Committee consisting of three outside members of its Board of Directors. The Special Review Committee is to review the adequacy and accuracy of disclosures made by Boeing in its Form 8-K report, and to review Boeing's own investigation in connection with the matters alleged in the complaint and similar matters concerning commissions, fees, and other payments made by Boeing since January 1, 1971, to determine whether such investigation was reasonably complete.

*SEC v. Page Airways, Inc.*⁷⁵—On April 12, 1978, the Commission filed a civil injunction action charging Page Airways, Inc. (Page) and six of its officers and/or directors with violations of the antifraud, periodic reporting and proxy provisions of the Exchange Act. The complaint also charged Page with violations of Section 13(b)(2) of the Exchange Act, which was added to that act by the Foreign Corrupt Practices Act.

The complaint alleged that the defendants, in connection with overseas sales of aircraft, paid or caused to be paid funds to officials of foreign governments, to entities controlled by such officials or to purported commission agents without adequate controls to insure that such disbursements were actually made for the purposes indicated in Page's records and without adequate controls to document whether the services provided, if any, were commensurate with the amounts paid.

The action filed by the Commission is currently being litigated.

*SEC v. Katy Industries, Inc.*⁷⁶—In the first case brought under Section 30A of the Exchange Act, which was added to

that act by the Foreign Corrupt Practices Act and which prohibits certain foreign payments by issuers of securities and certain persons acting on their behalf, the Commission, on August 30, 1978, filed a civil injunctive action against Katy Industries, Inc. (Katy); its chairman of the board of directors; and another Katy director. On the same day, the District Court entered judgments permanently enjoining the defendants from violating certain of the periodic reporting, proxy solicitation, antifraud and foreign corrupt practices provisions of the Federal securities laws with respect to payments made in connection with obtaining a foreign oil concession. The defendants consented to the entry of the injunctions.

*SEC v. E-Systems Inc.*⁷⁷—On March 13, 1978, the Commission filed a civil injunctive action which alleged that E-Systems Inc. (E-Systems) and three of its employees violated the reporting and proxy solicitation provisions of the Federal securities laws in connection with E-Systems' indirect payments of approximately \$1.4 million to an official of the Republic of Korea. The complaint alleged that the payments were made to bank accounts located in the United States controlled by relatives of the Korean official. The complaint further alleged that those relatives in turn transferred the monies to the Korean official, or his designees.

The defendants consented to the entry of a Judgment of Permanent Injunction and Other Relief.

*SEC v. Aminex Resources Corp.*⁷⁸—On March 9, 1978, the Commission filed a civil injunctive action against Aminex Resources Corp. (Aminex), certain of its officers and directors, and other corporations alleging violations by various of the defendants of Sections 10(b), 13(a) and 13(b)(2) of the Exchange Act and rules thereunder. The Commission's complaint alleged that

certain of the defendants had engaged in schemes, undisclosed to Aminex's shareholders or to the public, to misappropriate and divert at least \$1.24 million of Aminex's assets. The defendants disguised these misappropriations by means of false and improper accounting in the books and records of Aminex. In furtherance of these schemes, Aminex allegedly filed false and misleading annual and quarterly reports with the Commission.

The Commission sought and obtained a temporary restraining order against the defendants restraining them from further violations of the above-mentioned provisions of the Federal securities laws and also appointing a temporary receiver to manage the assets of Aminex and its subsidiaries. The temporary receiver served in this capacity until bankruptcy receivers were appointed for Aminex, and for the subsidiaries.

On May 24, 1978, the District Court entered a Judgment of Permanent Injunction and Ancillary Relief against the remaining defendants upon their consent. In addition to being enjoined, the defendants were ordered to disgorge \$1.24 million to Aminex. Other provisions of the Judgment include restrictions upon the individual defendants assuming positions as officers or directors of any public company in the future.

Tender Offers and Corporate Takeovers

Due to a variety of corporate economic considerations, there has recently been a significant increase in tender offers and other corporate takeover activity. The Commission's enforcement and rulemaking responsibilities under the Williams Act⁷⁹ are designed to ensure that parties involved in such transactions are provided the benefit of full and fair disclosure; to ensure that all affected shareholders and investors are treated fairly; and to avoid tipping the balance

of regulation in favor either of the bidder or the target company's management.

Because of the swiftly changing circumstances often associated with tender offers, the Commission has taken measures to insure its capability to monitor changes in corporate ownership; to coordinate its efforts to detect promptly any possible violations of the applicable laws; and to take appropriate investigatory and enforcement action.

Among the recent important enforcement actions in the tender offer area are the following:

*SEC v. Sun Company, Inc.*⁸⁰—On March 9, 1978, the Commission filed a civil injunctive action against Sun Company, Inc. (Sun), LHIW, Inc. (LHIW), and certain other corporate and individual defendants.

Among other things, the complaint alleged that certain defendants violated Sections 10(b), 13(d), 14(d) and 14(e) of the Exchange Act and rules thereunder in connection with an offer by Sun and LHIW for the common stock of Becton Dickinson and Company (Becton-Dickinson) by which they acquired approximately 34 percent of the outstanding common stock of Becton-Dickinson.

Equitable relief sought in the case includes injunctions and an order compelling Sun and LHIW to make an offer of rescission to those persons from whom Sun and LHIW purchased Becton-Dickinson stock and with respect to any Becton-Dickinson stock for which the offer of rescission is not accepted, ordering Sun and LHIW to dispose of such shares in a manner pursuant to a plan approved by the Court.

*SEC v. Bank of Credit and Commerce International, S.A.*⁸¹—On March 20, 1978, the Commission filed a civil injunctive action against Bank of Credit and Commerce International, S.A. (BCCI), and other corporate and individual defendants.

The Commission alleged, among other

things, that certain foreign persons and entities and certain United States persons had acted as a group in seeking to acquire control of Financial General Bankshares, Inc. (Financial General) and had acquired approximately 25 percent of its common stock without making the necessary disclosure filings with the Commission.

In addition to permanent injunctions and other relief, as part of the equitable relief obtained in this case upon the defendants' consent, certain of the foreign persons and/or entities were either to make a cash tender offer for all the common stock of Financial General at a price of \$15 per share, which was the highest price they paid for the stock, or in the event such an offer was not made within a certain time period, to sell their stock. In addition, such persons represented that if any person made a cash tender offer at a price in excess of \$15 per share they would tender their stock to the person making the offer. The defendants also were ordered to create a \$1 million fund against which claims could be made by persons who sold stock to the defendants at a price less than \$15 per share.

*SEC v. Security International Corporation*⁸²—On November 22, 1978, the Commission filed a complaint against Security International Corporation (SIC), the chief executive officer of SIC, a consultant to SIC, and other corporations and individuals. The complaint alleged violations of the provisions of the Federal securities laws relating to tender offers, proxy materials, annual reports and required reports concerning stock ownership and acquisitions.

The complaint alleged, among other things, that SIC and its chief executive officer caused annual reports and preliminary proxy materials to be filed with the Commission which contained false and misleading statements about annual remuneration paid to the chief ex-

ecutive officer. The complaint further alleged that the chief executive officer caused to be filed with the Commission and distributed to shareholders tender offer materials containing misleading statements about the remuneration paid him. It was also alleged that the material failed to disclose adequately the terms of a competing tender offer and that certain of the defendants (1) acted as a statutory "group" under the Williams Act and failed to file the necessary reports with the Commission disclosing the group's existence and actions and (2) sought to acquire stock outside of the tender offer.

The court, on July 17, 1978, entered a Final Order of Permanent Injunction⁸³ against certain consenting defendants, except the consultant. In addition, the order, in substance, required the consenting defendants to correct certain misleading statements in their previous filings with the Commission.

After a hearing, the court entered an Order of Preliminary Injunction against the consultant enjoining him from violating certain of the antifraud, reporting, proxy solicitation and securities acquisition provisions of the Federal securities laws. The Commission's action seeking a permanent injunction against him is still pending.⁸⁴

*SEC v. Texas International Company*⁸⁵—On March 7, 1978, the Commission filed a complaint against Texas International Company (TI) to enjoin it from further alleged violations of Sections 10(b), 14(d) and 14(e) of the Exchange Act and rules thereunder in connection with a December 1977 tender offer for certain claims which were exchangeable for stock of Phoenix Resources Company, formerly King Resources Company. The complaint alleged that TI's tender offer materials should have been filed with the Commission. In addition, the complaint alleged violations of the antifraud

provisions concerning, among other things, (1) the comparability between the amount of cash paid per share of stock in the December 1977 tender offer and a prior tender offer to different parties; (2) the value per share of each class of stock to be issued under Phoenix's plan of reorganization; (3) the present and future financial condition of Phoenix and the value of its assets; and (4) the comparability between the amount of cash paid per share of stock to the senior creditors and trade creditors and that offered to the security holders of King Resources.

The matter is presently before the court on cross motions for summary judgment.

Management Perquisites

The staff's continuing investigations involving management perquisites have focused on the payment of nonbusiness expenses and subsidies to corporate officers and directors. Examples include rental of expensive living quarters at far less than the amount paid by the companies for their maintenance, and the use of corporate airplanes, as well as other undisclosed expenses and benefits.

An important action brought in this area is the following case.

*SEC v. Charles Jacquin et Cie, Inc.*⁸⁶—This case alleged violations of the antifraud, reporting and proxy solicitation provisions of the Federal securities laws by the corporate defendant and two of its officers.

Among other things, the complaint alleged substantial salary payments to certain members of the officers' family who, in fact, rendered no significant services to the company. The complaint further alleged that the company paid a variety of strictly personal expenses of the family including such items as apartment rentals, maintenance, tax, and utility expenses for personal resi-

dents and college tuition payments for certain children of Jacquin's officers and directors.

In addition to the injunctive relief which was granted in the case upon the defendants' consent, Jacquin was ordered to expand its board of directors to include two additional independent directors; establish an Audit Committee of the board; and, appoint a Special Counsel to prepare an accounting of monies improperly directed by or to any officer, director or employee of Jacquin. In this connection, the officer defendants were required to provide an accounting of and to repay monies which they received for their personal benefit.

Municipal Securities

The trading of government and municipal securities has significantly increased in recent years. At one time, these securities were purchased primarily by financial institutions for their investment yield and low risk. More recently, however, highly sophisticated and extremely speculative trading practices in these securities have developed, involving brokers and dealers who, by the use of manipulative and deceptive practices, have preyed upon unsophisticated investors. These developments have generated an active enforcement interest on the part of the Commission. The following enforcement actions reflect the Commission's activity in this area.

*SEC v. Winters Government Securities Corporation*⁸⁷—This case, filed on August 15, 1977, was one of the first injunctive actions by the Commission in connection with transactions in United States government securities. Winters Government Securities Corporation (WGSC), an unregistered broker-dealer, and others, were alleged to have violated certain of the antifraud provisions of the Federal securities laws, in connection with transactions in securities consist-

ing primarily of Government National Mortgage Association (GNMA) securities for delayed or forward delivery and payment.

The Commission's complaint alleged that the defendants used high pressure sales techniques, charged excessive markups and commissions and used sham accounts. The complaint further alleged that fraudulent misrepresentations and omissions were made in that the defendants represented that quick and substantial profits could be made without risks.

In addition to permanent injunctive relief consented to in the case, the Commission obtained a representation from one defendant and instituted public administrative proceedings against another which limited, for periods of time, their ability to be associated with broker-dealers. The Commission also cancelled the broker-dealer registration of one defendant.⁸⁸

The Commission has also been concerned with the growing number of abuses in the offer and sale of industrial development bonds. In some instances these bond offerings have resulted in financial loss for investors. One case in the area is *U.S. v. George Mariscal*.⁸⁹ This case involves criminal charges against a Phoenix, Arizona attorney who in another matter had been enjoined from offering and/or selling the securities of any issuer in violation of the registration requirements of the Securities Act and, subsequently, had been permanently suspended from appearing or practicing before the Commission under an order issued pursuant to Rule 2(e)(3)(ii) of the Commission's Rules of Practice.⁹⁰

The indictment⁹¹ charged George Mariscal, the attorney and promoter of Toltec Agri-Nomics, Inc., an Arizona corporation, with ten counts of interstate transportation of securities obtained by fraud and thirteen counts of

mail fraud. (The defendant was convicted on 22 counts in May 1979.)

Other Significant Enforcement Cases

*SEC and Comptroller of the Currency v. The National Bank of Georgia*⁹²—The Commission and the Comptroller of the Currency jointly filed a civil injunctive action against The National Bank of Georgia (NBG), The Calhoun First National Bank (Calhoun), and T. Bertram Lance (Lance) alleging violations of certain of the antifraud, reporting and proxy solicitation provisions of the Federal securities laws. Simultaneously the defendants consented to the entry of Final Judgments of Permanent Injunction and Other Equitable Relief.

The complaint alleged that NBG, Calhoun and Lance engaged in certain unsafe and unsound banking practices including a pattern of related-party transactions by Lance and certain of his relatives, substantial and prolonged overdrafting in checking accounts at Calhoun, numerous questionable loans to officers and directors of Calhoun and misleading entries on its books and records, incomplete and inadequate evaluations of NBG's loan portfolio, and loans by NBG to relatives and associates of Lance without adequate regard for the creditworthiness of the borrowers and on preferential terms.

The complaint alleged that the senior management of Calhoun and the management of NBG engaged in, were aware of, or permitted certain of the unsafe practices, and that the board of directors in a number of significant respects performed no meaningful monitoring role of management. The management of Calhoun engaged in such activities despite persistent criticisms and recommendations by the Comptroller of the Currency and despite having knowledge of many of the unsafe practices.

As part of the settlement of the case,

NBG and Calhoun made certain undertakings which are construed to be written agreements entered into with the Comptroller of the Currency within the meaning of the Financial Institutions Supervisory Act of 1966. (12 U.S.C. Section 1818) After five years from the date of the judgment, unless terminated by the Comptroller, NBG and Calhoun will no longer be subject to the Court's order to comply with such undertakings, but such undertakings shall continue as a final cease and desist order of the Comptroller.

The NBG and Calhoun undertakings relate to certain of the lending practices of the banks with respect to insiders; the relationships of the banks to their correspondent banks; certain reporting requirements of insiders of both banks; and the adequacy of the loan loss reserves of both banks.

As a further part of the equitable relief granted, the Court ordered both banks to maintain audit committees, with specified duties and functions, consisting in part of independent directors.

In addition, Lance made certain undertakings which addressed certain of the conduct described in the complaint and with which he was ordered to comply.

*SEC v. National Student Marketing Corporation*⁹³—On August 31, 1978, District Judge Barrington D. Parker of the United States District Court for the District of Columbia issued a Memorandum Opinion and Judgment following the trial of the remaining defendants in the Commission's litigation arising from the National Student Marketing Corporation (NSMC) stock fraud.

The Commission proceeded to trial against: the president of an insurance holding company acquired by NSMC through a merger in 1969; a director of the insurance holding company who was a partner in its law firm; another partner in the law firm; and the law firm. Thir-

teen other defendants in the case settled the civil case before trial; three defendants were granted summary judgment.⁹⁵

The Commission had alleged that the remaining defendants had violated and aided and abetted violations of Section 10(b) of the Exchange Act, Rule 10b-5 thereunder and Section 17(a) of the Securities Act by participating in the merger of NSMC and the insurance holding company, a merger which was approved by that company's public shareholders based on allegedly materially false and misleading financial information concerning NSMC, and by engaging in the sale of NSMC stock immediately after the merger, all without disclosing material information contained in a comfort letter delivered at the closing by NSMC's outside auditors. The NSMC financial statements which were contained in the proxy statement sent to the public shareholders of the insurance holding company showed a profit of approximately \$700,000 while the auditors stated in the comfort letter that retroactive adjustments were necessary such that they would show a loss.

The court found that ". . . [the attorneys] should have refused to proceed with the merger absent disclosure to and resolicitation of the shareholders."

Concerning the alleged aiding and abetting violations by the attorneys in failing to take any action at the closing, the court held that ". . . the attorneys' responsibilities to their corporate client required them to take steps to ensure that the information [contained in the comfort letter] would be disclosed to the shareholders."

The court concluded that the attorneys were required at the very least to "speak out at the closing concerning the . . . concomitant requirements that the merger not be closed until the adjustments were disclosed and approval of the merger was again obtained from the

Interstate shareholders". Although it determined that the defendants had violated the securities laws, the court concluded that an injunction was not warranted.

*SEC v. IU International Corp.*⁹⁶—On April 17, 1978, the Commission instituted an injunctive action against IU International Corporation (IU) in which the Commission alleged that IU filed annual reports and proxy statements which failed to disclose adequately and accurately material facts. The alleged failure concerned IU's payment of approximately \$445,000 in legal fees incurred in the defense of IU's chairman and chief executive officer, John M. Seabrook, and two others in the *Alsco-Harvard Fraud Litigation*, (Consolidated Cases) D.D.C., Civil Action No. 71-659, and IU's payment of approximately \$533,000 to settle claims against Seabrook arising out of such litigation. The complaint further alleged that IU was not named as a defendant in such litigation and was not involved in any way in the activities which formed the basis of such litigation.

The Commission's action was settled by the entry of a decree enjoining IU from violation of the reporting provisions of the Federal securities laws and requiring IU to comply with the terms of its Consent and Undertaking (Consent) filed with the decree. Seabrook agreed to comply with the terms of the Consent. Among other things, the Consent provided for the appointment of a Special Counsel to investigate and issue a report with respect to the matters set forth in the complaint and the transcript of Seabrook's testimony taken during the Commission's investigation which preceded the filing of the complaint.

*SEC v. Morris A. Shenker*⁹⁷—The Commission filed this action on October 13, 1977 against Continental Connector Corporation (Connector), whose principal asset is the Dunes Hotel and

Casino in Las Vegas, Nevada; Connector's controlling shareholders—Morris A. Shenker; seven of Connector's former or present directors; and companies wholly owned or controlled by Shenker. The complaint also named as defendants the Pipefitters Local Union No. 560 Pension Fund, and Pipefitters Welfare Educational Fund, trust funds (collectively, the "Pipefitters Funds"); and four trustees of the Pipefitters Funds.

The complaint charged Shenker, Connector, and other defendants with violations of the antifraud provisions of the Securities Act and the antifraud and reporting provisions of the Exchange Act through their participation in a scheme to defraud which caused Connector to enter into a transaction with a company owned by Shenker. The transaction was allegedly designed to benefit Shenker and his company to the detriment of Connector and its public shareholders. As a result of this transaction, the complaint alleged, Shenker's company received \$5 million of Connector's monies. The complaint further alleged that Connector made false and misleading public disclosures concerning this transaction.

In order to restore to Connector assets lost through the transactions alleged in the complaint, the judgments also provided that Shenker guarantee Connector against loss in the amount of \$5 million plus interest in connection with the transaction described above between Connector and the company owned by Shenker.

Finally, the Pipefitters Funds were ordered to appoint a special counsel to investigate and report on the transactions alleged in the complaint. In addition, the Pipefitters Funds were ordered to adopt written investment policies and procedures and to appoint an independent investment advisor to review and approve all proposed investment decisions prior to their being effected.

The action is pending against one remaining defendant.

Further, the complaint charged Shenker, the Pipefitters Funds, and other defendants with engaging in a course of business whereby the assets of the Pipefitters Funds were used for the benefit of Shenker and his controlled companies and not for the benefit of the beneficiaries of the Pipefitters Funds.

Simultaneous with the filing of the lawsuit, Connector, Shenker, the Pipefitters Funds, and certain other defendants consented to the entry of orders of permanent injunction. In addition, Connector was ordered to appoint three independent directors, satisfactory to the Commission, to its board of directors and to have these independent directors, through an audit committee and an independent public accountant, investigate and report on certain past transactions between Connector and its officers, directors and certain other persons. In addition, the audit committee will review certain proposed transactions and will approve or disapprove any such transaction.

*SEC v. Sheldon L. Hart, et al.*⁹⁸; *Report of Investigation in the Matter of National Telephone Co., Inc., Relating to Activities of the Outside Director of National Telephone, Inc.*⁹⁹—On January 16, 1978, the Commission filed a civil injunctive action naming as defendants certain former officers, directors and employees of National Telephone Co., Inc. (National) and Price Waterhouse & Co. (PW), National's former independent auditors. The complaint alleged violations of Section 17(a) of the Securities Act and Sections 10(b) and 13(a) of the Exchange Act and rules thereunder, and the Commission's Regulation S-X.

The complaint alleged that certain financial statements issued by National and reported upon by PW were materi-

ally false and misleading, in that they materially overstated assets and revenues and understated liabilities and expenses. The complaint also alleged that PW failed to conduct its audit of National in accordance with generally accepted auditing standards and, accordingly, that PW lacked sufficient basis to conclude that National's financial statements were presented in accordance with generally accepted accounting principles. In addition, the individual defendants were named for their roles in the preparation and issuance of allegedly materially false and misleading public communications concerning National's declining financial condition during the period prior to National's entering bankruptcy proceedings.

PW agreed to a settlement in which it consented to the entry of a Final Judgment and Other Relief enjoining PW from violations of the antifraud and reporting provisions of the Federal securities laws in connection with the securities of National or its subsidiaries. The judgment entered against PW also: (1) ordered PW to review internally a number of specified audit areas described in the complaint and to adopt such procedures, if any, as are needed to assure the adequacy of its audit practices; (2) ordered PW to submit to a "peer review" of the manner in which PW conducts its audit practice with respect to clients whose financial statements are filed with the Commission or whose securities are listed on a stock exchange or traded in the over-the-counter market; and (3) ordered PW to return to National's Chapter X Trustee \$90,000 in fees paid in connection with the National engagement for National's 1973 and 1974 fiscal years.

Pursuant to Section 21(a) of the Exchange Act, the Commission also issued its Report of Investigation (Report) based on information received in the Commis-

sion's non-public investigation—*In the Matter of National Telephone Co., Inc.*—with respect to the activities of certain directors of National. These directors consented to the issuance of the Report without admitting or denying the Report's findings.

The Report found that these directors were aware, during the fall of 1974 and the winter and spring of 1975, of significant facts concerning National's troublesome financial condition. Moreover, they were also aware of the optimistic nature of the company's public disclosures, disclosures which were in direct contrast with the true state of the company's affairs. Under these circumstances, the Report continued, "[T]he company's outside directors had an affirmative duty to see to it that proper disclosures were made." The Report concluded that "In general, outside directors should be expected to maintain a general familiarity with their company's communications with the public. In this way, they can compare such communications with what they know to be the facts, and if the facts as they know them are inconsistent with those communications, they can see to it, as stewards for the company, that appropriate revisions or additions be made."

*SEC v. George M. Osserman*¹⁰⁰—On September 7, 1978, the Commission filed a complaint seeking injunctions against a number of individual corporations and limited partnerships, and a law firm. The complaint alleged that each of the defendants violated the registration provisions of the Securities Act in connection with the offer and sale of approximately \$112 million of unregistered securities in the form of limited partnership interests.

The complaint further alleged that certain of the defendants violated the general antifraud provisions of the Securities Act and the Exchange Act in

connection with the sale of the limited partnership interests.

On September 14, 1978, certain defendants (including the law firm) consented to the issuance of permanent injunctions without admitting or denying the allegations of the complaint. The court ordered one of these defendants to make an accounting of the disposition of funds received by him in connection with the activities alleged in the complaint. The law firm further stipulated that it would adopt, implement and maintain internal supervisory procedures set forth in a letter of undertaking to the Commission.

The Commission is conducting discovery as to the remaining defendants and expects a hearing on the merits in the coming fiscal year.

*In the Matter of Bateman, Eichler, Hill Richards Inc.*¹⁰¹—On March 20, 1978, the Commission issued an Order Instituting Proceedings against Bateman Eichler, Hill Richards, Inc. (Bateman Eichler) and four of its senior officers for violation of the anti-manipulative and antifraud provisions of the Exchange Act in connection with trading in the securities of Frigitronics, Inc., Vernitron Corporation and Logicon Inc. The Order also alleged that Bateman Eichler violated the beneficial ownership reporting requirements and record-keeping provisions of the Exchange Act, that the four officers aided and abetted such violations and that all of the respondents violated the margin provisions of the Exchange Act. The Order alleged that a senior vice-president of Bateman Eichler purchased the securities of these three issuers for customers accounts without their authorization. Approximately \$9.6 million of these securities were purchased on such unauthorized basis. The fact that customers were unaware of the unauthorized purchases for their accounts or in some instances, refused to accept the

unauthorized purchases for their accounts, enabled this officer to offer to sell securities to other customers at a price below their then current market price. These transactions resulted in an artificial inflation of the prices of the securities.

Bateman Eichler and its officers consented to findings of violations as alleged in the order and the imposition of certain remedial sanctions.

As part of the remedial sanctions ordered by the Commission, Bateman Eichler's registration with the Commission as a broker-dealer was suspended for one year but the suspension was held in abeyance providing that Bateman Eichler met certain conditions. The conditions included a prohibition (with certain exceptions) from engaging in any block positioning on certain national securities exchanges for a period of six months, the setting aside of \$1 million for claims and the establishment of a Special Review Committee to review and monitor the compliance activities of the firm. Three officers were suspended from association with any broker-dealer for one year each but that sanction was held in abeyance provided that each officer not serve in any capacity with any broker or dealer for three months, nor receive compensation from the firm for an additional three months and not be found to have committed additional violations of the Exchange Act for a period of one year from the date of the order. The fourth officer was barred from association with a broker or dealer with the proviso that he could reapply to be associated with a broker or dealer after three years from the date of the order.

*In the Matter of Merrill Lynch, Pierce, Fenner & Smith, Inc.*¹⁰²—In November 1977, the Commission issued an Opinion and Order wherein it found that Merrill Lynch, Pierce, Fenner & Smith Inc. (Merrill Lynch), a research analyst em-

ployed by Merrill Lynch, and twenty-eight of Merrill Lynch's salesmen had violated the antifraud provisions of the Securities Act and the Exchange Act in connection with recommendations to purchase shares of Scientific Control Corporation (Scientific). After the institution of public administrative proceedings, hearings were held before an administrative law judge in various major cities throughout the United States. At the conclusion of the proceeding, the respondents made offers of settlement, which were accepted by the Commission. The Commission issued an Opinion and Order, which contained findings and imposed remedial sanctions upon the respondents.

The findings of violations by the Merrill Lynch salesmen primarily rest upon the false and misleading representations made to public customers during oral presentations designed to encourage the purchase of Scientific shares. Most common among these misrepresentations were statements related to the future increase in the market price of Scientific shares, and statements comparing Scientific, in terms of future potential, to much larger and more seasoned companies. The Commission found these statements to have been made without a reasonable basis in fact and, hence, in violation of the antifraud provisions. Merrill Lynch was also found to have failed to reasonably supervise the twenty-eight salesmen with a view toward preventing these violations.

The Commission censured Merrill Lynch and ordered the payment of the sum of \$1.6 million to compensate its customers who suffered losses in connection with transactions in Scientific.¹⁰³ In addition, the Commission directed Merrill Lynch to review and strengthen, where necessary, its sales and research guidelines and its training program for salesmen.

Seven individual salesmen received

suspension from association with the securities industry for various periods; twenty-one salesmen were censured. In the Commission's Opinion and Order, the proceedings were dismissed against eighteen salesmen and a supervisory analyst.

In the Matter of Bache Halsey Stuart Shields Incorporated and Shearson Hayden Stone Inc.—In two administrative proceedings, the Commission found that Bache Halsey Stuart Shields, Inc. (Bache) and four of its employees¹⁰⁴ violated the Federal securities laws in connection with listed option activity in the accounts of certain customers.¹⁰⁵ The respondents were charged with churning their customers' accounts over which they had discretionary authority and effecting option trades for such accounts which were not suited to the investment objectives, investment sophistication and financial situations of the customers.

The Commission found that Bache and two of its salesmen violated certain of the antifraud provisions of the Federal securities laws and that Bache and one of its salesmen violated the margin requirements of the Federal Reserve Board. Two branch managers were found to have failed reasonably to supervise persons subject to their supervision.

As part of Bache's offer to settle the proceedings, Bache agreed to pay approximately \$74,000 to customers who suffered losses, and to cancel debit balances in customers' accounts totalling approximately \$264,000.

The Commission ordered all option trading suspended for forty-five days in two of Bache's branch offices where the respondent employees had worked. Three of the employees were barred from association with any broker or dealer and one was suspended for 15 days. The barred respondents may reapply to become associated with a broker or dealer

after specified periods of time have elapsed.

In the other administrative proceeding, the Commission alleged that Shearson Hayden Stone (Shearson) and two of its employees violated the general antifraud provisions of the S 303 Act and the Exchange Act and that two employees failed reasonably to supervise a person subject to their supervision.

As part of the settlement, Shearson agreed to pay approximately \$146,000 to customers who suffered losses. The Commission ordered that one branch office of Shearson suspend option trading for 30 days and another branch office suspend option trading for 60 days. One employee was censured, another suspended from association with a broker or dealer for 90 days and another was barred from association with any broker or dealer.

The findings were made pursuant to offers of settlement submitted by the respondents.

*SEC v. The IES Management Group, Inc.*¹⁰⁶—In a series of judicial and administrative actions involving the IES Management Group, Inc. (IES), a registered broker-dealer, and related individuals, the Commission obtained permanent orders of injunction, by consent, against nine individuals enjoining them from violations of registration, antifraud, customer protection, and financial responsibility provisions of the Federal securities laws. Additionally, a Securities Investor Protection Corporation trustee was appointed to liquidate IES.

The Commission's complaint in this matter alleged that IES fraudulently sold interests in tax shelter limited partnerships. Pursuant to offers of settlement, the Commission revoked the broker-dealer and investment adviser registrations of IES, barred three individuals and suspended one person for

a one-year period from being associated with any broker, dealer, investment company, or investment adviser. The Commission also accepted resignations from practice before the Commission from three attorneys.

*In the Matter of Steven S. Mitchell*¹⁰⁷—The Commission ordered public administrative proceedings against two registered broker-dealers and nine individual options market makers in connection with certain options trades on the floor of the Pacific Stock Exchange (PSE) in San Francisco. The proceedings are based upon allegations of the Commission's staff that the respondents violated certain of the anti-manipulation and antifraud provisions of the Federal securities laws by engaging in trade reversals in call option contracts respecting the underlying stock of Houston Oil and Minerals Corp. (Houston Oil). Listing and trading in Houston Oil options began simultaneously on the PSE and the Chicago Board Options Exchange on November 22, 1976. The trades in issue occurred on that first day of competitive trading between the two exchanges. A public evidentiary hearing in San Francisco has been completed and the Administrative Law Judge has entered findings that the respondents violated certain provisions of the securities laws alleged in the order instituting proceedings and has imposed sanctions including a suspension. The matter is now an appeal to the Commission.

In the Matter of The Boston Company Institutional Investors, Inc.—In an initial decision which became the final Commission decision as to all respondents except Raymond L. Dirks (Dirks) of New York, New York (petition for review pending), six registered investment advisers were found to have violated the general antifraud provisions of the Federal securities laws in March 1973, by offering for sale and selling on their

clients' behalf the securities of Equity Funding Corporation of America (Equity Funding) after receiving information from Dirks that one or more former Equity Funding employees had alleged that a substantial amount of the corporation's reported insurance business had been fabricated by company officials.

Four of the respondents were censured. The administrative law judge, finding that another respondent had disclosed to its immediate purchaser, a large New York block trading firm, much but not all of the information about Equity Funding it possessed, determined that the public interest required no sanction against the respondent.

Dirks was found to have violated the antifraud provisions and aided and abetted the other respondents' violations by selectively disseminating allegations about the Equity Funding fraud to them and others, all of whom were clients of potential clients of Dirks' broker-dealer firm. Dirks was initially suspended from association with a broker-dealer for sixty days; he has petitioned for review of each adverse finding and legal conclusion. The Division of Enforcement is seeking review of that portion of the initial decision wherein Dirks was suspended for only sixty days.

In reaching his decision that the other respondents received and wrongfully employed material, non-public information about Equity Funding, the administrative law judge sharply distinguished between vague, unattributed rumors circulating in financial circles and concrete allegations from one or more recent employees in a position to know about alleged improprieties. The judge also ruled that material information under the antifraud provisions could consist of the allegations of fraud, falsified records, and artificially inflated earnings conveyed in this case. The judge found that the selling respondents' sudden liquidation of their

clients' Equity Funding holdings and Dirks' pattern of intensive investigation and selective dissemination were all strong indications that the Equity Funding allegations were both material and a substantial factor in the determination to sell.

*U.S. v. Richard P. Curran*¹⁰⁸—On September 14, 1976, a Federal grand jury in Phoenix, Arizona returned a multi-count indictment against 18 individuals and 5 corporations. The indictment charged the defendants with various counts of securities fraud, mail fraud, and interstate transportation of money obtained by fraud in connection with the purchase and sale of various interests in land contracts offered for sale and sold by Cochise College Park, Inc. (Cochise). In addition, certain defendants were charged with operating enterprises in violation of the Federal Racketeer Influenced and Corrupt Organizations (RICO) statute. The indictment resulted from a joint Commission-FBI investigation.

Over \$40 million was raised from members of the public; the public loss from the sales of these interests exceeded \$20 million. The loss was caused by an extremely high default rate on the contracts for the lots sold, together with large sales commissions and assignment discounts paid by Cochise on the lot contracts.

On the basis of verdicts of guilt rendered after trial and the entry of pleas of guilty to informations, various fines of up to \$10,000 have been imposed upon certain of the defendants. Sentences range from periods of probation to ten years imprisonment. The matter remains pending or on appeal with respect to certain of the defendants.¹⁰⁹ (Subsequent to the close of the fiscal year, certain appeals were resolved resulting in affirmations of convictions of three defendants and reversal of convictions for two others.¹¹⁰)

*U.S. v. Larry L. Stevens a/k/a Frank Goodman*¹¹¹—A thirty-nine count indictment was returned against Larry L. Stevens a/k/a Frank Goodman charging him with violations of the antifraud provisions of the Securities Act, mail fraud and bankruptcy fraud. The alleged violations occurred in connection with the sale of promissory notes and investment contracts of North Western Mortgage Investors Corporation (the company) of Seattle, Washington of which Stevens was president and in connection with its Chapter X reorganization proceeding. The company, under the control of the defendant, raised in excess of \$6 million from over 1,700 investors, the vast majority of which were elderly and retired, attracted by a promised 8 percent return. The notes and contracts sold to the public were secured by interests in real property. However, the indictment charged that the notes and contracts were sold in amounts far in excess of the company's equity therein; that the company was offering to pay interest to investors at a time when it was not paying nor could it pay interest to existing investors; and that the company was making interest payments from other investor monies. The defendant pleaded guilty and was sentenced to serve three years in a Federal penitentiary followed by probation.

U.S. v. Barry S. Marlin—In this case a sentence of ten years imprisonment followed by five years probation was imposed on the defendant following his plea of guilty to six counts of an indictment charging him with securities fraud, mail fraud and inducing the filing of false tax returns.¹¹¹ Marlin carried out a complex fraudulent scheme in which

numerous investors were falsely told that their funds were profitably invested in real estate syndications, a Caribbean bank and a London based export-import business. Victims were gathered primarily from airline and airport employment fields, and included many commercial pilots, cabin attendants and airport fire fighters who innocently involved their friends, associates and family members. Marlin's scheme resulted in a public loss believed to be in excess of \$12 million.

U.S. v. Walter Wencke—In this case five defendants were convicted for their roles in conspiring to defraud public shareholders of Sun Fruit, Ltd. pursuant to a scheme in which this financially-troubled concern was taken over by false assurances of rehabilitation followed by a systematic looting of its assets by defendant Wencke and his co-conspirators. The looting was concealed from discovery for a time through false reports disseminated to shareholders and through the institution of a fraudulent receivership proceeding in a Nevada State court in which Wencke caused himself to be named as receiver. All defendants received prison terms. The principal defendant, Wencke, a prominent San Diego, California attorney, was sentenced to serve five years imprisonment followed by five years probation, fined \$31,000 and ordered to make restitution to the victims. The investigation leading to the successful prosecution of the case resulted from a significant cooperative effort of the Postal Inspection Service, the Internal Revenue Service and the Commission's enforcement staff.¹¹²

Other Important Litigation

The Commission, through its Office of General Counsel, participates as a party and as an amicus in a substantial amount of litigation in addition to its enforcement actions. The results in these suits often affect existing interpretations of the Federal securities laws and/or the scope of the Commission's authority. The following is a summary of some of these non-enforcement actions which were litigated in the past year.

Daniel v. International Brotherhood of Teamsters—The issue raised in *Daniel* involved the extent of the coverage of the Securities Act. The case presented the question of whether the anti-fraud provisions of the Federal securities laws are applicable to the acquisition by employees of interests in certain types of pension funds—a question which turned on whether such an acquisition involved the “sale” to the employee of a “security.” The private plaintiff in that case contended that it did. The District Court dismissed that portion of his cause of action but the U.S. Court of Appeals for the Seventh Circuit reversed that determination. The Supreme Court thereafter granted certiorari and the Commission appeared *amicus* as it had in the Circuit Court.

In the Supreme Court, the Commission contended that, under the proper interpretation of the terms “sale” and “security” in the securities laws and on

the basis of principles long established and consistently applied in numerous Supreme Court decisions considering the term “investment contract” (one of the terms included in the statutory definition of the term “security”)—the acquisition of an interest in a pension fund was a sale of a security and, hence, subject to the antifraud provisions. The Commission's particular concern which led it to appear *amicus* was that the definition of these terms not be constricted because its experience in administering the Federal securities laws had shown that unscrupulous persons who sought to defraud others through promises of profits had constantly devised new schemes involving novel investment vehicles to effectuate their goals. Since Congress, in enacting the securities laws, could not anticipate every potential investment vehicle which could be utilized to commit fraud, the Commission contended that the traditionally broad construction given to the term “investment contract” was a necessary protection for investors and an accurate interpretation of the securities laws. At the close of the fiscal year, the case was awaiting a decision by the Supreme Court. (Subsequent to the close of the fiscal year, the Supreme Court, on January 16, 1979, reversed the judgment of the Court of Appeals, holding that the Securities Act of 1933 and the Securities Exchange Act of 1934 do not ap-

ply to a non-contributory, compulsory pension fund.)

National Resources Defense Council v. SEC—This case arises out of the Commission's determination not to adopt a rule proposed by the plaintiffs. They had requested the Commission to require, among other things, publicly-owned corporations to disclose detailed information concerning the present and potential environmental effects of the corporations' activities including the nature and extent of the pollution caused by such activities, the feasibility of curbing such pollution and the plans and prospects for improving relevant technology. The Commission determined not to adopt the proposed rules for reasons directly related to its mandate of investor protection. It was concerned that rules requiring disclosure of particular categories of information that would only be material with respect to some companies and only of interest to some investors would result in disclosure documents that would be so voluminous as to be of less use to investors generally. Also, it was concerned that disclosure requirements not impose an unreasonable administrative burden on the Commission or excessive costs on publicly held corporations. The major issues raised in the plaintiffs' action contesting the Commission's determination were whether the determination of the Commission not to adopt the proposed rules was subject to judicial review and whether the Commission had acted properly in continuing to elicit environmental information through its existing rules rather than through the methods proposed by the plaintiffs.

The District Court ordered the Commission to undertake further rulemaking proceedings and the Commission appealed to the U.S. Court of Appeals for the District of Columbia Circuit. On appeal, the Commission contended that its decision not to promulgate requested

rules was proper and moreover, that the determination is committed by law to its discretion and not reviewable under the Administrative Procedure Act. (Subsequent to the end of the fiscal year, the Court of Appeals reversed the District Court holding and upheld the Commission's determination not to promulgate the proposed rules on the grounds that the Commission's determinations were procedurally free from defect and reasonable.)

Bradford National Clearing Corporation, et al. v. SEC—Bradford raised issues dealing with the creation of a national clearing system as required by the Securities Acts Amendments of 1975. These amendments directed the Commission to facilitate the establishment of a national system for clearance and settlement of securities transactions having due regard for the maintenance of fair competition among brokers and dealers, clearing agencies and transfer agents.

To carry out this broad directive, Congress gave the Commission authority to register clearing agencies that meet certain specified criteria, including an ability to clear and settle securities transactions promptly and accurately and an absence of rules that impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Exchange Act. Without such registration, or a Commission exemption therefrom, it is illegal to operate such an agency.

The plaintiffs in *Bradford* appealed from the registration by the Commission of the National Securities Clearing Corporation as a clearing agency alleging that it impermissibly contained certain monopolistic tendencies. The U.S. Court of Appeals for the District of Columbia Circuit, however, affirmed the Commission's action concluding that the Commission had appropriately assessed the importance of the relevant statutory

considerations and had properly balanced the results. The Court concluded that the Commission's vigilance would forestall any irreparable anticompetitive harm from accompanying the registration and that the Commission had acted properly in establishing a national clearing framework that was virtually certain

to be dependable, stable, efficient—and more rapidly achievable than any other alternative—rather than in establishing an admittedly more competitive system that for years to come would be still developing, precarious, and thus less certain to provide safe, efficient and inexpensive services.

Public Utility Holding Companies

Composition

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

There are presently 15 registered holding company systems with aggregate assets, as of June 20, 1978, of over \$46 million. In the 15 systems there are 62 electric and/or gas utility subsidiaries, 71 nonutility subsidiaries, and 22 inactive companies, or a total of 174 system companies, including the top parent and subholding companies. Table 35 in the Appendix lists the systems and Table 36 lists their aggregate assets and operating revenues.

Financing

Volume—During fiscal year 1978, approximately \$3 billion of senior securities and common stock financing of the 15 registered systems was approved by the Commission. Of this amount, approximately \$2.1 billion was long-term debt financing, and over \$887 million was for equity financing. These amounts represent a 34 percent increase in long-term debt financing over fiscal year

1977 and a 5 percent increase in the sale of common and preferred stock. In addition, the Commission approved over \$4.2 billion of short term debt financing and \$978 million of pollution control financing for the 15 registered holding company systems. Table 37 in the Appendix presents the amount and types of securities issued under the Act by these holding company systems.

Fuel Programs

During fiscal year 1978, the Commission authorized \$184 million of fuel exploration and development capital expenditures for the holding company systems. This authorization covers an annual maximum expenditure for fuel programs defined on geographical and functional terms. Table 38 in the Appendix lists the authorization by holding company system for each fuel program.

Largely as a result of the energy crisis, holding companies have embarked on major and expensive new commitments to acquire better control over their own fuel supplies, and these commitments require substantial additional capital. Generally, the arrangements involve formation of several new subsidiaries for producing, transporting and financing fuel supplies or the investment of capital for the exploration of and development drilling for mineral reserves with a right to production accruing to such investment. Since 1971, the Commis-

sion has authorized over \$2.2 billion for fuel programs of holding companies.

Service Company Operations

At the end of calendar year 1977, there were eleven subsidiary service companies providing managerial, accounting, administrative and engineering services to eleven of the 15 holding companies registered under the Act. The billings for services rendered to the holding company systems amount to \$363 million or 2.10 percent of the total revenues generated by the electric and gas operating utilities of the holding company systems. All services are rendered at cost to the operating utilities, with several systems including a return on capital invested by the parent holding company. Because the subsidiary service companies are service oriented,

they are heavily labor intensive having 10,299 employees and assets of over \$190 million.

During the calendar year, the Commission issued a notice of a proposed amendment to the Uniform System of Accounts for public utility service companies. The revised system of accounts will (1) provide for closer coordination with the Federal Energy Regulatory Commission's Uniform System of Accounts for electric and gas public utilities, (2) facilitate the conduct of audit and account inspection programs, and (3) improve reports filed by service companies subject to the Act. At the close of the fiscal year it was expected that the final rules for the revised system of accounts would be submitted to the Commission for approval in January 1979.

Corporate Reorganizations

The Commission's role under Chapter X of the Bankruptcy Act, which provides a procedure for reorganizing corporations in the United States district courts, differs from that under the various other statutes which it administers. The Commission does not initiate Chapter X proceedings or hold its own hearings, and it has no authority to determine any of the issues in such proceedings. The Commission participates in proceedings under Chapter X to provide independent, expert assistance to the courts, participants, and investors in a highly complex area of corporate law and finance. It pays special attention to the interest of public security holders who may not otherwise be represented effectively.

Where the scheduled indebtedness of a debtor corporation exceeds \$3 million, Section 172 of Chapter X requires the court, before approving any plan of reorganization, to submit it to the Commission for its examination and report. If the indebtedness does not exceed \$3 million, the court may, if it deems it advisable to do so, submit the plan to the Commission before deciding whether to approve it. When the Commission files a report, copies or summaries must be sent to all security holders and creditors when they are asked to vote on the plan. The Commission has no authority to veto a plan of reorganization or to require its adoption.

The Commission has not considered it necessary or appropriate to participate in every Chapter X case. Apart from the excessive administrative burden, many of the cases involve only trade or bank creditors and few public investors. The Commission seeks to participate principally in those proceedings in which a substantial public investor interest is involved. However, the Commission may also participate because: (1) an unfair plan has been or is about to be proposed; (2) public security holders are not represented adequately; (3) the reorganization proceedings are being conducted in violation of important provisions of the Act; (4) the facts indicate that the Commission can perform a useful service; or (5) the court requests the Commission's participation.

The Commission in its Chapter X activities has divided the country into four geographical areas. The New York, Chicago, Los Angeles and Seattle regional offices of the Commission each have responsibility for one of these areas. Supervision and review of the regional offices' Chapter X work is the responsibility of the Division of Corporate Regulation of the Commission which, through its Branch of Reorganization, also serves as a field office for the southeastern area of the United States.

During the fiscal year, the Commission entered six new Chapter X proceed-

ings involving companies with aggregate stated assets of approximately \$165 million and aggregate indebtedness of approximately \$127 million. Including the new proceedings, the Commission was a party in a total of 118 reorganization proceedings during the fiscal year (a list of these proceedings appears in

Table 39 in the Appendix of this report). The stated assets of the companies involved in these proceedings totaled approximately \$5.7 billion and their indebtedness about \$5.1 billion.

During the fiscal year 24 proceedings were closed, leaving 94 in which the Commission was a party at year end.

Administration and Management

In FY 1978, the Commission improved both its planning capabilities and internal management systems in order to increase the effectiveness of its programs and to provide better service to the public. No major organizational changes were undertaken. Rather, the focus was on managing the current organization in order to make it function more effectively.

Information Systems Management

The Commission took several important steps toward improving its information handling processes in 1978. The Commission received authority from the General Services Administration to replace its ten-year old computer with an IBM 360-65. A three-year lease was awarded, allowing the Commission time to complete a comprehensive study aimed at identifying possible new computer applications, delineating the agency's ADP requirements and specifying the characteristics and configuration needed to address present and contemplated needs. In addition, a prototype-teleprocessing network was established linking the Atlanta and Los Angeles regional offices with the central computer facility.

A comprehensive information system requirements analysis was completed, as planned, providing a blueprint for information system development activities to be undertaken over the next

several years. In conjunction with this analysis, work began late in 1978 to formulate functional specifications for the computer processing capability that would be required to support all of the Commission's information systems over the next 5 to 8 year period. This task is expected to be completed during the first quarter of 1979.

Significant progress was made during 1978 toward the development of several new information systems and the enhancement of certain existing systems. In the administrative area, the new Staff Time and Activity Tracking System (STATS) now provides the Commission with an expanded and improved means to record the work activity of every Commission employee on a continual basis. Categories of information have been established to conform with and generate information useful in preparing ZBB and congressional budget justifications. The system also allows for the production of certain staff time and activity reports required by various levels of SEC management. These reports serve as a basis for manpower planning and provide for improved utilization of scarce personnel resources. Other new systems were developed to maintain the Commission's personnel records and position management data. Apart from improving the integrity of the data base and reducing manual preparation of forms, these systems provide, for the first time, a means

of conducting personnel research and analysis on a prompt, low cost basis.

In the area of financial management, the Commission initiated several important processing changes in both budget and accounting systems. Most significantly, development of a Case and Activities Tracking System (CATS) was also initiated in 1978. This system will provide the Commission with a means of monitoring active investigations and litigation, as well as rulemaking and special projects. It will give the Chairman, the Commission, the Executive Director, division directors and regional administrators the ability to track the progress of open cases by means of identifiable milestones. In addition, authorized personnel will be able to inquire into current case status, access case-related documentation, and obtain related or similar case history and settlement information.

In an effort to make more efficient use of existing information systems through better utilization of its upgraded computing capabilities, the Commission initiated the expansion of its Name and Relationship Search System. This innovation will provide the staff with a facility for immediate terminal access to an index of name and associated data on companies and individuals having a direct or indirect relationship with the Commission. This on-line access replaces a system of manual requests which often required several days of processing.

Operational testing of a major comprehensive records management system was also begun in 1978. This system, utilizing microform and teleprocessing techniques, will provide the staff with the capability for directly entering and retrieving information relating to the receipt and disposition of various reports filed with the Commission. It will also provide for quick access to information being maintained on microfilm. Even-

tually, this system will be expanded under a consolidated data base concept and will include relevant data on all entities required to register with and report to the Commission. Apart from improved file integrity, speedy retrieval and greater availability of data, the new system marks the beginning of the end for the millions of pages of paper normally added to the Commission's voluminous official files each year. Full operation of the first phase was scheduled for early in 1979.

Market Surveillance System

During the fiscal year, the Commission conducted a feasibility study and initiated the design of a comprehensive market surveillance system in consultation with the firm of Monchik-Weber Associates, Inc. The study represents a concerted effort by the Commission to examine and modernize the information resources used in its administration of the Federal securities laws through enhanced application of advanced communications and computer technology.

The feasibility study entailed extensive analysis of the current market surveillance system and techniques with a view toward establishing a comprehensive market surveillance system which would monitor all securities market activities by reference to specified violations of self-regulatory organization rules and the Federal securities laws. The study encompassed fact-gathering and procedural documentation of a representative cross section of organizations involved in both the conduct of securities trading and the regulatory processes related to all market activities. It examined the option, equity, and bond exchanges, the over-the-counter market, and the various regulated components and facilities within those markets. The activities of major classes of market participants such as retail member firms, floor members of national securities ex-

changes, investment advisors, investment companies and related institutions, clearing agencies and transfer agents were examined to determine the best manner in which to integrate such activities into the comprehensive surveillance system. Other governmental regulatory bodies were also contacted to reduce possible regulatory overlap. The study has, thus far, made several recommendations directed at enhancing the effectiveness of the Commission's regulatory, oversight, and enforcement functions. The study was, at the close of the fiscal year, in the design phase of its effort which is scheduled to be completed by April 30, 1979.

The proposed market surveillance system is not intended to replace or diminish the existing regulatory responsibilities of the various self-regulatory organizations. Rather it is contemplated that the market surveillance system will integrate existing trading information from the various markets at one location, so that the Commission may better monitor trading practices both for oversight and enforcement purposes as well as for analysis of self-regulatory organization rule proposals and revision of Commission rules. In this manner, the Commission's oversight capabilities will be greatly enhanced by making possible more effective daily coordination with all of the nation's securities markets. The proposed system also represents the first attempt ever to correlate current information from all exchanges and self-regulatory organizations in a manner designed to detect possible securities violations. The system will include among its input sources such Commission filings as: Forms 3, 4, 144, and 146; Schedule 13D, 14D, and 13G; periodic filings and reports of broker-dealers; daily trading and clearing information; and corporate news.

The system will facilitate other existing Commission functions such as the

inspection and regulation of self-regulatory organizations and the examination of broker-dealers. The proposed system will be geared also to accommodate developments in the evolving national market system. For the system to be completely successful, it is contemplated that it will be necessary for the self-regulatory organizations to move toward eventual standardization of certain trading and clearing information. Such changes, however, will be planned in conjunction with development of the national market system.

The system is expected to be implemented over a five-year period, depending upon industry developments, the pace at which trading information can be standardized, and the availability of government funding. By building upon existing industry and self-regulatory automated systems, the system cost will be relatively modest in comparison to communications and computer systems created in recent years elsewhere in government or in private industry. The comprehensive market surveillance system, when implemented, will represent a significant improvement in the industry's and the Commission's regulatory information systems.

Financial Management

The Commission collects fees for the registration of securities, securities transactions on national securities exchanges, and miscellaneous filings, reports and applications. In fiscal year 1978, the Commission collected \$26.1 million dollars in fees; this represents approximately 42 percent of the total funds appropriated by the Congress for Commission operations.

The Office of the Executive Director is currently conducting a major study of all fees collected by the Commission. This study will address such issues as the burden upon registrants and investors, the relationship between existing

fees and Commission costs, the suitability of existing fees, fee collection procedures and the impact of fees on the business community. The staff will submit its recommendations during 1979.

The development of a comprehensive financial management reporting and budgeting system was begun in 1978 by the Offices of the Comptroller and Data Processing under the coordination of the Office of the Executive Director. The system is designed to automate and integrate accounting and budgeting activities previously administered individually and manually. The long-term goal is the linking of the financial management systems into a larger agency-wide administrative management system. The reasons for the Commission's focus on the financial management system are: it will facilitate the timely preparation of complex reports and analyses which will be tailored to meet the needs and mandates of controlling agencies and of the Commission's internal management structure; and it will provide structured policy planning and review techniques at a program level.

Personnel Management

On September 30, 1978, the Commission's permanent personnel strength was 2,009. Approximately two-thirds of these personnel were assigned to Commission headquarters in Washington, D.C.; the remaining one-third were employed in the seventeen regional and branch offices located in major national and regional financial centers throughout the United States.

During 1978, personnel management activities at the Commission stressed the increasing importance of managing personnel resources more efficiently, as reflected in several new programs designed to enhance the management of human resources.

One of the Commission's important initiatives has been the launching of a

comprehensive promotion appraisal program under the sponsorship of the Civil Service Commission. The research psychologists assigned to this project by CSC will initially collect task data and behavioral statements for all major attorney functions, with the objective of developing data needed to implement an interim performance evaluation program in 1979. This data will then be refined, other major job categories will be brought into the program, and the research team will be expected to present the Commission with a validated promotion appraisal system in 1980. During this period, the Commission may also seek the assistance of outside consultants, to work with the Civil Service team in putting a useful performance appraisal system into place at the earliest possible time. Such a system, when operational, will provide an informed and validated basis for making personnel decisions, i.e., initiating manpower planning, providing career counselling, establishing executive development requirements and improving recruitment efforts.

In order to make the best use of in-house talent, as well as to enhance its affirmative action efforts, the Commission initiated its first formal upward mobility program. This was designed to identify high-potential employees in lower grade clerical and technical jobs and develop them for advancement into targeted professional and administrative positions. Twelve employees were selected for participation in the 1978 program, which will become an annual feature of the Commission's overall personnel effort.

In order to make the upward mobility program still more meaningful, the Commission established a career counseling program oriented toward applicants who were *not* selected for entry into the upward mobility program. A series of workshops was conducted both

to help these individuals develop career goals and to better enable them to prepare themselves to qualify for future vacancies.

In another important area, the Commission increased its senior executive and managerial training by 30 percent, and increased both its tuition assistance and in-house training programs by 20 percent during 1978. This was supported by an increase in the quality of all training activities Commission-wide.

The Commission has continued to emphasize the recruitment and full utilization of handicapped persons. Its efforts in this area have been recognized by the Civil Service Commission as one of the more aggressive and effective in the Federal service, and have served as a model for use by other agencies. In addition to its focus on recruitment, the Commission has sought to eliminate attitudinal, environmental and procedural barriers to the employment of handicapped persons. Important steps include obtaining contracts for the services of interpreters for the deaf and readers for the blind; signing major Commission events, such as the annual Awards Ceremony, for hearing impaired employees; braille location and directional signs; purchasing telecommunications devices for use by deaf employees and the deaf community and those with speech impairments; and developing a continuing program to train supervisors and employees in sign language to allow hearing-impaired workers to communicate more effectively with their co-workers and supervisors. The SEC headquarters building has also been made accessible to handicapped visitors and employees.

In an effort to be more responsive to the concerns and problems of its employees, the Commission has also established a more effective employee counseling program. Towards this end, the Office of Personnel established a

centralized branch to advise staff members of rights, benefits and obligations regarding such matters as health benefits, life insurance, retirement, career development, and alcohol and drug abuse.

Equal Employment Opportunity

Overall, the number of women employees in the Commission increased by 8 percent during 1978. Women attorneys in the Commission increased from 105 in September 1977, to 123—approximately a 17 percent increase. Of the 659 attorneys employed, there was a rise of 2.2 percent in the number of women attorneys and a 4.2 percent rise in the number of minority attorneys over the previous year.

The Committee on Equal Employment Opportunity, consisting of representatives of the securities industry and the SEC, published a handbook on equal employment and affirmative action plans which was distributed throughout the securities industry. The purpose of the handbook is to inform securities industry employers about equal employment laws and to assist them in achieving voluntary compliance. The committee also raised \$14,000 for the initiation of a college scholarship program for black students. The scholarship program is expected to eventually be expanded to include women and other minorities.

Activity under the Freedom of Information Act

Commission rules implementing the Freedom of Information Act provide that the public can inspect or obtain copies of records maintained by the SEC, with the exception of certain specified categories of information. In 1978, the Commission received 1,252 requests for information, up 13 percent from 1977.

While most information filed by registered companies has always been

available for inspection by the public, the public was historically denied access to certain categories of material, notably investigatory records. Pursuant to various FOIA requests during 1978, the Commission has made available for public inspection many records which previously had been considered confidential. Among these records are portions of the broker-dealer manual and the entire investment advisers and investment company inspection manuals, the summary of administrative interpretations under the Securities Act of 1933, and the Commission's periodic Securities Violations Bulletin. Moreover, the Commission has made available, pursuant to particular FOIA requests, staff letters of comment on registration statements and other filings and Well Committee submissions.

Office Space Activities

One of the Commission's most serious operational shortcomings is in the area of space. The Commission headquarters expanded into two floors of the former Federal Home Loan Bank Board Building in the Spring of 1978. Acquisition of this additional space has provided some relief from the overcrowded conditions at the main headquarters building, but it has also resulted in a less efficient and more costly dispersion of personnel among three buildings. The Commission is continuing its efforts to acquire a single building in Washington large enough to house its entire headquarters operations.

FOOTNOTES

¹ See Sections 11A and 17A of the Exchange Act.

² Securities Exchange Act Release No. 14325 (December 30, 1977), 13 SEC Docket 1289.

³ Securities Exchange Act Release No. 14416 (January 26, 1978), 14 SEC Docket 31 (the January statement).

⁴ Securities Exchange Act Release No. 14415 (January 26, 1978), 14 SEC Docket 14.

⁵ Securities Exchange Act Release No. 15009 (July 28, 1978), 15 SEC Docket 467.

⁶ On July 28, 1978, the Commission granted exemptions from Rule 11Ac1-1 to the Intermountain and Spokane Stock Exchanges relieving them of the obligations of that Rule. Securities Exchange Act Release No. 15011 and 15012 (July 28, 1978), 15 SEC Docket 478 and 479. At the end of the fiscal year, the NASD was engaged in discussions with CQ Plan participants regarding its participation in the CQ Plan.

⁷ Securities Exchange Act Release No. 15009 (July 28, 1978), 15 SEC Docket 467.

⁸ Securities Exchange Act Release No. 14415 (January 26, 1978), 14 SEC Docket 14.

⁹ Securities Exchange Act Release No. 14661 (April 14, 1978), 14 SEC Docket 806.

¹⁰ Securities Exchange Act Release No. 15058 (August 11, 1978), 15 SEC Docket 596.

¹¹ Securities Exchange Act Release No. 14674 (April 18, 1978), 14 SEC Docket 817.

¹² Securities Exchange Act Release No. 14855 (June 23, 1978), 15 SEC Docket 138.

¹³ Securities Exchange Act Release Nos. 15250 and 15251 (October 20, 1978), 15 SEC Docket 1355 and 1370.

¹⁴ *Bradford National Clearing Corporation and Bradford Securities Processing Services, Inc. v. Securities and Exchange Commission*, D.C. Cir. No. 77-1199, 77-1547.

¹⁵ The Commission's review was conducted pursuant to Section 31(b) of the 1975 Amendments.

¹⁶ See Securities Exchange Act Release No. 13163 (January 13, 1977), 11 SEC Docket 1448.

¹⁷ Investment Company Act Release No. 10453 (October 26, 1978), 15 SEC Docket 1427.

¹⁸ Securities Exchange Act Release No. 14784 (May 19, 1978), 14 SEC Docket 1159.

¹⁹ Securities Exchange Act Release No.

13760 (June 18, 1977), 12 SEC Docket 1275.

²⁰ Securities Exchange Act Release No. 14056 (October 17, 1977), 13 SEC Docket 366. Following issuance of the October Release, the Commission, on December 1, 1977, announced the appointment of senior staff members to conduct its study and investigation of the options markets. The remainder of the Options Study staff was thereafter assembled and has consisted of approximately 20 professionals and 7 supporting personnel.

²¹ See proposed Securities Exchange Act Rule 19b-1(T). In light of the Commission's concerns regarding the existing pilot options trading programs and the Commission's inability to find, at that time, that certain pending self-regulatory organization rule change proposals designed to expand existing options trading pilot programs or to initiate new options pilot programs (the NYSE and the NASD) were consistent with the requirements of the Exchange Act, and the rules thereunder, the Commission announced simultaneously with the publication proposed Rule 9b-1(T), the initiation of disapproval proceedings for 26 such rule change proposals. See Securities Exchange Act Release No. 14057 (October 17, 1977), 13 SEC Docket 375.

²² Securities Exchange Act Release No. 14878 (June 22, 1978), 15 SEC Docket 98.

²³ The Commission also requested that the self-regulatory organizations withdraw those rule change proposals which were pending before the Commission which would have had the effect of expanding existing pilot programs, or initiating new pilot programs for the trading of standardized options. Those proposals included the 26 rule change proposals which were the subject of a consolidated disapproval proceeding commenced by the Commission on October 17, 1977, and certain other pending rule change proposals which would have had the effect of expanding or altering pilot programs or initiating new pilot programs for the trading of standardized options and which were not the subject of that disapproval proceeding.

²⁴ Securities Exchange Act Release No. 15026 (August 3, 1978), 15 SEC Docket 494. The self-regulatory organizations also withdrew those rule change proposals which

would have had the effect of expanding existing pilot programs or initiating new pilot programs for the trading of standardized options, and the Commission dismissed the consolidated disapproval proceeding with regard to 26 of those self-regulatory organization rule proposals. The details of the agreement between the self-regulatory organizations is set forth in Securities Exchange Act Release Nos. 14878 (June 22, 1978) and 14991 (July 25, 1978), 15 SEC Docket 98 and 15 SEC Docket 359, respectively.

²⁵ Exchange Act Rule 10b-10.

²⁶ Securities Exchange Act Release No. 15194 (September 28, 1978), 15 SEC Docket 1174.

²⁷ Securities Exchange Act Release No. 13470 (April 26, 1977), 12 SEC Docket 186.

²⁸ Securities Exchange Act Release No. 14737 (May 4, 1978), 14 SEC Docket 985.

²⁹ Chicago Board Options Exchange, Inc., and Pacific Stock Exchange, Inc. Securities Exchange Act Release No. 14881 (June 22, 1978), 15 SEC Docket 103; Philadelphia Stock Exchange, Inc., Securities Exchange Act Release No. 14896 (June 26, 1978), 15 SEC Docket 146; and the National Association of Securities Dealers, Inc., Securities Exchange Act Release No. 14892, (June 23, 1978), 15 SEC Docket 144.

³⁰ Securities Exchange Act Release No. 14971 (July 17, 1978), 15 SEC Docket 307.

³¹ Securities Exchange Act Release No. 13636 (June 16, 1977), 12 SEC Docket 853.

³² [1976-1977 Transfer Binder] Red. Sec. L. Rep. (CCH) ¶ 95,627 (S.D.N.Y. 1976).

³³ Securities Exchange Act Release Nos. 15247 and 15248 (October 19, 1978), 15 SEC Docket 1323 and 1325.

³⁴ Securities Exchange Act Release No. 15090 (August 25, 1978), 15 SEC Docket 853.

³⁵ Securities Exchange Act Release Nos. 14038 (October 7, 1977), 13 SEC Docket 307, and 14965 (July 14, 1978), 15 SEC Docket 288.

³⁶ Securities Exchange Act Release No. 13584 (June 1, 1977), 12 SEC Docket 671. At the same time, the Commission also issued an order extending until September 1,

1977, the existing registrations of The Depository Trust Company, Bradford Securities Processing Services, Inc., Stock Clearing Corporation of Philadelphia, Boston Stock Exchange Clearing Corporation, Midwest Securities Trust Company, The Options Clearing Corporation, Midwest Clearing Corporation, Pacific Securities Depository Trust Company, Pacific Clearing Corporation and TAD Depository Corporation and announced the extension to September 1, 1977 of the time for concluding those registration proceedings. On August 31, 1977, the Commission extended until March 1, 1978, the interim registrations of the above clearing agencies and also extended to that date the time for concluding their registration proceedings. Securities Exchange Act Release No. 13911 (August 31, 1977), 12 SEC Docket 1640.

³⁷ Securities Exchange Act Release No. 14531 (March 6, 1978), 14 SEC Docket 356. At the same time, the Commission announced the extension to August 31, 1978, of the interim registrations of all clearing agencies already registered and also announced the extension to that same date the time for concluding the proceedings on whether to make those registrations permanent:

³⁸ Securities Exchange Act Release No. 13482 (April 28, 1977), 12 SEC Docket 239; Securities Exchange Act Release No. 13901 (August 29, 1977), 12 SEC Docket 1630.

³⁹ Securities Exchange Act Release No. 14970 (July 18, 1978), 15 SEC Docket 291.

⁴⁰ Securities Act Release No. 5950 (July 28, 1978), 15 SEC Docket 449.

⁴¹ Securities Act Release No. 5949 (July 28, 1978), 15 SEC Docket 428.

⁴² *Id.*

⁴³ Securities Act Release No. 5889 (December 14, 1977), 13 SEC Docket 1094.

⁴⁴ Securities Act Release No. 5914 (March 15, 1978), 14 SEC Docket 314.

⁴⁵ Securities Act Release No. 5915 (March 15, 1978), 14 SEC Docket 331.

⁴⁶ Securities Act Release No. 5979 (September 20, 1978), 15 SEC Docket 1109.

⁴⁷ Securities Act Release No. 5980 (September 20, 1978), 15 SEC Docket 1114.

⁴⁸ Securities Act Release No. 5975 (September 8, 1978), 15 SEC Docket 1052.

⁴⁹ Securities Act Release No. 5977 (September 11, 1978), 15 SEC Docket 1054.

⁵⁰ *Report of the Advisory Committee on Corporate Disclosure to the Securities and Exchange Commission*, Committee Print 95-29, House Committee on Interstate and Foreign Commerce, 95th Cong., 1st sess., November 3, 1977.

⁵¹ Securities Act Release No. 5906 (February 15, 1978), 14 SEC Docket 140.

⁵² Securities Act Release Nos. 5824 (April 28, 1977), 12 SEC Docket 78; and 5827 (May 19, 1977), 12 SEC Docket 426.

⁵³ Securities Act Release No. 5893 (December 23, 1977), 13 SEC Docket 1217.

⁵⁴ Securities Act Release No. 5910 (March 3, 1978), 14 SEC Docket 695.

⁵⁵ Securities Act Release No. 5923 (April 11, 1978), 14 SEC Docket 695.

⁵⁶ Securities Act Release No. 5974 (September 7, 1978), 15 SEC Docket 1013.

⁵⁷ Securities Exchange Act Release No. 15068 (August 16, 1978), 15 SEC Docket 606.

⁵⁸ Securities Act Release No. 5893 (December 23, 1977), 13 SEC Docket 1217.

⁵⁹ Securities Act Release No. 5949 (July 28, 1978), 15 SEC Docket 428.

⁶⁰ Securities Act Release No. 5925 (April 21, 1978), 14 SEC Docket 861.

⁶¹ Securities Act Release No. 5926 (April 21, 1978), 14 SEC Docket 888.

⁶² Securities Exchange Act Release No. 15348 (November 22, 1978), 16 SEC Docket 228.

⁶³ Securities Exchange Act Release No. 14830 (June 5, 1978), 14 SEC Docket 1305.

⁶⁴ Securities Exchange Act Release No. 14910 (June 30, 1978), 15 SEC Docket 183.

⁶⁵ Securities Exchange Act Release No. 15317 (November 9, 1978), 16 SEC Docket 147.

⁶⁶ Securities Act Release No. 5884 (November 17, 1977), 13 SEC Docket 839.

⁶⁷ Securities Exchange Act Release No. 14852 (June 15, 1978), 15 SEC Docket 14.

⁶⁸ Investment Company Act Release No. 10378 (August 28, 1978), 15 SEC Docket 723.

⁶⁹ Litigation Release No. 8510 (August 18, 1978), 15 SEC Docket 717.

⁷⁰ Litigation Release No. 8526 (September 8, 1978), 14 SEC Docket 1100.

- ⁷¹ Litigation Release No. 8227 (December 21, 1977), 13 SEC Docket 1206.
- ⁷² Litigation Release No. 8460 (July 7, 1978), 15 SEC Docket 278.
- ⁷³ 43rd Annual Report at 193.
- ⁷⁴ Litigation Release No. 8482 (July 28, 1978), 15 SEC Docket 535.
- ⁷⁵ Litigation Release No. 8372 (April 13, 1978), 14 SEC Docket 766.
- ⁷⁶ Litigation Release No. 8519 (August 30, 1978), 15 SEC Docket 891.
- ⁷⁷ Litigation Release No. 8315 (April 13, 1978), 14 SEC Docket 419.
- ⁷⁸ Litigation Release No. 8316 (March 13, 1978), 14 SEC Docket 496.
- ⁷⁹ Securities Exchange Act of 1934, Sections 13(d) and 14(d).
- ⁸⁰ Litigation Release No. 8314 (March 9, 1978), 14 SEC Docket 418.
- ⁸¹ Litigation Release No. 8336 (March 20, 1978), 14 SEC Docket 579.
- ⁸² Litigation Release No. 8206 (November 29, 1977), 13 SEC Docket 974.
- ⁸³ Litigation Release No. 8498 (August 9, 1978), 15 SEC Docket 585.
- ⁸⁴ Litigation Release No. 8513 (September 21, 1978), 15 SEC Docket 1149.
- ⁸⁵ Litigation Release No. 8330 (March 14, 1978), 14 SEC Docket 503.
- ⁸⁶ Litigation Release No. 8164 (October 17, 1977), 13 SEC Docket 407.
- ⁸⁷ Litigation Release No. 8484 (August 2, 1978), 15 SEC Docket 536.
- ⁸⁸ Litigation Release No. 8067 (September 15, 1977), 12 SEC Docket 1560.
- ⁸⁹ Litigation Release No. 5794 (March 19, 1973), 1 SEC Docket 1242.
- ⁹⁰ Securities Act Release No. 5442 (November 30, 1973), 3 SEC Docket 101.
- ⁹¹ Litigation Release No. 8332 (March 14, 1978).
- ⁹² Litigation Release No. 8395 (April 26, 1978), 14 SEC Docket 1029.
- ⁹³ (D.D.C. Civil Action No. 225-72).
- ⁹⁴ 42nd Annual Report at 42; 43d Annual Report at 59.
- ⁹⁵ Litigation Release No. 8377 (April 20, 1978), 14 SEC Docket 858.
- ⁹⁶ Litigation Release No. 8155 (October 17, 1977), 13 SEC Docket 359.
- ⁹⁷ Litigation Release No. 8256 (January 16, 1978), 13 SEC Docket 1432.
- ⁹⁸ Securities Exchange Act Release No. 14380 (January 16, 1978), 13 SEC Docket 1393.
- ⁹⁹ Litigation Release No. 8543 (September 21, 1978), 15 SEC Docket 1151.
- ¹⁰⁰ Securities Exchange Act Release No. 14579 (March 20, 1978), 14 SEC Docket 520; and Securities Exchange Act Release No. 15166 (September 19, 1978), 15 SEC Docket 1117.
- ¹⁰¹ Securities Exchange Act Release No. 14149 (November 9, 1977), 13 SEC Docket 646.
- ¹⁰² The Commission's Order permits the payment of up to \$1.45 million of this amount to be made pursuant to the settlement agreement filed in the class action entitled *In Re Scientific Control Corporation Securities Litigation*—MDL 157.
- ¹⁰³ A salesman of Shearson Hayden Stone who is also a respondent in the proceedings is not affected by the Commission's findings against the other respondents.
- ¹⁰⁴ Securities Exchange Act Release Nos. 14723 (May 1, 1978), 14 SEC Docket 977, 14846 (June 12, 1978), 15 SEC Docket 10, and 14918 (July 3, 1978), 15 SEC Docket 191.
- ¹⁰⁵ Litigation Release Nos. 8333 (March 15, 1978), 14 SEC Docket 504, 8468 (July 21, 1978), 15 SEC Docket 419, and 8145 (October 6, 1977), 13 SEC Docket 355; Securities Exchange Act Release Nos. 14560 (March 15, 1978), 14 SEC Docket 428, and 15087 (August 25, 1978), 15 SEC Docket 722.
- ¹⁰⁶ Securities Exchange Act Release No. 14084 (October 21, 1977), 13 SEC Docket 454.
- ¹⁰⁷ Litigation Release No. 7571 (September 20, 1976), 10 SEC Docket 541.
- ¹⁰⁸ Litigation Release No. 7946 (May 31, 1977), 12 SEC Docket 744; Litigation Release 8431 (June 9, 1978), 15 SEC Docket 86; and Litigation Release No. 8480 (July 27, 1978), 15 SEC Docket 425.
- ¹⁰⁹ Litigation Release No. 8642 (January 11, 1979), 16 SEC Docket 802.
- ¹¹⁰ Litigation Release No. 8361 (April 15, 1978), 14 SEC Docket 692.
- ¹¹¹ Litigation Release Nos. 8113 (September 13, 1977), 13 SEC Docket 103, and 8374 (April 19, 1978), 14 SEC Docket 857.
- ¹¹² Litigation Release Nos. 8084 (August 25, 1977), 12 SEC Docket 1593, and 8438 (June 20, 1978), 15 SEC Docket 132.

Appendix



THE SECURITIES INDUSTRY

Income, Expenses and Selected Balance Sheet Items

Registered broker-dealers recorded total revenue of \$8.9 billion in 1977, nearly unchanged from 1976. Securities commissions are by far the most important source of revenue; however, the industry appears to be diversifying its business activity. Since 1973, when 53.6 percent of total revenue was generated from this source, commissions have accounted for a steadily declining

portion of total revenue. They contributed 41 percent of total revenue in 1976 and 37 percent in 1977. Trading and underwriting revenues were the second and third most important revenue contributors, together accounting for 32 percent of total revenue in 1976 and 30 percent in 1977.

With stable revenue but 12.6 percent higher expenses in 1977, industry pre-tax income declined to \$591 million. Ownership equity at the end of 1977 was \$4.115 billion, reflecting an increase of \$30 million during the year.

Table 1
FINANCIAL INFORMATION FOR BROKER-DEALERS
1975-1977

(Millions of Dollars)

| | 1975 ^R | 1976 ^R | 1977 ^R |
|---|-------------------|-------------------|-------------------|
| A. Revenue | | | |
| 1 Securities Commissions | \$ 3,378 | \$ 3,657 | \$ 3,334 |
| 2 Gain (Loss) in Trading | 1,202 | 1,828 | 1,691 |
| 3 Gain (Loss) in Investments | 132 | 269 | 353 |
| 4 Profit (Loss) From Underwriting and Selling Groups | 930 | 1,035 | 991 |
| 5 Revenue from Sale of Investment Company Securities | 140 | 165 | 161 |
| 6 Interest Income | 476 | 557 | 782 |
| 7 Other Revenue Related to Securities Business | 897 | 1,168 | 738 |
| 8 Revenue From All Other Sources | 218 | 236 | 881 |
| 9 Total Revenue | \$ 7,373 | \$ 8,915 | \$ 8,931 |
| B Expenses | | | |
| 10 Registered Representatives Compensation | \$ 1,284 | \$ 1,575 | \$ 1,541 |
| 11 Employee Compensation and Benefits | 1,413 | 1,664 | 1,769 |
| 12 Commissions and Clearance Paid to Other Brokers | 524 | 535 | 507 |
| 13 Interest Expense | 668 | 900 | 1,246 |
| 14 Communications and Data Processing | 488 | 590 | 708 |
| 15 Occupancy and Equipment | 472 | 485 | 411 |
| 16 Promotion | 159 | 203 | 203 |
| 17 Regulatory Fees and Expenses | 76 | 81 | 69 |
| 18 Compensation to Partners and Voting Stockholder Officers | 488 | 572 | 553 |
| 19 All Other Operating Expenses | 681 | 805 | 1,333 |
| 20 Total Expenses | 6,253 | 7,410 | 8,340 |
| 21 Pre-Tax Income | \$ 1,120 | \$ 1,505 | \$ 591 |
| C Assets, Liabilities and Capital | | | |
| 22 Total Assets | \$31,851 | \$48,983 | \$54,663 |
| 23 Liabilities | | | |
| a Total Liabilities (excluding subordinated debt) | 26,352 | 42,842 | 48,787 |
| b Subordinated debt | 836 | 858 | 948 |
| c Total Liabilities (23a + 23b) | 27,188 | 43,700 | 49,736 |
| 24 Ownership Equity | 4,663 | 5,283 | 4,927 |
| 25 Total Liabilities and Ownership Equity | \$31,851 | \$48,983 | \$54,663 |
| Number of Firms | 4,079 | 4,315 | 4,484 |

R = Revised

P = Preliminary

Sources Form X-17A-10 and FOCUS Reports
Office of Securities Industry And Self-Regulatory Economics
Directorate of Economic and Policy Research

Historical Financial Information of Broker-Dealers with Securities Related Revenue of \$500,000 or More

Brokerage firm revenue declined 3.9 percent in 1977 on share volume which was virtually unchanged from 1976. Commission revenue, trading profits and underwriting revenue each declined somewhat from their 1976 levels. Investment profits, interest income, commodity and other revenue each rose

from the previous year. Pre-tax income declined 54 percent, however, as brokers' expenses rose 16.5 percent during this year of slightly declining revenue.

Balance sheet comparisons for the two years are not comparable because of changes made in the brokerage firm reporting system. Firms with securities related revenue of \$500,000 or more filing the FOCUS report held approximately 95 percent of the industry's assets and reported over 93 percent of all revenue in 1977.

Table 2
HISTORICAL CONSOLIDATED REVENUE AND EXPENSES OF BROKER-DEALERS WITH
SECURITIES RELATED REVENUE OF \$500,000 OR MORE

(Millions of Dollars)

| | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 ^R | 1976 ^R | 1977 ^R |
|--|---------|---------|---------|---------|---------|-------------------|-------------------|-------------------|
| A. Revenue | | | | | | | | |
| 1 Commissions | \$2,267 | \$3,287 | \$3,404 | \$2,816 | \$2,438 | \$3,220 | \$3,516 | \$2,954 |
| 2 Gain (Loss) on Firm Securities Trading and Investment Accounts | | | | | | | | |
| a Gain (loss) in trading | 824 | 1,056 | 994 | 590 | 722 | 1,143 | 1,757 | 1,518 |
| b Gain (loss) in investments | 75 | 243 | 209 | - 3 | 55 | 131 | 253 | 317 |
| c Total gain (loss) | 898 | 1,299 | 1,203 | 587 | 777 | 1,274 | 2,010 | 1,835 |
| 3 Profit (Loss) from Underwriting and Selling Groups | 601 | 957 | 914 | 494 | 496 | 914 | 1,021 | 945 |
| 4 Revenue from Sale of Investment Company Securities | 184 | 196 | 151 | 149 | 79 | 120 | 146 | 136 |
| 5 Margin Interest Income | 379 | 364 | 527 | 621 | 622 | 466 | 550 | 732 |
| 6 Fees for Account Supervision, Investment Advisory, and Administrative Services | 64 | 82 | 99 | 83 | 85 | 156 | 207 | 190 |
| 7 Commodity Revenue | 88 | 98 | 125 | 178 | 168 | 187 | 236 | 267 |
| 8 Other Revenue Related to Securities Business | N/A | N/A | N/A | N/A | N/A | 509 | 691 | 766 |
| 9 Revenue from All Other Sources | 266 | 300 | 306 | 323 | 400 | 167 | 201 | 415 |
| 10 Total Revenue | \$4,747 | \$6,583 | \$6,729 | \$5,250 | \$5,065 | \$7,013 | \$8,577 | \$8,241 |
| B. Expenses | | | | | | | | |
| 11 Compensation to Registered Representatives | \$ 778 | \$1,139 | \$1,198 | \$ 937 | \$ 949 | \$1,278 | \$1,576 | \$1,428 |
| 12 Employee Compensation and Benefits | 1,086 | 1,300 | 1,392 | 1,184 | 1,097 | 1,376 | 1,668 | 1,593 |
| 13 Commissions Paid to Other Brokers | 128 | 182 | 186 | 188 | 151 | 209 | 168 | 312 |
| 14 Interest | 540 | 520 | 634 | 796 | 750 | 587 | 839 | 1,149 |
| 15 Communications and Data Processing | 370 | 434 | 488 | 461 | 463 | 482 | 590 | 649 |
| 16 Occupancy and Equipment | 349 | 413 | 460 | 433 | 440 | 464 | 486 | 372 |
| 17 Promotion | 157 | 188 | 214 | 186 | 172 | 157 | 202 | 186 |
| 18 All Other Operating Expenses | 606 | 787 | 794 | 686 | 634 | 1,416 | 1,633 | 1,903 |
| 19 Total Expenses | \$4,013 | \$4,962 | \$5,365 | \$4,871 | \$4,655 | \$5,963 | \$7,162 | \$7,592 |
| C. Pre-Tax Income | | | | | | | | |
| 20 Pre-Tax Income | \$ 734 | \$1,621 | \$1,365 | \$ 378 | \$ 410 | \$1,050 | \$1,415 | \$ 649 |
| Number of Firms | 655 | 788 | 817 | 652 | 609 | 764 | 930 | 857 |

R = Revised

P = Preliminary

Sources: Form X-17A-10 and FOCUS Reports

Office of Securities Industry And Self-Regulatory Economics

Directorate of Economic and Policy Research

Table 3
HISTORICAL BALANCE SHEET FOR BROKER-DEALERS WITH
SECURITIES RELATED REVENUE OF \$500,000 OR MORE

| | (Millions of Dollars) | | | | | | | |
|--|-----------------------|----------|----------|----------|----------|----------|----------|-------------------|
| | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 ¹ |
| A. Assets | | | | | | | | |
| 1 Cash, clearing fund and other deposits | \$ 1,162 | \$ 1,221 | \$ 1,281 | \$ 1,139 | \$ 940 | \$ 925 | \$ 1,135 | \$ 979 |
| 2 Receivables from other broker-dealers | | | | | | | | |
| a Securities failed to deliver | 2,319 | 2,230 | 2,568 | 1,844 | 1,220 | 1,446 | 2,215 | 2,375 |
| b Securities borrowed | 865 | 1,022 | 1,364 | 1,096 | 889 | 1,366 | 2,091 | 2,307 |
| c Other receivables | 198 | 295 | 382 | 330 | 905 | 1,071 | 1,093 | 682 |
| 3 Receivables from customers | 7,077 | 9,644 | 13,373 | 9,056 | 7,450 | 8,464 | 12,804 | 13,728 |
| 4 Market value or fair value of long positions in securities and commodities | 10,261 | 11,667 | 11,870 | 9,722 | 10,789 | 12,901 | 21,392 | 28,521 |
| 5 Exchange memberships at market value | 210 | 200 | 208 | 123 | 101 | 118 | 142 | 117 |
| 6 Other assets | 1,392 | 1,646 | 1,704 | 1,879 | 1,493 | 4,535 | 7,203 | 3,038 |
| 7 Total assets | \$23,484 | \$27,925 | \$32,750 | \$25,189 | \$23,787 | \$30,826 | \$48,075 | \$51,747 |
| B. Liabilities | | | | | | | | |
| 8 Money borrowed | \$ 8,994 | \$11,286 | \$14,398 | \$ 9,878 | \$10,421 | \$ 9,488 | \$11,802 | \$26,503 |
| 9 Payable to other broker-dealers | | | | | | | | |
| a Securities failed to receive | 2,706 | 2,420 | 2,732 | 1,724 | 1,281 | 1,416 | 2,152 | 2,598 |
| b Securities borrowed | 836 | 984 | 1,284 | 847 | 579 | 1,064 | 1,614 | 1,770 |
| c Other payables | 198 | 345 | 354 | 365 | 1,059 | 1,088 | 1,019 | 1,092 |
| 10 Payable to customers | 4,242 | 4,736 | 5,228 | 4,978 | 3,986 | 4,696 | 6,174 | 5,158 |
| 11 Short positions in securities and commodities | 707 | 907 | 1,525 | 1,158 | 1,038 | 1,165 | 2,555 | 4,834 |
| 12 Subordinated borrowings | 641 | 728 | 774 | 642 | 594 | 767 | 799 | 840 |
| 13 Other liabilities | 2,343 | 2,859 | 2,505 | 2,550 | 2,099 | 7,203 | 17,178 | 4,837 |
| 14 Total liabilities | 20,667 | 24,264 | 28,802 | 22,142 | 21,056 | 26,887 | 43,293 | 47,632 |
| C. Ownership Equity | | | | | | | | |
| 15 Ownership Equity | 2,818 | 3,661 | 3,948 | 3,047 | 2,731 | 3,939 | 4,782 | 4,115 |
| 16 Total liabilities and capital | \$23,484 | \$27,925 | \$32,750 | \$25,189 | \$23,787 | \$30,826 | \$48,075 | \$51,747 |
| Number of Firms | 655 | 788 | 817 | 652 | 609 | 770 | 932 | 857 |

¹ The balance sheet for 1977 is not comparable with previous years' data because of changes in the reporting form Sources Form X-17A-10 and FOCUS Reports Office of Securities Industry And Self-Regulatory Economics Directorate of Economic and Policy Research

Securities Industry Dollar: 1977

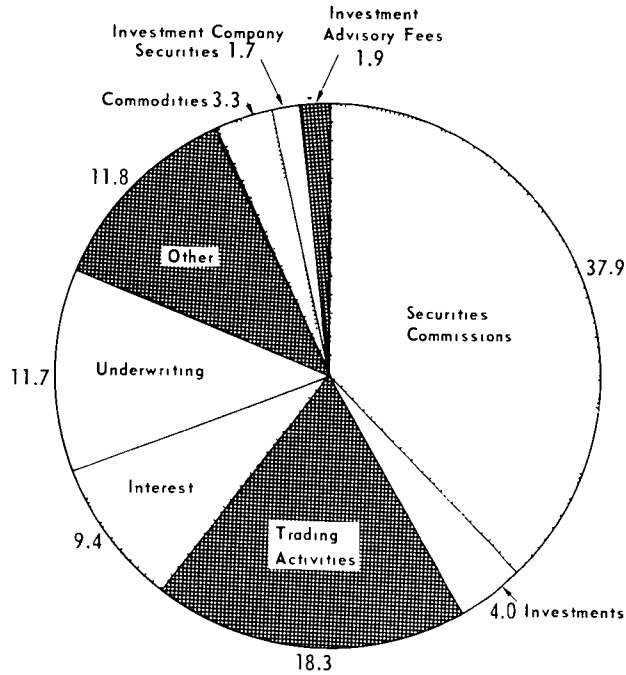
Securities commissions represented 37.9 cents of each dollar of securities industry revenue. Another 18.3 cents of each dollar came from trading activities and underwriting revenue contributed 11.7 cents. Together, these three activities accounted for 67.9 cents of each revenue dollar.

The largest portion of this revenue

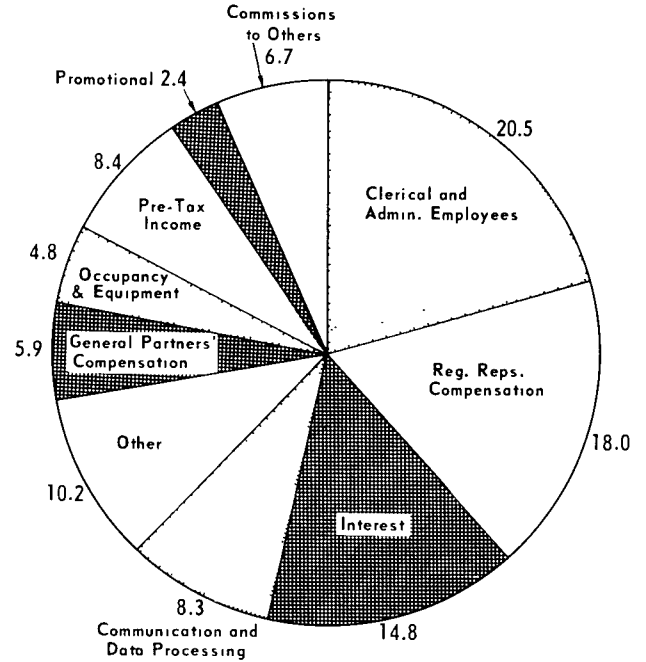
dollar—38.5 cents—went to pay registered representatives and support personnel (clerical and administrative employees). Another 13.1 cents was spent on communications, occupancy and equipment. General partners and voting stockholder officers' compensation amounted to 5.9 cents of each dollar, with 8.4 cents remaining for pre-tax income. This margin was 50 percent below the 1976 figure.

SECURITIES INDUSTRY DOLLAR: 1977

SOURCES OF REVENUE



EXPENSES AND PRE-TAX INCOME



NOTE: Includes information for firms with securities related revenues of \$500,000 or more in 1977.
 SOURCE: X-17A-5 FOCUS REPORTS

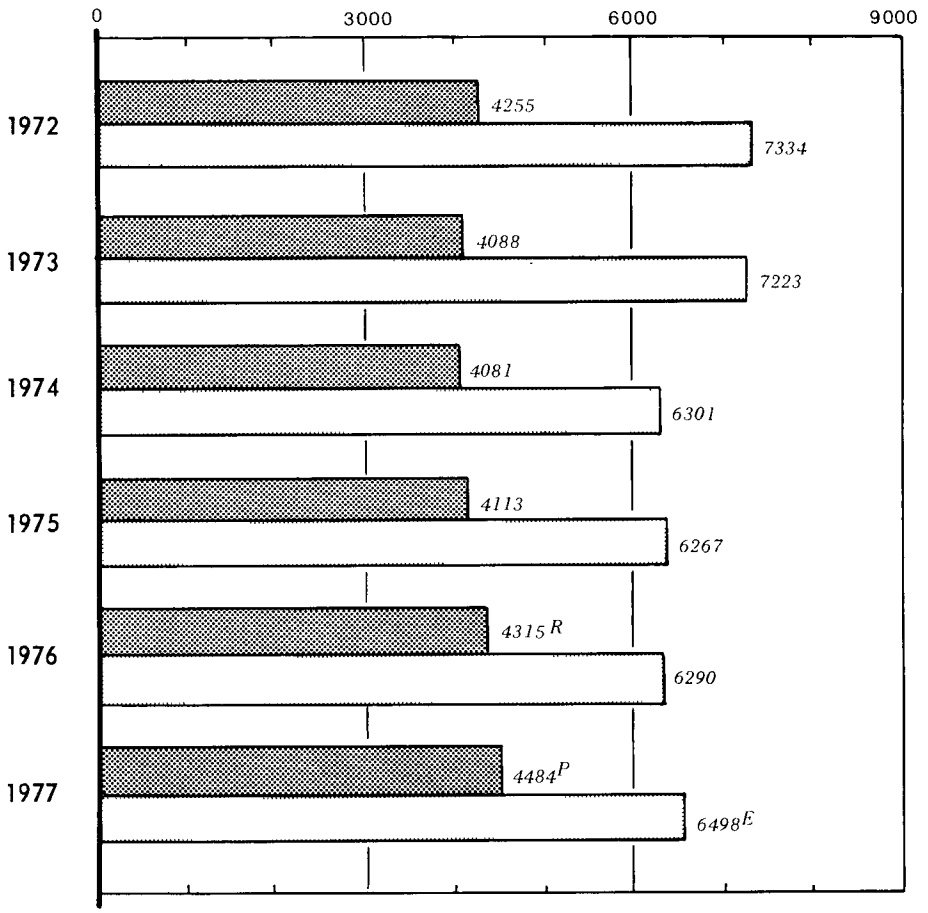
Broker-Dealers, Branch Offices, Employees

The number of broker-dealers increased from 4,315 in 1976 to 4,484 in 1977. Following the upward trend of

broker-dealers, the number of branch offices increased to 6,498.

There were approximately 39,000 full-time registered representatives associated with members of the New York Stock Exchange at the end of 1977.

BROKER-DEALERS AND BRANCH OFFICES



Broker-Dealers
 Branch Offices

P=Preliminary *R*=Revised *E*=Estimate

SOURCE: X-17A-10 AND FOCUS REPORTS

Table 4

BROKERS AND DEALERS REGISTERED UNDER THE SECURITIES ACT OF 1934—EFFECTIVE REGISTRATIONS AS OF SEPTEMBER 30, 1978 CLASSIFIED BY TYPE OF ORGANIZATION AND BY LOCATION OF PRINCIPAL OFFICE.

| Location of Principal Offices | Number of Registrants | | | | Number of Proprietors, Partners, Officers, etc | | | |
|-------------------------------|-----------------------|----------------------|--------------|--------------|--|----------------------|--------------|--------------|
| | Total | Sole proprietorships | Partnerships | Corporations | Total | Sole proprietorships | Partnerships | Corporations |
| Alabama | 25 | 3 | 1 | 21 | 125 | 3 | 3 | 119 |
| Alaska | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Arizona | 29 | 4 | 2 | 23 | 102 | 4 | 14 | 84 |
| Arkansas | 19 | 2 | 0 | 17 | 82 | 2 | 0 | 80 |
| California | 504 | 152 | 56 | 296 | 2,460 | 152 | 266 | 2,042 |
| Colorado | 60 | 2 | 3 | 55 | 352 | 2 | 56 | 294 |
| Connecticut | 62 | 9 | 9 | 44 | 351 | 9 | 43 | 299 |
| Delaware | 10 | 3 | 0 | 7 | 34 | 3 | 0 | 31 |
| District of Columbia | 33 | 2 | 6 | 25 | 277 | 2 | 27 | 248 |
| Florida | 148 | 17 | 6 | 125 | 521 | 17 | 12 | 492 |
| Georgia | 47 | 2 | 2 | 43 | 288 | 2 | 4 | 282 |
| Hawaii | 14 | 0 | 1 | 13 | 72 | 0 | 2 | 70 |
| Idaho | 6 | 2 | 0 | 4 | 18 | 2 | 0 | 16 |
| Illinois | 1,771 | 1,344 | 122 | 305 | 3,276 | 1,345 | 600 | 1,331 |
| Indiana | 50 | 9 | 1 | 40 | 257 | 9 | 2 | 246 |
| Iowa | 29 | 2 | 0 | 27 | 135 | 2 | 0 | 133 |
| Kansas | 29 | 2 | 2 | 25 | 144 | 2 | 9 | 133 |
| Kentucky | 11 | 1 | 1 | 9 | 71 | 1 | 3 | 67 |
| Louisiana | 23 | 5 | 4 | 14 | 175 | 5 | 16 | 154 |
| Maine | 9 | 0 | 3 | 6 | 43 | 0 | 19 | 24 |
| Maryland | 46 | 4 | 4 | 38 | 316 | 4 | 122 | 190 |
| Massachusetts | 152 | 26 | 13 | 113 | 937 | 26 | 82 | 829 |
| Michigan | 55 | 6 | 4 | 45 | 362 | 6 | 105 | 251 |
| Minnesota | 74 | 1 | 0 | 73 | 445 | 1 | 0 | 444 |
| Mississippi | 19 | 0 | 3 | 16 | 79 | 0 | 7 | 72 |
| Missouri | 66 | 2 | 4 | 60 | 742 | 2 | 107 | 633 |
| Montana | 4 | 2 | 0 | 2 | 21 | 2 | 0 | 19 |
| Nebraska | 14 | 0 | 0 | 14 | 101 | 0 | 0 | 101 |
| Nevada | 2 | 1 | 0 | 1 | 4 | 1 | 0 | 3 |
| New Hampshire | 5 | 1 | 1 | 3 | 18 | 1 | 3 | 14 |
| New Jersey | 194 | 39 | 26 | 129 | 685 | 39 | 75 | 571 |
| New Mexico | 6 | 1 | 0 | 5 | 31 | 1 | 0 | 30 |
| New York (excluding NY City) | 266 | 97 | 19 | 150 | 654 | 97 | 55 | 502 |
| North Carolina | 29 | 6 | 0 | 23 | 141 | 6 | 0 | 135 |
| North Dakota | 5 | 0 | 0 | 5 | 19 | 0 | 0 | 19 |
| Ohio | 86 | 4 | 13 | 69 | 566 | 4 | 185 | 377 |
| Oklahoma | 23 | 4 | 0 | 19 | 110 | 4 | 0 | 106 |
| Oregon | 27 | 3 | 0 | 24 | 111 | 3 | 0 | 108 |
| Pennsylvania | 211 | 28 | 46 | 137 | 1,168 | 28 | 177 | 963 |
| Rhode Island | 17 | 5 | 2 | 10 | 42 | 5 | 8 | 29 |
| South Carolina | 8 | 0 | 1 | 7 | 33 | 0 | 2 | 31 |
| South Dakota | 2 | 1 | 0 | 1 | 12 | 1 | 0 | 11 |
| Tennessee | 50 | 3 | 2 | 45 | 344 | 3 | 29 | 312 |
| Texas | 164 | 15 | 8 | 141 | 1,116 | 15 | 34 | 1,067 |
| Utah | 29 | 2 | 2 | 25 | 128 | 2 | 7 | 119 |
| Vermont | 4 | 1 | 1 | 2 | 21 | 1 | 2 | 18 |
| Virginia | 30 | 4 | 3 | 23 | 302 | 4 | 13 | 285 |
| Washington | 56 | 6 | 0 | 50 | 284 | 6 | 0 | 278 |
| West Virginia | 6 | 1 | 0 | 5 | 20 | 1 | 0 | 19 |
| Wisconsin | 40 | 5 | 0 | 35 | 383 | 5 | 0 | 378 |
| Wyoming | 5 | 1 | 0 | 4 | 20 | 1 | 0 | 19 |
| Total (excluding NY City) | 4,574 | 1,830 | 371 | 2,373 | 17,998 | 1,831 | 2,089 | 14,078 |
| New York City | 1,451 | 551 | 270 | 630 | 9,609 | 550 | 2,357 | 6,702 |
| Subtotal | 6,025 | 2,381 | 641 | 3,003 | 27,607 | 2,381 | 4,446 | 20,780 |
| Foreign | 24 | 0 | 2 | 22 | 158 | 0 | 9 | 149 |
| Grand Total | 6,049 | 2,381 | 643 | 3,025 | 27,765 | 2,381 | 4,455 | 20,929 |

¹ Registrants whose principal offices are located in foreign countries or other jurisdictions not listed

² Includes directors, officers, trustees and all other persons occupying similar status performing similar functions

³ Allocations made on the basis of location of principal office of registrants, not actual locations of persons

⁴ Includes all forms of organizations other than sole proprietorships and partnerships

Table 5
PRINCIPAL BUSINESS OF SECO BROKER-DEALERS

| | Fiscal year-end | |
|--|-----------------|--------------|
| | 1976 | 1977 |
| Exchange member primarily engaged in exchange commission business | 28 | 25 |
| Exchange member primarily engaged in floor activities | 11 | 18 |
| Broker or dealer in general securities business | 61 | 65 |
| Mutual fund underwriter* | 9 | 11 |
| Mutual fund distributor* | 5 | 4 |
| Broker or dealer selling variable annuity contracts | 10 | 12 |
| Solicitor of savings and loan accounts | 5 | 6 |
| Real estate syndicator and mortgage broker and banker | 33 | 35 |
| Real estate condominium interests* | 3 | 5 |
| Limited partnership interests* | 23 | 25 |
| Broker or dealer selling oil and gas interests | 12 | 20 |
| Put and call broker or dealer or option writer (non-exchange options) | 3 | 5 |
| Broker or dealer selling securities of only one issuer or associated issuers (other than mutual funds) | 21 | 23 |
| Broker or dealer selling church securities | 10 | 11 |
| Government bond dealer (other than municipal) | 2 | 3 |
| Broker or dealer in municipal bonds* | 5 | 5 |
| Broker or dealer in other securities business | 46 | 28 |
| No securities business | 22 | 25 |
| Totals | 309 | 326** |

* Not tabulated in prior years; new category on the Form SECO-4-76
 ** Based on data provided by 326 of the 346 SECO broker-dealers

Table 6
APPLICATIONS AND REGISTRATIONS OF BROKERS AND DEALERS

Fiscal Year 1978

| BROKER-DEALER APPLICATIONS | |
|--|--------------|
| Applications pending at close of preceding year | 521 |
| Applications received during fiscal 1978 | 1,359 |
| Total applications for disposition | 1,880 |
| Disposition of Applications | |
| Accepted for filing | 939 |
| Returned | 70 |
| Withdrawn | 6 |
| Denied | 0 |
| Total applications disposed of | 1,015 |
| Applications pending as of September 30, 1978 | 865 |
| BROKER-DEALER REGISTRATIONS | |
| Effective registrations at close of preceding year | 5,756 |
| Registrations effective during fiscal 1978 | 939 |
| Total registrations | 6,695 |
| Registrations terminated during fiscal 1978 | |
| Withdrawn | 601 |
| Revoked | 2 |
| Cancelled | 85 |
| Total registrations terminated | 688 |
| Total registrations at end of fiscal 1978 | 6,007 |
| INVESTMENT ADVISER APPLICATIONS | |
| Applications pending at close of preceding year | 436 |
| Applications received during fiscal 1978 | 1,238 |
| Total applications for disposition | 1,674 |
| Disposition of applications | |
| Accepted for filing | 610 |
| Returned | 137 |
| Withdrawn | 1 |
| Denied | 0 |
| Total application disposed of | 748 |
| Applications pending as of September 30, 1978 | 926 |
| INVESTMENT ADVISER REGISTRATIONS | |
| Effective registrations at close of preceding year | 4,801 |
| Registrations effective during fiscal 1978 | 610 |
| Total registrations | 5,411 |
| Registrations terminated during fiscal 1978 | |
| Withdrawn | 193 |
| Revoked | 5 |
| Cancelled | 8 |
| Total registrations terminated | 206 |
| Total registrations at end of fiscal 1978 | 5,205 |

Table 7

APPLICATIONS AND REGISTRATIONS OF MUNICIPAL SECURITIES DEALERS AND TRANSFER AGENTS

Fiscal Year 1978

| MUNICIPAL SECURITIES DEALERS APPLICATIONS | |
|--|------------|
| Applications pending at close of preceding year | 22 |
| Applications received during fiscal 1978 | 15 |
| Total applications for disposition | 37 |
| Disposition of Applications | |
| Accepted for filing | 16 |
| Returned | 0 |
| Withdrawn | 0 |
| Denied | 0 |
| Total applications disposed of | 16 |
| Applications pending as of September 30, 1978 | 21 |
| MUNICIPAL SECURITIES DEALERS REGISTRATIONS | |
| Effective registrations at close of preceding year | 332 |
| Registrations effective during fiscal 1978 | 16 |
| Total registrations | 348 |
| Registrations terminated during fiscal 1978 | |
| Withdrawn | 12 |
| Cancelled | 0 |
| Suspended | 0 |
| Total registrations terminated | 12 |
| Total registrations at end of fiscal 1978 | 336 |
| TRANSFER AGENTS APPLICATIONS | |
| Applications pending at close of preceding year | 15 |
| Applications received during fiscal 1978 | 47 |
| Total applications for disposition | 62 |
| Disposition of applications | |
| Accepted for filing | 43 |
| Returned | 0 |
| Withdrawn | 0 |
| Denied | 0 |
| Total applications disposed of | 43 |
| Applications pending as of September 30, 1978 | 19 |
| TRANSFER AGENTS REGISTRATIONS | |
| Effective registrations at close of preceding year | 837 |
| Registrations effective during fiscal 1978 | 43 |
| Total registrations | 880 |
| Registrations terminated during fiscal 1978 | |
| Withdrawn | 19 |
| Cancelled | 0 |
| Suspended | 0 |
| Total registrations terminated | 19 |
| Total registrations at end of fiscal 1978 | 861 |

Self-Regulatory Organizations— Revenues and Expenses

The high trading volume during the first three quarters of 1978 provides an opportunity to examine how changes in trading volume improve each self-regulatory organization's financial results. As a result of the record high trading volume in the second and third quarters of 1978, exchange share volume for the first nine months was 3.2 percent higher than the figure for all of 1977. The revenue increase was not as dramatic. Through the first three quarters of 1978, revenue was, however, running 8 percent higher than for the same period in 1977. Because operating costs are largely fixed the growth in revenue dramatically improved pre-tax income.

For the first nine months of 1978, the national securities exchanges and the NASD enjoyed combined pre-tax income of nearly \$26 million, more than double the \$12.7 million generated during all of 1977.

The NYSE derives 44 percent of its revenue from its volume related transaction and depository fees. Relatively fixed sources of revenue such as listing fees paid by corporations, and communications fees and membership dues paid by brokers generate 45 percent of revenue and miscellaneous sources account for 11 percent. Pre-tax income through September 1978, at \$15.5 million, was already 45 percent higher than 1977 results.

The Amex generates only 22 percent of its revenue from volume-related transaction fees. Its listing and communication fees and membership dues, however, all generated revenue at a higher annual rate in 1978 than 1977. Pre-tax income for the first nine months of 1978 was nearly triple the 1977 annual figure.

Trading volume in listed and unlisted issues over-the-counter was 52 percent

above the 1977 pace through September 1978. NASD revenue, however, is derived from sources which do not vary with trading volume. Registration, corporate finance and listing fees together with membership dues generate 87 percent of revenue. Nine-month 1978 revenue was consequently about three-fourths of 1977 annual revenue. Pre-tax income slipped in 1978. The nine-month figure was only about one-third of 1977's annual results.

With the registration of the NSCC in 1977, most transactions executed on the NYSE and Amex and in the over-the-counter market began to be cleared through this clearing agency. The three organizations thus no longer have clearing costs and generate only a small amount of revenue from services performed for the clearing agency. The operating surplus from the clearing agency's operation is returned to its members in the form of fee rebates.

The MSE discontinued its unprofitable broker service bureau in 1978 and total 1978 revenue was reduced. Nearly 73 percent of revenue is still volume-related, however, and the combined effects of the discontinued losses and the growth in trading volume have resulted in pre-tax income of \$724,000 through September, 1978. Pre-tax losses were over \$1 million in 1977.

The PSE, Phlx and BSE also depend heavily on volume-related fees. Sixty-six percent of PSE and 80 percent of both Phlx and BSE revenue comes from these sources. The record trading volume has raised PSE's pre-tax income to a nine-month level nearly ten times as high as the 1977 annual figure. The comparable nine-month Phlx and BSE pre-tax income figure is nearly seven times as large as the previous year's annual results.

The CBOE is dependent upon volume-related sources for 65 percent of its revenue. A pre-tax loss of \$580,000 in

1977 became pre-tax profit of over \$2.2 million in the nine months of 1978.

The CSE, which began an electronic trading experiment in 1978, now receives less in floor usage revenue and more in communications fees. Its 1978 revenues were higher than the previous year but profitability comparisons were unfavorable for this small exchange.

The ISE in Salt Lake City, and the SSE appear to be unaffected by the factors which influence the other organizations.

The MSRB income of \$678,476 during fiscal year 1978 (See Table 12) was derived primarily from three fees established by rules adopted under the Exchange Act. Municipal securities brokers and municipal securities dealers are assessed (1) an initial fee of \$100, (2) an underwriting assessment fee equal to .001 percent of the face value of all municipal securities they purchase from an issuer as part of a new issue which has a final stated maturity of not less than two years from the date of the securities, and (3) an annual fee of \$100 which can be offset by underwriting fees paid within the calendar year. The underwriting assessment fee accounted for 75.7 percent of the MSRB income during fiscal year 1978. The balance of MSRB income was from other fees and interest income.

During fiscal year 1978, the MSRB had total expenses of \$854,703. The major expense items were staff salaries and employee benefits, including MSRB contribution to an employee retirement plan established in 1978 (44 percent); meetings and travel (24.8 percent); and mailing list, rule manual, postage and other printing (15.5 percent). Expenses exceeded income by \$176,227, due, in part, to a significant reduction in assessment fees received. As of September 30, 1978, the MSRB had a surplus of \$908,186.

Aggregate clearing agency revenues

increased approximately \$9 million in 1977 to approximately \$103 million. Aggregate clearing agency operating expenses increased in excess of \$10 million, or 12 percent over 1976.

NSCC had an increase in clearing revenues over its predecessors' combined 1976 revenues of 17 percent, or \$5 million, to approximately \$35 million (including an \$800,000 loss resulting from the insolvency of one of its clearing members and approximately \$3.6 million in regulatory fees to the NYSE, Amex and the NASD). These regulatory fees were for services consisting principally of examination, monitoring and investigation of financial and operating conditions of existing and prospective clearing members and notification of unusual market conditions which may affect securities clearing.

When Boston Stock Exchange Clearing Corporation and New England Securities Depository Trust Company, both wholly owned subsidiaries of the BSE, are combined for purposes of analysis, their revenue increased \$77,000 while expenses increased \$87,000.

While Bradford Securities Processing Service, Inc.'s clearing and other revenues increased by \$1.6 million and \$1.1 million, respectively, its expenses increased by \$2.6 million.

The Depository Trust Company revenues increased 8 percent to \$33.3 million while its expenses increased a like amount to \$33.3 million.

The Midwest Clearing Corporation experienced a 7 percent decline in clearing services revenues while its expenses increased 14 percent. The Midwest Securities Trust Company had a 5 percent increase in depository services revenues and a 7 percent increase in expenses.

Pacific Clearing Corporation also experienced a substantial decrease in clearing services revenues with a 15 percent decline while its total expenses remained about the same. The Pacific

Securities Depository Trust Company had a 3 percent decline in depository services revenues while expenses increased by 8 percent.

Stock Clearing Corporation of Philadelphia also experienced a decline in clearing services revenues with a decrease of 4 percent while expenses decreased by 2 percent.

The Options Clearing Corporation's total revenues increased 1 percent as did its expenses.

TAD Depository Corporation, which ceased doing business early in 1978, had an increase in revenues from \$307,000 to \$495,000 while its expenses increased from \$287,000 to \$466,000.

Table 8
REVENUES AND EXPENSES OF SELF-REGULATORY ORGANIZATIONS: 1973-1978
(Thousands of Dollars)

| | 1973 | 1974 | 1975 | 1976 | 1977 | 1st Qtr 1978 | 2nd Qtr 1978 | 3rd Qtr 1978 |
|---|------------------|-------------------|------------------|------------------|------------------|-----------------|-----------------|-----------------|
| Revenues | | | | | | | | |
| Transaction Fees | \$ 26,409 | \$ 24,126 | \$ 32,844 | \$ 38,602 | \$ 37,230 | \$ 8,639 | \$14,365 | \$15,342 |
| Listing Fees | 26,471 | 25,419 | 31,709 | 40,756 | 42,277 | 9,062 | 12,251 | 10,818 |
| Communication Fees | 21,376 | 20,822 | 25,947 | 33,335 | 42,293 | 10,273 | 10,457 | 10,689 |
| Clearing Fees | 32,602 | 30,070 | 35,451 | 41,185 | 8,886 | 2,150 | 3,041 | 3,191 |
| Depository Fees | 23,586 | 22,696 | 27,792 | 36,227 | 37,935 | 9,378 | 12,075 | 12,740 |
| Tabulation Services | 10,453 | 11,268 | 13,553 | 16,537 | 16,029 | 1,056 | 1,433 | 1,611 |
| All Other Revenues | 38,704 | 38,666 | 38,472 | 42,747 | 52,292 | 13,366 | 14,966 | 15,688 |
| Membership Dues | 11,054 | 11,111 | 11,267 | 13,053 | 14,436 | 3,727 | 3,828 | 3,896 |
| Registration Fees | 6,450 | 5,136 | 5,130 | 4,221 | 4,361 | 1,358 | 1,420 | 1,465 |
| Floor Usage Revenue | 4,764 | 4,851 | 6,966 | 9,022 | 10,653 | 2,765 | 2,687 | 2,968 |
| Corporate Finance Fees | 1,212 | 816 | 1,111 | 1,047 | 922 | 207 | 328 | 336 |
| Other | 15,223 | 16,752 | 13,999 | 15,403 | 21,920 | 5,308 | 6,703 | 7,024 |
| Total Revenues | \$179,601 | \$173,068 | \$205,770 | \$249,388 | \$236,941 | \$53,924 | \$68,588 | \$70,080 |
| Expenses | | | | | | | | |
| Employee Costs | \$ 77,667 | \$ 79,984 | \$ 84,275 | \$ 99,340 | \$102,013 | \$25,232 | \$26,349 | \$26,868 |
| Occupancy Costs | 10,643 | 12,729 | 12,887 | 14,646 | 15,776 | 3,477 | 3,725 | 3,724 |
| Equipment Costs | 1,905 | 2,478 | 3,504 | 4,372 | 3,242 | 848 | 689 | 849 |
| Professional and Legal Services | 8,616 | 5,747 | 8,001 | 8,549 | 9,375 | 1,903 | 2,706 | 2,096 |
| Depreciation and Amortization | 3,359 | 4,091 | 4,823 | 5,703 | 5,873 | 1,520 | 1,451 | 1,693 |
| Advertising, Printing and Postage | 5,383 | 4,876 | 3,338 | 3,445 | 3,550 | 788 | 857 | 1,072 |
| Communication, Data Processing and Collection | 54,833 | 52,501 | 58,849 | 72,862 | 67,551 | 15,047 | 15,573 | 15,810 |
| All Other Expenses | 15,021 | 11,739 | 15,856 | 23,711 | 16,842 | 4,424 | 5,304 | 4,602 |
| Total Expenses | \$177,427 | \$174,144 | \$191,532 | \$232,628 | \$224,221 | \$53,240 | \$56,654 | \$56,715 |
| Pre-Tax Income | \$ 2,174 | \$ (1,076) | \$ 14,237 | \$ 16,760 | \$ 12,720 | \$ 684 | \$11,934 | \$13,365 |

Source: Survey of Self-Regulatory Organizations and Subsidiaries
Office of Securities Industry and Self-Regulatory Economics
Directorate of Economic and Policy Research

Table 9
DETAILED REVENUES AND EXPENSES FOR EACH SELF-REGULATORY ORGANIZATION

(Thousands of Dollars)

| | AMEX | | BSE | | CBOE | | CSE | | ISE | |
|---|-----------------|------------------|----------------|------------------|-----------------|------------------|--------------|------------------|-------------|------------------|
| | 1977 | Jan-Sept 1978 | 1977 | Jan-Sept 1978 | 1977 | Jan-Sept 1978 | 1977 | Jan-Sept 1978 | 1977 | Jan-Sept 1978 |
| Revenues | | | | | | | | | | |
| Transaction Fees | \$ 6,514 | \$ 7,431 | \$ 468 | \$ 593 | \$ 6,502 | \$ 7,787 | \$ 0 | \$ 0 | \$ 1 | \$ + |
| Listing Fees | 5,027 | 4,598 | 87 | 48 | 0 | 0 | 11 | 7 | 5 | 4 |
| Communication Fees | 21,580 | 18,118 | 0 | 0 | 1,637 | 1,268 | 13 | 56 | 0 | 0 |
| Clearing Fees | 0 | 0 | 1,150 | 1,049 | 0 | 0 | 0 | 0 | 0 | 0 |
| Depository Fees | 0 | 0 | 639 | 640 | 0 | 0 | 0 | 0 | 0 | 0 |
| Tabulation Services | 0 | 0 | 808 | 858 | 0 | 163 | 19 | 21 | 0 | 0 |
| All Other Revenues | 3,680 | 2,988 | 854 | 744 | 4,156 | 3,106 | 103 | 85 | 23 | 17 |
| Membership Dues | 648 | 717 | 206 | 158 | 1,035 | 757 | 0 | 0 | 6 | 4 |
| Registration Fees | 116 | 70 | 7 | 2 | 363 | 309 | + | + | 0 | 0 |
| Floor Usage Revenue | 788 | 595 | 27 | 22 | 765 | 604 | 97 | 45 | 0 | 0 |
| Corporate Finance Fees | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | 2,128 | 1,606 | 615 | 563 | 1,993 | 1,436 | 5 | 39 | 17 | 13 |
| Total Revenues | \$36,801 | \$33,135 | \$4,006 | \$3,931 | \$12,295 | \$12,324 | \$146 | \$169 | \$29 | \$21 |
| Expenses | | | | | | | | | | |
| Employee Costs | \$11,502 | \$ 9,755 | \$1,935 | \$1,676 | \$ 5,600 | \$ 4,745 | \$ 37 | \$ 23 | \$ 9 | \$ 7 |
| Occupancy Costs | 1,739 | 1,250 | 276 | 216 | 1,168 | 986 | 26 | 27 | 10 | 7 |
| Equipment Costs | 547 | 607 | 93 | 120 | 691 | 441 | 18 | 11 | + | + |
| Professional and Legal Services | 1,410 | 825 | 280 | 270 | 1,019 | 735 | 16 | 20 | 2 | 2 |
| Depreciation and Amortization | 1,127 | 1,001 | 122 | 112 | 1,138 | 934 | 0 | 0 | + | + |
| Advertising, Printing and Postage | 982 | 873 | 128 | 193 | 739 | 275 | 6 | 3 | 1 | 1 |
| Communication, Data Processing and Collection | 17,313 | 13,739 | 657 | 506 | 1,163 | 937 | 14 | 10 | 3 | 2 |
| All Other Expenses | 935 | 1,499 | 482 | 589 | 1,357 | 1,011 | 10 | 75 | 1 | + |
| Total Expenses | \$35,555 | \$29,549 | \$3,971 | \$3,682 | \$12,875 | \$10,065 | \$126 | \$170 | \$25 | \$19 |
| Pre-Tax Income | \$ 1,246 | \$ 3,586 | \$ 34 | \$ 249 | \$ (580) | \$ 2,259 | \$ 20 | \$ (2) | \$ 4 | \$ 3 |

+ = less than 500

Note: Totals may not add due to rounding

Source: Survey of Self-Regulatory Organizations and Subsidiaries
Office of Securities Industry And Self-Regulatory Economics
Directorate of Economic and Policy Research

Table 9—Continued
DETAILED REVENUES AND EXPENSES FOR EACH SELF-REGULATORY ORGANIZATION

(Thousands of Dollars)

| | MSE | | NASD | | NYSE | | PSE | | PHLX | | SSE | |
|--|-------------------|------------------|-----------------|------------------|------------------|------------------|-----------------|------------------|----------------|------------------|-------------|------------------|
| | 1977 | Jan-Sept 1978 | 1977 | Jan-Sept 1978 | 1977 | Jan-Sept 1978 | 1977 | Jan-Sept 1978 | 1977 | Jan-Sept 1978 | 1977 | Jan-Sept 1978 |
| Revenues | | | | | | | | | | | | |
| Transaction Fees | \$ 1,844 | \$ 2,179 | \$ 0 | \$ 0 | \$ 18,094 | \$ 16,322 | \$ 2,265 | \$ 2,385 | \$ 1,543 | \$ 1,649 | \$ 0 | \$ 0 |
| Listing Fees | 640 | 528 | 2,644 | 2,210 | 32,770 | 23,948 | 958 | 721 | 132 | 63 | 2 | 8 |
| Communication Fees | 4,157 | 222 | 0 | 0 | 13,922 | 10,998 | 787 | 595 | 197 | 162 | 0 | 0 |
| Cleaning Fees | 3,050 | 2,409 | 0 | 0 | 0 | 0 | 2,559 | 2,011 | 2,127 | 2,257 | 0 | 0 |
| Depository Fees | 3,948 | 3,243 | 0 | 0 | 31,198 | 27,970 | 2,063 | 2,179 | 86 | 162 | 0 | 0 |
| Tabulation Services | 11,168 | 0 | 0 | 0 | 0 | 0 | 4,030 | 3,056 | 0 | 0 | 4 | 2 |
| All Other Revenues | 2,831 | 2,191 | 13,123 | 9,877 | 22,979 | 21,222 | 3,634 | 3,686 | 892 | 757 | 18 | 19 |
| Membership Dues | 800 | 675 | 7,412 | 5,658 | 2,049 | 1,772 | 1,885 | 1,427 | 378 | 275 | 18 | 12 |
| Registration Fees | 125 | 141 | 2,469 | 1,754 | 1,219 | 1,851 | 25 | 86 | 37 | 30 | 0 | 1 |
| Floor Usage Revenue | 177 | 123 | 0 | 0 | 8,373 | 6,699 | 265 | 209 | 161 | 123 | 0 | 0 |
| Corporate Finance Fees | 0 | 0 | 922 | 871 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | 1,729 | 1,252 | 2,320 | 1,594 | 11,338 | 10,900 | 1,459 | 1,965 | 316 | 329 | + | 7 |
| Total Revenues | \$27,637 | \$10,772 | \$15,767 | \$12,087 | \$118,962 | \$100,461 | \$16,297 | \$14,633 | \$4,977 | \$5,051 | \$23 | \$30 |
| Expenses | | | | | | | | | | | | |
| Employee Costs | \$13,073 | \$ 5,394 | \$ 9,444 | \$ 7,672 | \$ 51,822 | \$ 42,807 | \$ 5,983 | \$ 4,260 | \$2,601 | \$2,112 | \$ 6 | \$ 5 |
| Occupancy Costs | 1,994 | 588 | 1,085 | 845 | 8,498 | 6,261 | 684 | 504 | 293 | 245 | 5 | 4 |
| Equipment Costs | 286 | 294 | 0 | 0 | 878 | 667 | 577 | 97 | 149 | 145 | 4 | 3 |
| Professional and Legal Services | 1,014 | 577 | 785 | 709 | 4,111 | 3,054 | 600 | 432 | 135 | 81 | 2 | 1 |
| Depreciation and Amortization | 489 | 228 | 0 | 0 | 2,618 | 2,087 | 258 | 156 | 121 | 145 | 0 | 0 |
| Advertising, Printing and Postage | 336 | 164 | 0 | 0 | 868 | 852 | 393 | 277 | 92 | 77 | 6 | 4 |
| Communication, Data Processing and Collection | 9,642 | 927 | 0 | 0 | 31,289 | 23,610 | 6,842 | 6,199 | 627 | 502 | + | + |
| All Other Expenses | 1,843 | 1,875 | 2,513 | 2,230 | 8,133 | 5,589 | 743 | 595 | 827 | 861 | 0 | 6 |
| Total Expenses | \$28,577 | \$10,047 | \$13,827 | \$11,456 | \$108,217 | \$ 84,928 | \$16,080 | \$12,520 | \$4,845 | \$4,168 | \$23 | \$23 |
| Pre-Tax Income | \$ (1,040) | \$ 724 | \$ 1,940 | \$ 631 | \$ 10,746 | \$ 15,533 | \$ 216 | \$ 2,113 | \$ 132 | \$ 883 | \$ + | \$ 6 |

+ = less than 500

Note. Totals may not add due to rounding.

Source. Survey of Self-Regulatory Organizations and Subsidiaries
Office of Securities Industry And Self-Regulatory Economics
Directorate of Economic and Policy Research

Table 10
SOURCES OF SELF-REGULATORY ORGANIZATION REVENUE: 1973-1977

(Thousands of Dollars)

| | AMEX | BSE | CBOE | CSE | ISE | MSE | NASD | NYSE | PSE | PHLX | SSE | Total |
|----------------------------|----------|---------|---------|-------|------|----------|----------|-----------|----------|---------|------|-----------|
| Total Revenues | | | | | | | | | | | | |
| 1973 | \$22,436 | \$2,252 | \$1,178 | \$109 | \$28 | \$19,131 | \$21,329 | \$ 99,129 | \$10,079 | \$3,911 | \$20 | \$179,601 |
| 1974 | 19,770 | 2,556 | 3,658 | 115 | 30 | 19,473 | 20,267 | 93,698 | 10,221 | 3,261 | 19 | 173,068 |
| 1975 | 24,566 | 3,289 | 6,157 | 130 | 27 | 22,466 | 21,495 | 109,949 | 11,874 | 3,796 | 20 | 205,770 |
| 1976 | 33,624 | 3,956 | 11,719 | 84 | 29 | 27,122 | 24,131 | 129,135 | 14,959 | 4,606 | 21 | 249,388 |
| 1977 | 33,624 | 3,956 | 11,719 | 84 | 29 | 27,122 | 24,131 | 129,135 | 14,959 | 4,606 | 21 | 249,388 |
| 1977 | 36,801 | 4,006 | 12,295 | 146 | 29 | 27,637 | 15,767 | 118,963 | 16,297 | 4,977 | 23 | 236,941 |
| Transaction Fees | | | | | | | | | | | | |
| 1973 | 3,743 | 201 | 360 | 20 | + | 1,265 | — | 18,987 | 1,260 | 572 | — | 26,409 |
| 1974 | 2,302 | 187 | 2,109 | 16 | 1 | 1,127 | — | 17,026 | 896 | 463 | — | 24,126 |
| 1975 | 4,016 | 362 | 4,853 | 11 | + | 1,437 | — | 20,518 | 991 | 656 | — | 32,844 |
| 1976 | 6,517 | 494 | 6,765 | — | + | 1,765 | — | 20,204 | 1,590 | 1,266 | — | 38,602 |
| 1977 | 6,514 | 468 | 6,502 | — | 1 | 1,844 | — | 18,094 | 2,265 | 1,543 | — | 37,230 |
| Listing Fees | | | | | | | | | | | | |
| 1973 | 4,153 | 70 | — | 4 | 6 | 334 | — | 21,333 | 507 | 60 | 3 | 26,471 |
| 1974 | 4,142 | 80 | — | 12 | 4 | 330 | 1,275 | 18,938 | 535 | 101 | 3 | 25,419 |
| 1975 | 4,898 | 90 | — | 10 | 4 | 532 | 2,581 | 22,688 | 822 | 82 | 2 | 31,709 |
| 1976 | 5,298 | 70 | — | 13 | 3 | 603 | 2,761 | 31,002 | 901 | 103 | 2 | 40,756 |
| 1977 | 5,027 | 87 | — | 11 | 5 | 640 | 2,644 | 32,770 | 958 | 132 | 2 | 42,277 |
| Communication Fees | | | | | | | | | | | | |
| 1973 | 9,082 | — | 62 | — | — | 3,761 | — | 8,471 | — | — | — | 21,376 |
| 1974 | 9,304 | — | 110 | — | — | 3,553 | — | 7,855 | — | — | — | 20,822 |
| 1975 | 11,082 | — | 840 | 8 | — | 3,474 | — | 10,543 | — | — | — | 25,947 |
| 1976 | 15,980 | — | 1,370 | 6 | — | 3,892 | — | 11,987 | 59 | 41 | — | 33,335 |
| 1977 | 21,580 | — | 1,637 | 13 | — | 4,157 | — | 13,922 | 787 | 197 | — | 42,293 |
| Cleaning Fees | | | | | | | | | | | | |
| 1973 | 2,279 | 1,011 | — | 28 | — | 1,714 | 8,298 | 13,578 | 3,004 | 2,689 | — | 32,602 |
| 1974 | 1,776 | 988 | — | — | — | 1,629 | 7,638 | 13,275 | 2,507 | 2,257 | — | 30,070 |
| 1975 | 2,103 | 1,316 | — | — | — | 2,646 | 8,166 | 16,023 | 3,012 | 2,184 | — | 35,451 |
| 1976 | 3,181 | 1,456 | — | — | — | 3,180 | 9,461 | 18,650 | 3,000 | 2,257 | — | 41,185 |
| 1977 | 0 | 1,150 | — | — | — | 3,050 | — | — | 2,559 | 2,127 | — | 8,886 |
| Depository Fees | | | | | | | | | | | | |
| 1973 | — | — | — | — | — | 137 | — | 22,601 | 848 | — | — | 23,586 |
| 1974 | — | — | — | — | — | 1,211 | — | 20,738 | 747 | — | — | 22,696 |
| 1975 | — | — | — | — | — | 1,393 | — | 25,259 | 1,133 | — | — | 27,792 |
| 1976 | — | 109 | — | — | — | 3,838 | — | 30,190 | 2,050 | 40 | — | 36,337 |
| 1977 | — | 639 | — | — | — | 3,948 | — | 31,198 | 2,063 | 86 | — | 37,935 |
| Tabulation Services | | | | | | | | | | | | |
| 1973 | 28 | 107 | — | 1 | — | 7,914 | — | — | 2,403 | — | — | 10,453 |
| 1974 | 13 | 454 | — | 4 | — | 8,347 | — | — | 2,450 | — | — | 11,268 |
| 1975 | 36 | 676 | — | 3 | — | 9,197 | — | — | 3,642 | — | — | 13,553 |
| 1976 | — | 866 | — | 10 | — | 11,133 | — | — | 4,524 | — | 3 | 16,537 |
| 1977 | — | 808 | — | 19 | — | 11,168 | — | — | 4,030 | — | 4 | 16,029 |
| All Other Revenues | | | | | | | | | | | | |
| 1973 | 3,151 | 863 | 756 | 55 | 21 | 4,005 | 13,031 | 14,158 | 2,058 | 589 | 17 | 38,704 |
| 1974 | 2,233 | 847 | 1,439 | 83 | 25 | 3,277 | 11,354 | 15,866 | 3,085 | 440 | 17 | 38,666 |
| 1975 | 2,431 | 845 | 2,464 | 98 | 23 | 3,787 | 10,748 | 14,918 | 2,274 | 867 | 18 | 38,472 |

Table 10—Continued
SOURCES OF SELF-REGULATORY ORGANIZATION REVENUE: 1973—1977

(Thousands of Dollars)

| | AMEX | BSE | CBOE | CSE | ISE | MSE | NASD | NYSE | PSE | PHLX | SSE | Total |
|-----------------------|---------|-----|-------|------|-----|---------|--------|--------|---------|-------|-----|---------|
| 1976 | 2,648 | 961 | 3,583 | 55 | 26 | 2,711 | 11,909 | 17,103 | 2,835 | 900 | 16 | 42,747 |
| 1977 | 3,680 | 854 | 4,156 | 103 | 23 | 2,831 | 13,123 | 22,979 | 3,634 | 892 | 18 | 52,292 |
| Pre-Tax Income | | | | | | | | | | | | |
| 1973 | (696) | 256 | (516) | 23 | 1 | 134 | (287) | 5,310 | (2,123) | 72 | (-) | 2,174 |
| 1974 | (1,046) | 11 | (445) | 97 | 3 | 70 | (756) | 813 | 517 | (341) | + | (1,076) |
| 1975 | 419 | 356 | 1,286 | 35 | 4 | 982 | 1,310 | 9,935 | (175) | 84 | + | 14,237 |
| 1976 | 1,498 | 150 | 1,339 | (18) | 2 | 745 | 1,992 | 11,507 | (686) | 230 | 1 | 16,760 |
| 1977 | 1,246 | 34 | (580) | 20 | 4 | (1,040) | 1,940 | 10,746 | 216 | 132 | + | 12,720 |

+ = less than 500

(-) = less than 0 and greater than - 500

Note: Totals may not add to rounding. The Detroit Stock Exchange has been excluded from the above data

Source: Survey of Self-Regulatory Organizations and Subsidiaries
 Office of Securities Industry And Self-Regulatory Economics
 Directorate of Economic and Policy Research

Table 11
SELF-REGULATORY ORGANIZATIONS—CLEARING AGENCIES
REVENUES AND EXPENSES¹—FISCAL YEAR 1977
(Thousands of Dollars)

| | Boston Clearing Corporation 9/30/77 | Bradford Securities Processing Service Inc 12/31/77 | Depository Trust Company 12/31/77 | Midwest Clearing Corporation 12/31/77 | Midwest Securities Trust Company 12/31/77 | National Securities Clearing Corporation 12/31/77 | New England Securities Depository Trust Company 9/30/77 | Options Clearing Corporation 6/30/78 | Pacific Clearing Corporation 12/31/77 | Pacific Securities Depository Trust Company 12/31/77 | Stock Clearing Corporation of Philadelphia 12/31/77 | TAD Depository Corporation 12/31/77 ² | Total |
|--|--|--|--------------------------------------|--|--|--|--|---|--|---|--|---|------------------|
| Revenues | | | | | | | | | | | | | |
| Clearing services ³ | \$1,250 | \$7,465 | \$30,562 | \$2,953 | \$4,044 | \$35,121 | \$609 | \$4,670 | \$2,647 | \$2,348 | \$1,834 | \$490 | \$ 55,940 |
| Depository services ³ | | | 2,780 | 60 | 251 | 406 | 46 | 1,462 | 1,019 | 185 | 396 | 5 | 38,053 |
| Interest and other revenue | 408 | 2,314 | | | | | | | | | | | 9,332 |
| Total revenue | \$1,658 | \$9,779 | \$33,342 | \$3,013 | \$4,295 | \$35,527 | \$655 | \$6,132 | \$3,666 | \$2,533 | \$2,230 | \$495 | \$103,325 |
| Expenses | | | | | | | | | | | | | |
| Employee costs | \$ 829 | \$3,663 | \$18,923 | \$2,079 | \$2,936 | \$ 1,034 | \$398 | \$2,628 | \$1,676 | \$1,151 | \$1,358 | | \$ 36,675 |
| Data processing and communication costs | 397 | 293 | 4,669 | 455 | 452 | | 103 | 1,304 | 705 | 611 | 155 | | 9,144 |
| Occupancy costs | 79 | 458 | 4,020 | 275 | 458 | | 58 | 358 | 85 | 145 | 142 | | 6,078 |
| Service contract costs or allocated costs of affiliate shared facilities | | | | | | 27,046 | | | | | 575 | \$466 | 28,087 |
| Regulatory fee ⁴ | | | | | | 3,583 | | | | | | | 3,583 |
| Loss on impaired member | | | | | | 867 | | | | | | | 867 |
| All other expenses | 273 | 2,517 | 5,716 | 773 | 517 | 1,331 | 187 | 1,762 | 1,364 | 650 | | | 15,090 |
| Total expenses | \$1,578 | \$6,931 | \$33,328 | \$3,582 | \$4,363 | \$33,861 | \$746 | \$6,052 | \$3,830 | \$2,557 | \$2,230 | \$466 | \$ 99,425 |
| Excess of revenues over expenses⁵ | \$ 80 | \$2,848 | \$ 14 | \$(569) | \$(68) | \$ 1,666 | \$(91) | \$ 80 | \$(164) | \$(24) | \$ 0 | \$ 29 | \$ 3,801 |

¹ Any single revenue or expense category may not be completely comparable between any two particular clearing agencies because of (i) the varying classification methods employed by the clearing agencies in reporting operating results (ii) the grouping methods employed by the Commission staff due to these varying classification methods

² TAD ceased doing business early in 1978

³ Clearing and depository services revenue items reported in this table may differ from clearing and depository fees revenues reported in the statistical table "Consolidated Revenues and Expenses of Self-Regulatory Organizations" contained herein. This difference results from, among other things, differences in classification of revenue items

⁴ This figure represents amounts billed by the New York and American Stock Exchanges and the National Association of Securities Dealers (\$2,525,000, \$484,000 and \$574,000 respectively) for services provided to the National Securities Clearing Corporation. These services consisted principally of examination, monitoring and investigation of financial and operating conditions of existing and prospective clearing members and, notification of unusual market conditions which may affect securities cleared

⁵ Before the effect of income taxes, which may significantly impact a clearing agency's net income

Table 12
REVENUE AND EXPENSES OF MUNICIPAL SECURITIES RULEMAKING BOARD

| | Year ended September 30. | |
|---|--------------------------|-----------------|
| | 1978 | 1977 |
| Revenue: | | |
| Assessment fees | \$ 513,708 | \$1,259,983 |
| Annual fees | 96,301 | 100 |
| Initial fees | 16,800 | 50,600 |
| Interest income | 51,667 | 27,432 |
| | <hr/> 678,476 | <hr/> 1,338,115 |
| Expenses | | |
| Salaries and employee benefits | 376,839 | 320,784 |
| Meetings and travel | 212,467 | 207,132 |
| Mailing list, Board manual and other printing and postage | 132,870 | 115,459 |
| Rent, telephone and other occupancy costs | 62,385 | 63,103 |
| Professional and other services | 32,886 | 25,114 |
| Payroll taxes | 18,163 | 13,840 |
| Depreciation | 13,624 | 12,747 |
| Other | 5,469 | 5,401 |
| | <hr/> 854,703 | <hr/> 763,580 |
| Revenue over (under) expenses | (176,227) | 574,535 |
| Fund Balance, beginning of year | 1,084,413 | 509,878 |
| | <hr/> | <hr/> |
| Fund Balance, end of year | \$ 908,186 | \$1 084,413 |

EXEMPTIONS

Section 12(h) Exemptions

Section 12(h) of the Exchange Act authorizes the Commission to grant a complete or partial exemption from the registration provisions of Section 12(g) or from other disclosure and insider trading provisions of the Act where it is not contrary to the public interest or the protection of investors.

For the year beginning October 1, 1977, 29 applications were pending, and 177 applications were filed during the year. Of these 146 applications, 29 were withdrawn, 70 were granted, and 4 denied. Forty-three applications were pending at the end of the year.

On January 17, 1978, the Commission amended its rules governing the delegation of authority to the Director of its Division of Corporation Finance. The new amendment authorizes the Director to grant exemptive orders pursuant to Section 12(h) of the Exchange Act with respect to applications for exemption from the registration, reporting, proxy and insider trading provisions of the Exchange Act. Such authority,

limited to applications which appear to the Director to be routine in nature and not requiring a hearing, will reduce the processing time for these applications.

Exemption for Foreign Private Issuers

Rule 12g3-2 provides various exemptions from the registration provisions of Section 12(g) of the Exchange Act for the securities of foreign private issuers. Perhaps the most important of these is that contained in subparagraph (b), which provides an exemption for certain foreign issuers which submit, on a current basis, material specified in the rule. Such material includes that information about which investors ought reasonably to be informed and which the issuer: (1) has made public pursuant to the law of the country of domicile or in which it is incorporated or organized; (2) has filed with a foreign stock exchange on which its securities are traded and which was made public by such exchange; and/or (3) has distributed to its security holders. Periodically, the Commission publishes a list of those foreign

issuers which appear to be current under this exemptive provision. The most current list is as of July 31, 1978 and contains a total of 152 foreign issuers.

FINANCIAL INSTITUTIONS

Stock Transactions of Selected Financial Institutions

During 1977, private noninsured pension funds, open-end investment

companies, life insurance companies, and property-liability insurance companies purchased \$36.9 billion of common stock and sold \$34.5 billion, resulting in net purchases of \$2.4 billion. In 1976 purchases were \$40.6 billion, sales \$33.1 billion, and net purchases \$7.4 billion. Their 1977 common stock activity rate was 20.7 percent as compared to 21.1 percent one year earlier.

Table 13
COMMON STOCK TRANSACTIONS AND ACTIVITY RATES OF SELECTED FINANCIAL INSTITUTIONS

(Millions of Dollars)

| | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 |
|---|--------|--------|---------|---------|--------|---------|---------|---------|
| Private Noninsured Pension Funds¹ | | | | | | | | |
| Purchases | 13,957 | 21,684 | 23,222 | 20,324 | 11,758 | 17,560 | 20,329 | 20,147 |
| Sales | 9,370 | 12,800 | 15,651 | 14,790 | 9,346 | 11,846 | 13,089 | 15,625 |
| Net purchases (sales) | 4,587 | 8,884 | 7,571 | 5,534 | 2,412 | 5,714 | 7,240 | 4,522 |
| Activity rate | 20.5 | 22.1 | 19.7 | 17.3 | 14.1 | 18.3 | 16.5 | 17.4 |
| Open-End Investment Companies² | | | | | | | | |
| Purchases | 17,128 | 21,556 | 20,943 | 15,561 | 9,085 | 10,949 | 10,633 | 8,704 |
| Sales | 15,901 | 21,175 | 22,552 | 17,504 | 9,372 | 12,144 | 13,279 | 12,210 |
| Net purchases (sales) | 1,227 | 381 | (1,609) | (1,943) | (287) | (1,195) | (2,646) | (3,506) |
| Activity rate | 45.6 | 48.2 | 44.8 | 39.0 | 30.5 | 35.8 | 32.4 | 32.2 |
| Life Insurance Companies³ | | | | | | | | |
| Purchases | 3,768 | 6,232 | 6,912 | 6,492 | 3,930 | 4,920 | 6,158 | 5,473 |
| Sales | 1,975 | 2,777 | 4,427 | 4,216 | 2,439 | 3,630 | 3,924 | 4,703 |
| Net purchases (sales) | 1,793 | 3,455 | 2,485 | 2,276 | 1,491 | 1,290 | 2,234 | 770 |
| Activity rate | 27.8 | 31.0 | 29.5 | 25.9 | 18.7 | 22.3 | 21.0 | 20.9 |
| Property-Liability Insurance Companies | | | | | | | | |
| Purchases | 3,613 | 4,171 | 5,128 | 4,519 | 2,400 | 2,193 | 3,446 | 2,605 |
| Sales | 2,722 | 1,944 | 2,738 | 2,856 | 3,223 | 3,196 | 2,836 | 1,955 |
| Net purchases (sales) | 891 | 2,227 | 2,390 | 1,663 | (823) | (1,003) | 610 | 650 |
| Activity rate | 28.1 | 23.2 | 23.8 | 20.8 | 21.3 | 24.0 | 24.8 | 17.3 |
| Total Selected Institutions | | | | | | | | |
| Purchases | 38,466 | 53,643 | 56,205 | 46,896 | 27,173 | 35,622 | 40,566 | 36,929 |
| Sales | 29,968 | 38,696 | 45,368 | 39,366 | 24,380 | 30,816 | 33,128 | 34,493 |
| Net purchases (sales) | 8,498 | 14,947 | 10,837 | 7,530 | 2,793 | 4,806 | 7,438 | 2,436 |
| Activity rate | 29.8 | 30.8 | 27.8 | 23.7 | 19.1 | 23.2 | 21.1 | 20.7 |
| Foreign Investors⁴ | | | | | | | | |
| Purchases | 8,927 | 11,625 | 14,360 | 12,768 | 7,634 | 15,316 | 18,228 | 14,139 |
| Sales | 8,301 | 10,893 | 12,173 | 9,977 | 7,094 | 10,637 | 15,475 | 11,475 |
| Net purchases (sales) | 626 | 732 | 2,187 | 2,791 | 540 | 4,679 | 2,753 | 2,664 |

r = revised

¹ Includes deferred profit sharing and pension funds of corporations, unions, multiemployer groups and nonprofit organizations

² Mutual funds reporting to the Investment Company Institute, a group whose assets constitute about ninety percent of the assets of all open-end investment companies

³ Includes both general and separate accounts

⁴ Transactions of foreign individuals and institutions in domestic common and preferred stocks. Activity rates for foreign investors are not calculable

Note: Activity rate is defined as the average of gross purchases and sales divided by the average market value of holdings

Source: Pension funds and property-liability insurance companies, SEC, investment companies, Investment Company Institute, life insurance companies, American Council of Life Insurance, foreign investors, Treasury Department

STOCKHOLDINGS OF INSTITUTIONAL INVESTORS AND OTHERS

At year-end 1977, the eleven institutional groups listed below held \$342.4 billion of total corporate stock outstanding (both common and preferred). In comparison, they accounted for \$375.2 billion of the stock held a year earlier. The resulting 8.7 percent decrease in the value of the stockholdings of these institutions was more than the 6.1 per-

cent decline in the aggregate market value of all stock outstanding. Thus, the share of total stock outstanding that was held by these institutions declined to 34.4 percent at year-end 1977 from 35.4 percent a year earlier. During 1977, the shares held by other domestic investors, which consist of individuals, broker-dealers and institutions not listed, rose to 60.0 percent from 58.6 percent. Foreign investors, share of stockholdings remained at 6.0 percent.

Table 14
MARKET VALUE OF STOCKHOLDINGS OF INSTITUTIONAL INVESTORS AND OTHERS

(Billions of Dollars, End of Year)

| | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 |
|---|-------|--------|----------|---------|---------|---------|----------|-------|
| 1 Private Noninsured Pension Funds | 67.1 | 88.7 | 115.2 | 90.5 | 63.0 | 88.6 | 109.7 | 101.9 |
| 2 Open-End Investment Companies | 43.9 | 52.6 | 58.0 | 43.3 | 30.3 | 38.7 | 43.0 | 36.2 |
| 3 Other Investment Companies | 6.2 | 6.9 | 7.4 | 6.6 | 4.7 | 5.3 | 5.9 | 3.1 |
| 4 Life Insurance Companies | 15.4 | 20.6 | 26.8 | 25.9 | 21.9 | 28.1 | 34.2 R | 33.8 |
| 5 Property-Liability Insurance Companies | 13.2 | 16.6 | 21.8 | 19.7 | 12.8 | 14.2 | 16.9 R | 17.1 |
| 6 Common Trust Funds | 4.6 | 5.8 | 7.4 | 6.6 | 4.3 | 5.9 | 7.8 R | 6.9 |
| 7 Personal Trust Funds | 78.6 | 94.1 | 110.2 | 94.7 | 67.7 | 81.0 | 95.7 R | 83.2 |
| 8 Mutual Savings Banks | 2.8 | 3.5 | 4.5 | 4.2 | 3.7 | 4.4 | 4.4 | 4.8 |
| 9 State and Local Retirement Funds | 10.1 | 15.4 | 22.2 | 20.2 | 16.4 | 24.3 | 30.1 | 30.0 |
| 10 Foundations | 22.0 | 25.0 | 28.5 | 24.5 | 18.4 | 22.7 | 27.1 | 26.1 |
| 11 Educational Endowments | 7.8 | 9.0 | 10.7 | 9.6 | 6.7 | 8.8 | 10.4 | 9.8 |
| 12 Subtotal | 271.6 | 338.2 | 412.7 | 345.8 | 249.9 | 322.0 | 385.2 R | 352.9 |
| 13 Less Institutional Holdings of Investment Company Shares | 4.9 | 5.8 | 6.5 | 6.7 | 6.5 | 8.6 | 10.0 | 10.5 |
| 14 Total Institutional Investors | 266.8 | 332.4 | 406.2 | 339.1 | 243.4 | 313.4 | 375.2 R | 342.4 |
| 15 Foreign Investors ² | 28.7 | 32.9 | 41.3 | 37.0 | 28.4 | 52.6 R | 63.9 R | 60.1 |
| 16 Other Domestic Investors ³ | 563.9 | 638.4 | 690.6 R | 525.3 R | 369.9 R | 483.5 R | 620.6 R | 592.6 |
| 17 Total Stock Outstanding ⁴ | 859.4 | 1003.7 | 1138.1 R | 901.4 R | 641.7 R | 849.5 R | 1059.7 R | 995.1 |

R = Revised

¹ Excludes holdings of insurance company stock

² Includes estimate of stock held as direct investment

³ Computed as residual (line 16 = 17 - 14 - 15) Includes both individuals and institutional groups not listed above

⁴ Includes both common and preferred stock. Excludes investment company shares but includes foreign issues outstanding in the U.S.

Table 15
COMPANIES REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940 AS OF SEPTEMBER 30, 1978

| | Number of Registered Companies | | | Approximate Market Value of Assets of Active Companies (Millions) |
|--------------------------------------|--------------------------------|-----------------------|--------------|---|
| | Active | Inactive ^a | Total | |
| Management open-end ("Mutual Funds") | 820 | 55 | 875 | 63,969 |
| Funds having no load | 271 | 14 | 285 | 20,956 |
| Variable annuity-separate accounts | 53 | 3 | 56 | 1,475 |
| Capital Leverage Companies | 2 | 0 | 2 | 28 |
| All other load funds | 494 | 38 | 532 | 41,510 |
| Management closed-end | 162 | 53 | 215 | 8,039 |
| Small business investment companies | 37 | 5 | 42 | 303 |
| Capital leverage companies | 7 | 0 | 7 | 380 |
| All other closed-end companies | 118 | 48 | 166 | 7,356 |
| Unit investment trust | 349 | 24 | 373 | 20,733 ^b |
| Variable annuity-separate accounts | 66 | 0 | 66 | 1,009 |
| All other unit investment trusts | 283 | 24 | 307 | 19,724 |
| Face-amount certificate companies | 5 | 4 | 9 | 1,180 |
| Total | 1,336 | 136 | 1,472 | 93,921 |

^a "Inactive" refers to registered companies which as of September 30, 1978, were in the process of being liquidated or merged, or have filed an application pursuant to Section 8(f) of the Act for deregistration, or which have otherwise gone out of existence and remain registered only until such time as the Commission issues order under Section 8(f) terminating their registration.

^b Includes about 3.8 billion of assets of trusts which invest in securities of other investment companies, substantially all of them mutual funds.

Table 16
COMPANIES REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940

| Fiscal year ended September 30 | Number of companies | | | Registered at end of year | Approximate market value of assets of active companies (millions) |
|--------------------------------|---------------------------------|------------------------|-------------------------------------|---------------------------|---|
| | Registered at beginning of year | Registered during year | Registration terminated during year | | |
| 1941 | 0 | 450 | 14 | 436 | \$ 2,500 |
| 1942 | 436 | 17 | 46 | 407 | 2,400 |
| 1943 | 407 | 14 | 31 | 390 | 2,300 |
| 1944 | 390 | 18 | 27 | 371 | 2,200 |
| 1945 | 371 | 14 | 19 | 366 | 3,250 |
| 1946 | 366 | 13 | 18 | 361 | 3,750 |
| 1947 | 361 | 12 | 21 | 352 | 3,600 |
| 1948 | 352 | 18 | 11 | 359 | 3,825 |
| 1949 | 359 | 12 | 13 | 358 | 3,700 |
| 1950 | 358 | 26 | 18 | 366 | 4,700 |
| 1951 | 366 | 12 | 10 | 368 | 5,600 |
| 1952 | 368 | 13 | 14 | 367 | 6,800 |
| 1953 | 367 | 17 | 15 | 369 | 7,000 |
| 1954 | 369 | 20 | 5 | 384 | 8,700 |
| 1955 | 384 | 37 | 34 | 387 | 12,000 |
| 1956 | 387 | 46 | 34 | 399 | 14,000 |
| 1957 | 399 | 49 | 16 | 432 | 15,000 |
| 1958 | 432 | 42 | 21 | 453 | 17,000 |
| 1959 | 453 | 70 | 11 | 512 | 20,000 |
| 1960 | 512 | 67 | 9 | 570 | 23,500 |
| 1961 | 570 | 118 | 25 | 663 | 29,000 |
| 1962 | 663 | 97 | 33 | 727 | 27,300 |
| 1963 | 727 | 48 | 48 | 727 | 36,000 |
| 1964 | 727 | 52 | 48 | 731 | 41,600 |
| 1965 | 731 | 50 | 54 | 727 | 44,600 |
| 1966 | 727 | 78 | 30 | 775 | 49,800 |
| 1967 | 755 | 108 | 41 | 842 | 58,197 |
| 1968 | 842 | 167 | 42 | 967 | 69,732 |
| 1969 | 967 | 222 | 22 | 1,167 | 72,465 |
| 1970 | 1,167 | 187 | 26 | 1,328 | 56,337 |
| 1971 | 1,328 | 121 | 98 | 1,351 | 78,109 |
| 1972 | 1,351 | 91 | 108 | 1,334 | 80,816 |
| 1973 | 1,334 | 91 | 64 | 1,361 | 73,149 |
| 1974 | 1,361 | 106 | 90 | 1,377 | 62,287 |
| 1975 | 1,377 | 88 | 66 | 1,399 | 74,192 |
| 1976 | 1,399 | 63 | 86 | 1,376 | 80,564 |
| 1977* | 1,403 | 91 | 57 | 1,437 | 76,904 |
| 1978 | 1,437 | 98 | 63 | 1,472 | 93,921 |

* Began Fiscal Year Ending September 30, 1977

Table 17
NEW INVESTMENT COMPANY REGISTRATIONS

| | 1978 |
|---------------------------------|------|
| Management open-end | |
| No-loads | 6 |
| Variable annuities | 0 |
| All others | 56 |
| Sub-total | 62 |
| Management closed-end | |
| SBIC's | 1 |
| All others | 15 |
| Sub-total | 16 |
| Unit investment trust | |
| Variable annuities | 3 |
| All others | 17 |
| Sub-total | 20 |
| Face amount certificates | 0 |
| Total Registered | 98 |

Table 18
INVESTMENT COMPANY REGISTRATIONS TERMINATED

| | 1978 |
|---------------------------------|------|
| Management open-end | |
| No-loads | 6 |
| Variable annuities | 3 |
| All others | 34 |
| Sub-total | 43 |
| Management closed-end | |
| SBIC's | 0 |
| All others | 13 |
| Sub-total | 13 |
| Unit investment trust | |
| Variable annuities | 4 |
| All others | 3 |
| Sub-total | 7 |
| Face amount certificates | 0 |
| Total terminated | 63 |

Private Noninsured Pension Funds: Assets

The assets of private noninsured pension funds totaled \$181.5 billion at book value and \$181.6 billion at market value on December 31, 1977. A year earlier their comparable asset totals were \$160.4 billion and \$173.9 billion.

The book value of common stock holdings increased to \$97.0 billion at year-end 1977 from \$93.4 billion the previous year. Valued at market, those holdings decreased to \$100.9 billion, or 55.6 percent of total assets, at the end of 1977 from \$108.5 billion, or 62.4 percent of total assets, one year earlier.

Table 19A
ASSETS OF PRIVATE NONSURED PENSION FUNDS

| | Book Value, End of Year | | | | | | | |
|---------------------------|-------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | (Millions of Dollars) | | | | | | | |
| | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 |
| Cash and Deposits | 1,804 | 1,641 | 1,857 | 2,336 | 4,286 | 2,962 | 2,199 | 3,721 |
| U S Government Securities | 3,029 | 2,732 | 3,689 | 4,404 | 5,533 | 10,764 | 14,713 | 20,138 |
| Corporate and Other Bonds | 29,666 | 29,013 | 28,207 | 30,334 | 35,029 | 37,809 | 39,070 | 45,580 |
| Preferred Stock | 1,736 | 1,767 | 1,481 | 1,258 | 1,129 | 1,188 | 1,250 | 1,168 |
| Common Stock | 51,744 | 62,780 | 74,585 | 80,593 | 79,319 | 83,654 | 93,359 | 96,984 |
| Own Company | 3,330 | 3,608 | 3,868 | 4,098 | 4,588 | 5,075 | N A | N A |
| Other Companies | 48,414 | 59,172 | 70,717 | 76,495 | 74,731 | 78,579 | N A | N A |
| Mortgages | 4,172 | 3,660 | 2,728 | 2,377 | 2,372 | 2,383 | 2,369 | 2,497 |
| Other Assets | 4,860 | 4,826 | 4,983 | 5,229 | 6,063 | 6,406 | 7,454 | 11,421 |
| Total Assets | 97,011 | 106,419 | 117,530 | 126,531 | 133,731 | 145,166 | 160,414 | 181,509 |

N.A. Not Available

Note: Includes deferred profit sharing funds and pension funds of corporations, unions, multiemployer groups, and nonprofit organizations

Table 19B
ASSETS OF PRIVATE NONINSURED PENSION FUNDS

| | Market Value, End of Year | | | | | | | |
|---------------------------|---------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | (Millions of Dollars) | | | | | | | |
| | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 |
| Cash and Deposits | 1,804 | 1,641 | 1,857 | 2,336 | 4,286 | 2,962 | 2,199 | 3,721 |
| U S Government Securities | 2,998 | 2,772 | 3,700 | 4,474 | 5,582 | 11,097 | 14,918 | 20,017 |
| Corporate and Other Bonds | 24,919 | 26,111 | 26,232 | 27,664 | 30,825 | 34,519 | 37,858 | 42,754 |
| Preferred Stock | 1,631 | 2,014 | 1,869 | 985 | 703 | 892 | 1,212 | 1,009 |
| Common Stock | 65,456 | 86,636 | 113,369 | 89,538 | 62,582 | 87,669 | 108,483 | 100,863 |
| Own Company | 6,038 | 7,691 | 8,750 | 6,947 | 5,230 | 6,958 | N A | N A |
| Other Companies | 59,418 | 78,945 | 104,619 | 82,591 | 57,352 | 80,711 | N A | N A |
| Mortgages | 3,504 | 3,184 | 2,427 | 2,108 | 2,063 | 2,139 | 2,160 | 2,362 |
| Other Assets | 4,422 | 4,560 | 4,908 | 5,140 | 5,681 | 6,341 | 7,073 | 10,838 |
| Total Assets | 104,737 | 126,921 | 154,363 | 132,247 | 111,724 | 145,622 | 173,906 | 181,564 |

N A. Not Available

Note: Includes deferred profit sharing funds and pension funds of corporations, unions, multiemployer groups, and nonprofit organizations

SECURITIES ON EXCHANGES

Exchange Volume

Dollar volume of all equity securities transactions on registered exchanges totaled \$198.3 billion in 1977. Of this total, \$187.2 billion represented stock trading, \$10.9 billion, option trading, and the balance, trading in rights and warrants. The value of New York Stock Exchange transactions was \$157.3 billion in 1977. NYSE share volume decreased 4.6 percent from the 1976 total but still accounted for 80 percent of all transactions. On the American Stock Exchange, value of shares traded increased 14.2 percent to \$8.5 billion.

The AMEX volume of 651.9 million shares was up 2.3 percent from the 1976 figure. Share volume on regional exchanges increased 1.1 percent from the 1976 figure to 757.9 million shares, valued at \$21.4 billion.

The Chicago Board Options Exchange contract volume for 1977 was 24.8 million, up 16 percent from 21.5 million in 1976. The value was \$8.0 billion, a decrease of 12 percent from \$9.0 billion in 1976. The American Stock Exchange Option volume was 10.1 million contracts in 1977, an increase of 23 percent from the 8.2 million contracts in 1976. The value of AMEX options trading in 1977 was \$1.9 billion.

Philadelphia Stock Exchange option volume was 2.2 million in 1977—almost double the 1976 volume with a value of \$402 million in 1977. Pacific Stock Exchange contract volume in 1977 was 1.9 million with a value of \$459 million. The Midwest Stock Exchange contract volume was 601 thousand contracts with a value of \$101 million in 1977, the first full year of trading in options.

Table 20
MARKET VALUE AND VOLUME OF SALES ON REGISTERED AND EXEMPTED SECURITIES EXCHANGES¹

(All data are in thousands)

| | Total Market Value (Dollars) | Stocks ² | | Options ³ | | Warrants | | Rights | |
|---|---------------------------------------|------------------------------|------------------------|------------------------------|---------------------------|------------------------------|-----------------------|------------------------------|-----------------------|
| | | Market Value (Dollars) | Number of Shares | Market Value (Dollars) | Number of Contracts | Market Value (Dollars) | Number of Units | Market Value (Dollars) | Number of Units |
| All Registered Exchanges for past six years | | | | | | | | | |
| Calendar Year: | | | | | | | | | |
| 1973 | 179,310,223 | 177,877,567 | 5,723,164 | 448,498 | 1,119 | 973,076 | 124,740 | 11,082 | 51,515 |
| 1974 | 120,487,320 | 118,433,546 | 4,846,343 | 1,660,222 | 5,683 | 389,251 | 67,174 | 4,301 | 37,167 |
| 1975 | 163,978,654 | 157,259,952 | 6,231,232 | 6,423,469 | 14,428 | 285,859 | 97,225 | 9,024 | 52,928 |
| 1976 | 206,958,654 | 194,968,674 | 7,035,662 | 11,734,222 | 31,428 | 248,124 | 53,603 | 7,634 | 35,843 |
| 1977 | 198,291,919 | 187,202,557 | 7,023,101 | 10,899,135 | 39,622 | 184,435 | 67,841 | 5,792 | 43,940 |
| 1978 | 268,508,724 | 249,257,272 | 9,602,325 | 18,905,405 | 57,306 | 343,725 | 68,064 | 2,323 | 13,889 |
| Breakdown of 1978 Data by Registered Exchange | | | | | | | | | |
| All Registered Exchanges | 18,943,355 | 15,204,973 | 922,179 | 3,525,010 | 17,619 | 212,966 | 35,468 | 407 | 568 |
| *American Stock Exchange | 1,535,923 | 1,535,839 | 177,281 | 0 | 0 | 81 | 43 | 2 | 235 |
| *Boston Stock Exchange | 433,287 | 433,287 | 15,127 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Cincinnati Stock Exchange | 10,880,316 | 10,461,239 | 343,185 | 419,077 | 2,288 | 0 | 0 | 0 | 0 |
| Midwest Stock Exchange | 210,550,436 | 210,426,412 | 7,617,958 | 0 | 0 | 122,589 | 28,988 | 1,435 | 12,796 |
| *New York Stock Exchange | 7,872,090 | 7,099,249 | 297,904 | 766,462 | 3,063 | 5,900 | 3,018 | 479 | 289 |
| Pacific Stock Exchange | 4,560,103 | 4,085,804 | 142,687 | 472,110 | 2,912 | 2,189 | 547 | 0 | 0 |
| *Philadelphia Stock Exchange | 815 | 815 | 2,281 | 0 | 0 | 0 | 0 | 0 | 0 |
| Intermountain Stock Exchange | 9,655 | 9,655 | 13,723 | 0 | 0 | 0 | 0 | 0 | 0 |
| Spokane Stock Exchange | 13,722,745 | 0 | 0 | 13,722,745 | 33,712 | 0 | 0 | 0 | 0 |
| *Chicago Board Options Exchange | | | | | | | | | |
| All Exempted Exchanges for past six years | | | | | | | | | |
| Calendar Year: | | | | | | | | | |
| 1973 | 1,899 | 1,897 | 260 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1974 | 1,174 | 1,174 | 149 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1975 | 524 | 524 | 69 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1976 | 383 | 383 | 94 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1977 | 298 | 298 | 64 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1978 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

* Reports of those exchanges marked with an asterisk cover transactions cleared during the calendar month, clearances occur for the most part on the fifth day after that on which the trade actually was effected. Reports for other exchanges cover transactions effected or trade dates of calendar month.

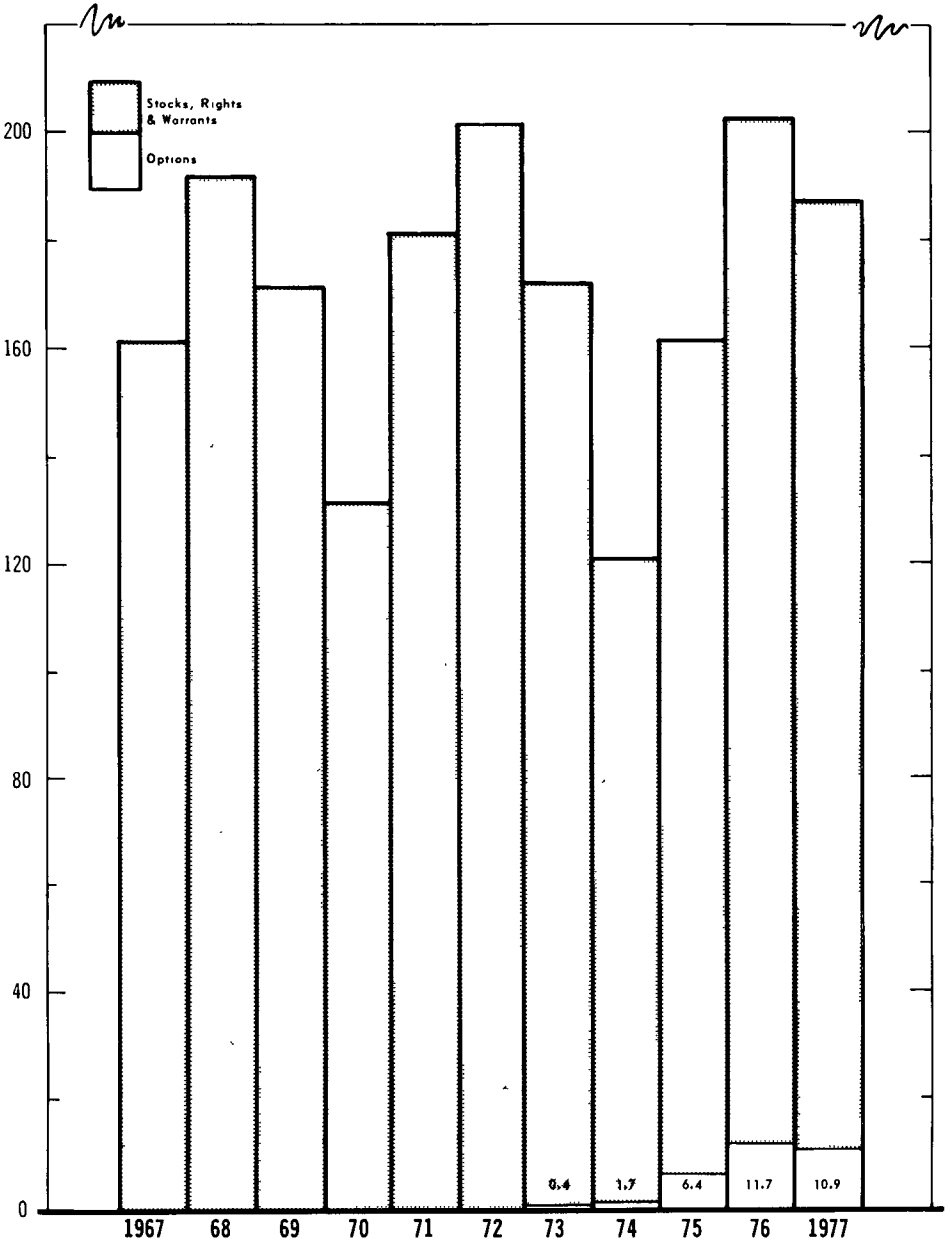
¹ Data on the value and volume of securities sales are reported in connection with fees paid under Section 31 of the Securities Exchange Act of 1934. They include all securities sales effected on exchanges except sales of bonds of the United States Government which are not subject to the fee. The data cover odd-lot as well as round-lot transactions.

² Includes voting trust certificates, certificates of deposit for stocks, and American Depositary Receipts for stocks, but excludes rights and warrants.

³ Exercises are not included in these totals.

MARKET VALUE OF SECURITIES TRADED ON ALL U.S. STOCK EXCHANGES

Dollars Billions



NASDAQ Volume

NASDAQ share volume and price information for over-the-counter trading has been reported on a daily basis since November 1, 1971. At the end of 1977, there were 2,575 issues in the NASDAQ

system, a decrease of 2.0 percent from 2,627 in 1976. Volume for 1977 was 1.9 billion shares, up 11 percent from 1.7 billion in 1976. This trading volume reflects the number of shares bought and sold by market makers plus their net inventory changes.

Table 21A
SHARE VOLUME BY EXCHANGES¹

| Year | Total Share Volume (thousands) | In Percentage | | | | | | | |
|------|--------------------------------|---------------|-------|------|------|------|------|------|--------------------|
| | | NYSE | AMEX | MIDW | PCSE | PHLE | BOSE | CNSE | Other ² |
| 1935 | 681,971 | 73.13 | 12.42 | 1.91 | 2.69 | 1.10 | 0.96 | 0.03 | 7.76 |
| 1940 | 377,897 | 75.44 | 13.20 | 2.11 | 2.78 | 1.33 | 1.19 | 0.08 | 3.87 |
| 1945 | 769,018 | 65.87 | 21.31 | 1.77 | 2.98 | 1.06 | 0.66 | 0.05 | 6.30 |
| 1950 | 893,320 | 76.32 | 13.54 | 2.16 | 3.11 | 0.97 | 0.65 | 0.09 | 3.16 |
| 1955 | 1,321,401 | 68.85 | 19.19 | 2.09 | 3.08 | 0.85 | 0.48 | 0.05 | 5.41 |
| 1960 | 1,428,552 | 69.08 | 22.46 | 2.22 | 3.14 | 0.89 | 0.39 | 0.04 | 1.41 |
| 1961 | 2,121,050 | 65.65 | 25.84 | 2.24 | 3.45 | 0.80 | 0.30 | 0.04 | 1.33 |
| 1962 | 1,699,346 | 71.84 | 20.26 | 2.36 | 2.97 | 0.87 | 0.31 | 0.04 | 0.95 |
| 1963 | 1,874,718 | 73.17 | 18.89 | 2.33 | 2.83 | 0.83 | 0.29 | 0.04 | 1.10 |
| 1964 | 2,118,326 | 72.81 | 19.42 | 2.43 | 2.65 | 0.93 | 0.29 | 0.03 | 0.86 |
| 1965 | 2,663,495 | 70.10 | 22.59 | 2.63 | 2.34 | 0.82 | 0.26 | 0.05 | 0.64 |
| 1966 | 3,306,386 | 69.54 | 22.89 | 2.57 | 2.68 | 0.86 | 0.40 | 0.05 | 0.51 |
| 1967 | 4,641,215 | 64.48 | 28.45 | 2.36 | 2.46 | 0.87 | 0.43 | 0.02 | 0.57 |
| 1968 | 5,406,582 | 62.00 | 29.74 | 2.63 | 2.65 | 0.89 | 0.78 | 0.01 | 0.95 |
| 1969 | 5,133,498 | 63.17 | 27.61 | 2.84 | 3.47 | 1.22 | 0.51 | 0.00 | 1.00 |
| 1970 | 4,835,222 | 71.27 | 19.02 | 3.16 | 3.68 | 1.63 | 0.51 | 0.02 | 0.57 |
| 1971 | 6,172,668 | 71.34 | 18.42 | 3.52 | 3.72 | 1.91 | 0.43 | 0.03 | 0.44 |
| 1972 | 6,518,132 | 70.47 | 18.22 | 3.71 | 4.13 | 2.21 | 0.59 | 0.03 | 0.45 |
| 1973 | 5,899,678 | 74.92 | 13.75 | 4.09 | 3.68 | 2.19 | 0.71 | 0.04 | 0.39 |
| 1974 | 4,950,833 | 78.47 | 10.27 | 4.39 | 3.48 | 1.82 | 0.86 | 0.04 | 0.44 |
| 1975 | 6,371,345 | 81.05 | 8.97 | 4.06 | 3.10 | 1.54 | 0.85 | 0.13 | 0.15 |
| 1976 | 7,125,201 | 80.03 | 9.35 | 3.87 | 3.93 | 1.41 | 0.78 | 0.44 | 0.17 |
| 1977 | 7,134,882 | 79.54 | 9.73 | 3.95 | 3.71 | 1.49 | 0.66 | 0.64 | 0.28 |

¹ Share Volume for Exchanges includes Stocks, Rights, and Warrants

² Others include Intermountain, Spokane, National, Detroit and Honolulu Stock Exchanges

Table 21B
DOLLAR VOLUME BY EXCHANGES¹

| Year | Total Dollar Volume (thousands) | In Percentage | | | | | | | |
|------|---------------------------------|---------------|-------|------|------|------|------|------|--------------------|
| | | NYSE | AMEX | MIDW | PCSE | PHLE | BOSE | CNSE | Other ² |
| 1935 | 15,396,139 | 86.64 | 7.83 | 1.32 | 1.39 | 0.88 | 1.34 | 0.04 | 0.56 |
| 1940 | 8,419,772 | 85.17 | 7.68 | 2.07 | 1.52 | 1.11 | 1.91 | 0.09 | 0.45 |
| 1945 | 16,284,552 | 82.75 | 10.81 | 2.00 | 1.78 | 0.96 | 1.16 | 0.06 | 0.48 |
| 1950 | 21,808,284 | 85.91 | 6.85 | 2.35 | 2.19 | 1.03 | 1.12 | 0.11 | 0.44 |
| 1955 | 38,039,107 | 86.31 | 6.98 | 2.44 | 1.90 | 1.03 | 0.78 | 0.09 | 0.47 |
| 1960 | 45,276,616 | 83.86 | 9.35 | 2.72 | 1.95 | 1.04 | 0.60 | 0.07 | 0.03 |
| 1961 | 64,032,924 | 82.48 | 10.71 | 2.75 | 1.99 | 1.03 | 0.49 | 0.07 | 0.05 |
| 1962 | 54,823,153 | 86.37 | 6.81 | 2.75 | 2.00 | 1.05 | 0.46 | 0.07 | 0.04 |
| 1963 | 64,403,991 | 85.23 | 7.52 | 2.72 | 2.39 | 1.06 | 0.42 | 0.06 | 0.04 |
| 1964 | 72,415,297 | 83.54 | 8.46 | 3.15 | 2.48 | 1.14 | 0.42 | 0.06 | 0.04 |
| 1965 | 89,498,711 | 81.82 | 9.91 | 3.44 | 2.43 | 1.12 | 0.42 | 0.08 | 0.03 |
| 1966 | 123,643,475 | 79.81 | 11.84 | 3.14 | 2.85 | 1.10 | 0.56 | 0.07 | 0.02 |
| 1967 | 162,136,387 | 77.31 | 14.48 | 3.08 | 2.79 | 1.13 | 0.67 | 0.03 | 0.03 |
| 1968 | 197,061,776 | 73.57 | 18.00 | 3.12 | 2.66 | 1.13 | 1.04 | 0.01 | 0.08 |
| 1969 | 176,343,146 | 73.50 | 17.60 | 3.39 | 3.12 | 1.43 | 0.67 | 0.01 | 0.12 |
| 1970 | 131,707,946 | 78.44 | 11.11 | 3.76 | 3.81 | 1.99 | 0.67 | 0.03 | 0.04 |
| 1971 | 186,375,130 | 79.07 | 9.98 | 4.00 | 3.79 | 2.29 | 0.58 | 0.05 | 0.03 |
| 1972 | 205,956,263 | 77.77 | 10.37 | 4.29 | 3.94 | 2.56 | 0.75 | 0.05 | 0.05 |
| 1973 | 178,863,622 | 82.07 | 6.06 | 4.54 | 3.55 | 2.45 | 1.00 | 0.06 | 0.01 |
| 1974 | 118,828,272 | 83.62 | 4.39 | 4.89 | 3.50 | 2.02 | 1.23 | 0.06 | 0.01 |
| 1975 | 157,555,360 | 85.04 | 3.66 | 4.82 | 3.25 | 1.72 | 1.18 | 0.17 | 0.00 |
| 1976 | 195,224,815 | 84.35 | 3.88 | 4.76 | 3.83 | 1.69 | 0.94 | 0.53 | 0.00 |
| 1977 | 187,393,082 | 83.96 | 4.60 | 4.79 | 3.53 | 1.62 | 0.74 | 0.75 | 0.01 |

¹ Dollar Volume for Exchanges includes Stocks, Rights, and Warrants.

² Others include Intermountain, Spokane, National, and Honolulu Stock Exchanges

Special Block Distributions

In 1977, the total number of special block distributions decreased by 33.7 percent. The value of these distributions decreased 54.2 percent to \$280.9 million from \$613.6 billion in 1976.

Secondary distributions accounted for 61.9 percent of the total number of special block distributions in 1977 and 93.0 percent of the total value of these distributions.

The special offering method was em-

ployed 18 times, accounting for 28.6 percent of the total number of special block distributions in 1977, but, with an aggregate value of \$14.5 million, these offerings accounted for only 5.2 percent of the value of all special block distributions.

The exchange distribution method was employed 6 times in 1977. The value of exchange distributions was \$5.2 million, representing less than 2 percent of the value of all special block distributions.

Table 22
SPECIAL BLOCK DISTRIBUTIONS REPORTED BY EXCHANGES
(Value in thousands)

| Year | Secondary distributions | | | Exchange distributions | | | Special offerings | | |
|------|-------------------------|-------------|-----------|------------------------|-------------|---------|-------------------|-------------|--------|
| | Number | Shares sold | Value | Number | Shares sold | Value | Number | Shares sold | Value |
| 1942 | 116 | 2,397,454 | 82,840 | | | | 79 | 812,390 | 22,694 |
| 1943 | 81 | 4,270,580 | 127,462 | | | | 80 | 1,097,338 | 31,054 |
| 1944 | 94 | 4,097,298 | 135,760 | | | | 87 | 1,053,667 | 32,454 |
| 1945 | 115 | 9,457,358 | 191,961 | | | | 79 | 947,231 | 29,878 |
| 1946 | 100 | 6,481,291 | 232,398 | | | | 23 | 308,134 | 11,002 |
| 1947 | 73 | 3,961,572 | 124,671 | | | | 24 | 314,270 | 9,133 |
| 1948 | 95 | 7,302,420 | 175,991 | | | | 21 | 238,879 | 5,466 |
| 1949 | 86 | 3,737,249 | 104,062 | | | | 32 | 500,211 | 10,956 |
| 1950 | 77 | 4,280,681 | 88,743 | | | | 20 | 150,308 | 4,940 |
| 1951 | 88 | 5,193,756 | 146,459 | | | | 27 | 323,013 | 10,751 |
| 1952 | 76 | 4,223,258 | 149,117 | | | | 22 | 357,897 | 9,931 |
| 1953 | 68 | 6,906,017 | 108,229 | | | | 17 | 380,680 | 10,486 |
| 1954 | 84 | 5,738,359 | 218,490 | 57 | 705,781 | 24,664 | 14 | 189,772 | 6,670 |
| 1955 | 116 | 6,756,767 | 344,871 | 19 | 258,348 | 10,211 | 9 | 161,850 | 7,223 |
| 1956 | 146 | 11,696,174 | 520,966 | 17 | 156,481 | 4,645 | 8 | 131,755 | 4,557 |
| 1957 | 99 | 9,324,599 | 339,062 | 33 | 390,832 | 15,855 | 5 | 63,408 | 1,845 |
| 1958 | 122 | 9,508,505 | 361,886 | 38 | 619,876 | 29,454 | 5 | 88,152 | 3,286 |
| 1959 | 148 | 17,330,941 | 822,336 | 28 | 545,038 | 26,491 | 3 | 33,500 | 3,730 |
| 1960 | 92 | 11,439,065 | 424,688 | 20 | 441,644 | 11,108 | 3 | 63,663 | 5,439 |
| 1961 | 130 | 19,910,013 | 926,514 | 33 | 1,127,266 | 58,072 | 2 | 35,000 | 1,504 |
| 1962 | 59 | 12,143,656 | 658,780 | 41 | 2,345,076 | 65,459 | 2 | 48,200 | 588 |
| 1963 | 100 | 18,937,935 | 814,984 | 72 | 2,892,233 | 107,498 | 0 | 0 | 0 |
| 1964 | 110 | 19,462,343 | 909,821 | 68 | 2,553,237 | 97,711 | 0 | 0 | 0 |
| 1965 | 142 | 31,153,319 | 1,603,107 | 57 | 2,334,277 | 86,479 | 0 | 0 | 0 |
| 1966 | 126 | 29,045,038 | 1,523,373 | 52 | 3,042,599 | 118,349 | 0 | 0 | 0 |
| 1967 | 143 | 30,783,604 | 1,154,479 | 51 | 3,452,856 | 125,404 | 0 | 0 | 0 |
| 1968 | 174 | 36,110,489 | 1,571,600 | 35 | 2,669,938 | 93,528 | 1 | 3,352 | 63 |
| 1969 | 142 | 38,224,799 | 1,244,186 | 32 | 1,706,572 | 52,198 | 0 | 0 | 0 |
| 1970 | 72 | 17,830,008 | 504,562 | 35 | 2,066,590 | 48,218 | 0 | 0 | 0 |
| 1971 | 204 | 72,801,243 | 2,007,517 | 30 | 2,595,104 | 65,765 | 0 | 0 | 0 |
| 1972 | 229 | 82,365,749 | 3,216,126 | 26 | 1,469,666 | 30,156 | 0 | 0 | 0 |
| 1973 | 120 | 30,825,890 | 1,151,087 | 19 | 802,322 | 9,140 | 91 | 6,662,111 | 79,889 |
| 1974 | 45 | 7,512,200 | 133,838 | 4 | 82,200 | 6,836 | 33 | 1,921,755 | 16,805 |
| 1975 | 51 | 34,149,069 | 1,409,933 | 14 | 483,846 | 8,300 | 14 | 1,252,925 | 11,521 |
| 1976 | 57 | 24,089,636 | 581,560 | 16 | 752,600 | 13,623 | 22 | 1,475,842 | 18,459 |
| 1977 | 39 | 9,848,986 | 261,257 | 6 | 295,264 | 5,242 | 18 | 1,074,290 | 14,519 |

Value and Number of Securities Listed on Exchanges

The market value of stocks and bonds listed on U.S. Stock Exchanges at year-end 1977 was \$1,291 billion, a decrease of less than 1 percent from the previous year-end figure of \$1,301 billion. The total was composed of \$818 billion in stocks and \$473 billion in bonds. The value of listed stocks decreased 9.0 percent in 1977 and the value of listed bonds increased 17.5 percent. Stocks with primary listing on the New York Stock Exchange were valued at \$777 billion and represented 95.0 percent of the common and preferred stock listed on all U.S. exchanges. The value of NYSE listed

stocks decreased from their 1976 year-end total by \$82 billion or 9.6 percent. Stocks with primary listing on the AMEX accounted for 4.6 percent of the total and were valued at \$38 billion. The value of AMEX stocks increased \$2 billion or 5.5 percent in 1977. Stocks with primary listing on all other exchanges were valued at \$3.3 billion, a decrease of 20.7 percent from the 1976 total.

The net number of stocks and bonds listed on exchanges decreased by 145 issues or 2.2 percent in 1977. The Philadelphia Stock Exchange listed 10 additional securities. Cincinnati and Honolulu showed no change while the other exchanges all showed a drop in the number of listings.

Table 23
SECURITIES LISTED ON EXCHANGES¹

December 31, 1977

| Exchanges | Common | | Preferred | | Bonds | | Total Securities | |
|--|--------------|------------------------|------------|------------------------|--------------|------------------------|------------------|------------------------|
| | Number | Market Value (Million) | Number | Market Value (Million) | Number | Market Value (Million) | Number | Market Value (Million) |
| <i>Registered</i> | | | | | | | | |
| American | 1,047 | \$35,559 | 99 | \$2,079 | 184 | NA | 1,330 | \$37,638 |
| Boston | 72 | 437 | 2 | 1 | 1 | 1 | 75 | 439 |
| Cincinnati | 6 | 27 | 3 | 7 | 6 | 47 | 15 | 81 |
| Midwest | 19 | 259 | 6 | 66 | 1 | 8 | 26 | 333 |
| New York | 1,513 | 751,273 | 627 | 25,420 | 2,658 | 472,527 | 4,798 | 1,249,220 |
| Pacific | 41 | 1,034 | 9 | 143 | 18 | 392 | 68 | 1,569 |
| Philadelphia | 30 | 196 | 93 | 705 | 12 | 100 | 135 | 1,001 |
| Intermountain | 29 | 49 | 0 | 0 | 0 | 0 | 29 | 49 |
| Spokane | 24 | 6 | 0 | 0 | 0 | 0 | 24 | 6 |
| <i>Exempted</i> | | | | | | | | |
| Honolulu ² | 18 | \$366 | 7 | \$7 | 2 | \$5 | 27 | \$378 |
| Total | 2,799 | \$789,206 | 846 | \$28,428 | 2,882 | \$473,080 | 6,527 | \$1,290,714 |
| <i>Includes the following foreign stocks</i> | | | | | | | | |
| <i>Registered:</i> | | | | | | | | |
| New York | 36 | \$ 19,872 | 1 | \$ 73 | 179 | \$ 6,998 | 216 | \$ 26,943 |
| American | 71 | 11,433 | 1 | 7 | 6 | NA | 78 | 11,440 |
| Pacific* | 3 | 80 | 1 | + | 0 | 0 | 4 | 80 |
| <i>Exempted</i> | | | | | | | | |
| Honolulu ² | 2 | \$ 15 | 0 | \$ 0 | 0 | \$ 0 | 2 | \$ 15 |
| Total | 112 | \$ 31,400 | 3 | \$ 80 | 185 | \$ 6,998 | 300 | \$ 38,478 |

¹ Excludes securities which were suspended from trading at the end of the year, and securities which because of inactivity had no available quotes

² (estimated) Honolulu Stock Exchange ceased operations on December 31, 1977

* Less than 0.5 million, but greater than zero.

Table 24
VALUE OF STOCKS LISTED ON EXCHANGES
(Dollars in billions)

| Dec 31 | New York Stock Exchange | American Stock Exchange | Exclusively on Other Exchanges | Total |
|--------|-------------------------------|-------------------------------|--------------------------------------|-------|
| 1936 | 59.9 | 14.8 | | 74.7 |
| 1937 | 38.9 | 10.2 | | 49.1 |
| 1938 | 47.5 | 10.8 | | 58.3 |
| 1939 | 46.5 | 10.1 | | 56.6 |
| 1940 | 41.9 | 8.6 | | 50.5 |
| 1941 | 35.8 | 7.4 | | 43.2 |
| 1942 | 38.8 | 7.8 | | 46.6 |
| 1943 | 47.6 | 9.9 | | 57.5 |
| 1944 | 55.5 | 11.2 | | 66.7 |
| 1945 | 73.8 | 14.4 | | 88.2 |
| 1946 | 68.6 | 13.2 | | 81.8 |
| 1947 | 68.3 | 12.1 | | 80.4 |
| 1948 | 67.0 | 11.9 | 3.0 | 81.9 |
| 1949 | 76.3 | 12.2 | 3.1 | 91.6 |
| 1950 | 93.8 | 13.9 | 3.3 | 111.0 |
| 1951 | 109.5 | 16.5 | 3.2 | 129.2 |
| 1952 | 120.5 | 16.9 | 3.1 | 140.5 |
| 1953 | 117.3 | 15.3 | 2.8 | 135.4 |
| 1954 | 169.1 | 22.1 | 3.6 | 194.8 |
| 1955 | 207.7 | 27.1 | 4.0 | 238.8 |
| 1956 | 219.2 | 31.0 | 3.8 | 254.0 |
| 1957 | 195.6 | 25.5 | 3.1 | 224.2 |
| 1958 | 276.7 | 31.7 | 4.3 | 312.7 |
| 1959 | 307.7 | 25.4 | 4.2 | 337.3 |
| 1960 | 307.0 | 24.2 | 4.1 | 335.3 |
| 1961 | 387.8 | 33.0 | 5.3 | 426.1 |
| 1962 | 345.8 | 24.4 | 4.0 | 374.2 |
| 1963 | 411.3 | 26.1 | 4.3 | 441.7 |
| 1964 | 474.3 | 28.2 | 4.3 | 506.8 |
| 1965 | 537.5 | 30.9 | 4.7 | 573.1 |
| 1966 | 482.5 | 27.9 | 4.0 | 514.4 |
| 1967 | 605.8 | 43.0 | 3.9 | 652.7 |
| 1968 | 692.3 | 61.2 | 6.0 | 759.5 |
| 1969 | 629.5 | 47.7 | 5.4 | 682.6 |
| 1970 | 636.4 | 39.5 | 4.8 | 680.7 |
| 1971 | 741.8 | 49.1 | 4.7 | 795.6 |
| 1972 | 871.5 | 55.6 | 5.6 | 932.7 |
| 1973 | 721.0 | 38.7 | 4.1 | 763.8 |
| 1974 | 511.1 | 23.3 | 2.9 | 537.3 |
| 1975 | 685.1 | 29.3 | 4.3 | 718.7 |
| 1976 | 858.3 | 36.0 | 4.2 | 898.5 |
| 1977 | 776.7 | 37.6 | 4.2 | 818.5 |

Securities on Exchanges

As of September 30, 1978, a total of 6,777 securities, representing 3,179 issuers, were admitted to trading on securities exchanges in the United States. This compares with 6,798 issues, involving 3,283 issuers, a year earlier.

Over 5,000 issues were listed and registered on the New York Stock Exchange, accounting for 60 percent of the stock issues and 90.7 percent of the bond issues. Data below on "Securities Traded on Exchanges" involves some duplication since it includes both solely and dually listed securities.

Table 25
SECURITIES TRADED ON EXCHANGES

| | Issuers | Stocks | | | Total | Bonds ¹ |
|--------------------------------|---------|------------|----------------------|----------|-------|--------------------|
| | | Registered | Temporarily exempted | Unlisted | | |
| American | 1,088 | 1,096 | 1 | 39 | 1,136 | 203 |
| Boston | 819 | 126 | .. | 740 | 866 | 16 |
| Chicago Board of Options | 1 | 1 | .. | .. | 1 | .. |
| Chicago Board of Trade | 3 | 1 | .. | 2 | 3 | .. |
| Cincinnati | 341 | 29 | .. | 326 | 355 | 15 |
| Honolulu ² | 1 | .. | .. | .. | 1 | .. |
| Intermountain | 47 | 46 | .. | 1 | 47 | .. |
| Midwest | 596 | 366 | 1 | 303 | 670 | 29 |
| New York | 1,926 | 2,227 | 3 | .. | 2,230 | 2,776 |
| Pacific Coast | 816 | 814 | 1 | 167 | 982 | 106 |
| PBS | 914 | 290 | .. | 792 | 1,082 | 71 |
| Spokane | 35 | 34 | .. | 4 | 38 | .. |

¹ Issues exempted under Section 3(a)(12) of the Act, such as obligations of U.S. Government, the states, and cities, are not included in this table.
² Exempted exchange had 1 admitted to unlisted trading.

Table 26
UNDUPLICATED COUNT OF SECURITIES ON EXCHANGES
(September 30, 1978)

| Registered exchanges | Stocks | Bonds | Total | Issuers Involved |
|---|--------------|--------------|--------------|------------------|
| Registered and Listed | 3,676 | 3,044 | 6,715 | 3,148 |
| Temporarily exempted from registration | 4 | 2 | 6 | 2 |
| Admitted to unlisted trading privileges | 36 | 14 | 50 | 28 |
| Exempted exchanges | | | | |
| Listed | 0 | 0 | 0 | 0 |
| Admitted to unlisted trading privileges | 1 | 0 | 1 | 1 |
| Total | 3,717 | 3,060 | 6,777 | 3,179 |

1933 ACT REGISTRATIONS

Effective Registration Statements Filed

During the fiscal year ending September 30, 1978, 3,028 registration statements valued at \$65 billion became effective. The number of effective registrations in fiscal 1978 rose 3.9 percent from fiscal 1977. The decrease in the dollar value is due to a change in reporting the registrations of investment companies necessitated by a change in the rules of the Securities Act of 1933.

(The number of effective investment company registrations continue to be included while the dollar value of effective investment company registrations is no longer available.)

Among the registration statements effective, there were 647 first-time registrants in fiscal 1978 as compared with 637 in fiscal 1977.

The number of registration statements filed rose 5.8 percent to 3,204 in fiscal 1978 from 3,029 in the previous fiscal year.

Table 27
EFFECTIVE REGISTRATIONS
(Dollars in millions)

| Fiscal year ended June 30 | Total | | Cash Sale for Account of Issuers | | | Total |
|--|--------|---------------------|----------------------------------|------------------------------|-----------------|---------|
| | Number | Value | Common Stock | Bonds, Debentures, and Notes | Preferred Stock | |
| 1935 ¹ | 284 | \$ 913 | \$ 168 | \$ 490 | \$ 28 | \$ 686 |
| 1936 | 689 | 4,835 | 531 | 3,153 | 252 | 3,936 |
| 1937 | 840 | 4,851 | 802 | 2,426 | 406 | 3,635 |
| 1938 | 412 | 2,101 | 474 | 666 | 209 | 1,349 |
| 1939 | 344 | 2,579 | 318 | 1,593 | 109 | 2,020 |
| 1940 | 306 | 1,787 | 210 | 1,112 | 110 | 1,433 |
| 1941 | 313 | 2,611 | 196 | 1,721 | 164 | 2,081 |
| 1942 | 193 | 2,003 | 263 | 1,041 | 162 | 1,465 |
| 1943 | 123 | 659 | 137 | 316 | 32 | 486 |
| 1944 | 221 | 1,760 | 272 | 732 | 343 | 1,347 |
| 1945 | 340 | 3,225 | 456 | 1,851 | 407 | 2,715 |
| 1946 | 661 | 7,073 | 1,331 | 3,102 | 991 | 5,424 |
| 1947 | 493 | 6,732 | 1,150 | 2,937 | 787 | 4,874 |
| 1948 | 435 | 6,405 | 1,578 | 2,817 | 537 | 5,032 |
| 1949 | 429 | 5,333 | 1,083 | 2,795 | 326 | 4,204 |
| 1950 | 487 | 5,307 | 1,786 | 2,127 | 468 | 4,381 |
| 1951 | 487 | 6,459 | 1,904 | 2,838 | 427 | 5,169 |
| 1952 | 635 | 9,500 | 3,332 | 3,346 | 851 | 7,529 |
| 1953 | 593 | 7,507 | 2,808 | 3,093 | 424 | 6,326 |
| 1954 | 631 | 9,174 | 2,610 | 4,240 | 531 | 7,381 |
| 1955 | 779 | 10,960 | 3,864 | 3,951 | 462 | 8,277 |
| 1956 | 906 | 13,096 | 4,544 | 4,123 | 539 | 9,206 |
| 1957 | 876 | 14,624 | 5,858 | 5,689 | 472 | 12,019 |
| 1958 | 813 | 16,490 | 5,998 | 6,857 | 472 | 13,281 |
| 1959 | 1,070 | 15,657 | 6,387 | 5,265 | 443 | 12,095 |
| 1960 | 1,426 | 14,367 | 7,260 | 4,224 | 253 | 11,738 |
| 1961 | 1,550 | 19,070 | 9,850 | 6,162 | 248 | 16,260 |
| 1962 | 1,844 | 19,547 | 11,521 | 4,512 | 253 | 16,286 |
| 1963 | 1,157 | 14,790 | 7,227 | 4,372 | 270 | 11,869 |
| 1964 | 1,121 | 16,860 | 10,006 | 4,554 | 224 | 14,784 |
| 1965 | 1,266 | 19,437 | 10,638 | 3,710 | 307 | 14,656 |
| 1966 | 1,523 | 30,109 | 18,218 | 7,061 | 444 | 25,723 |
| 1967 | 1,649 | 34,218 | 15,083 | 12,309 | 558 | 27,950 |
| 1968 | 2,417 | 54,076 | 22,092 | 14,036 | 1,140 | 37,269 |
| 1969 | 3,645 | 86,810 | 39,614 | 11,674 | 751 | 52,039 |
| 1970 | 3,389 | 59,137 | 28,939 | 18,436 | 823 | 48,198 |
| 1971 | 2,989 | 69,562 | 27,455 | 27,637 | 3,360 | 58,452 |
| 1972 | 3,712 | 62,487 | 26,518 | 20,127 | 3,237 | 49,882 |
| 1973 | 3,285 | 59,310 | 26,615 | 14,841 | 2,578 | 44,034 |
| 1974 | 2,890 | 56,924 | 19,811 | 20,997 | 2,274 | 43,082 |
| 1975 | 2,780 | 77,457 | 30,502 | 37,557 | 2,201 | 70,260 |
| 1976 | 2,813 | 87,733 | 37,115 | 29,373 | 3,013 | 69,502 |
| Transition Quarter July-September 1976 | 639 | 15,010 | 6,767 | 5,066 | 413 | 12,246 |
| Fiscal year ended September 30 | | | | | | |
| 1977 (r) | 2,914 | 92,579 | 47,125 | 28,017 | 2,425 | 77,566 |
| 1978 | 3,028 | 64,756 ² | 25,305 ² | 23,324 | 2,095 | 50,724 |
| Cumulative Total | 59,397 | 1,115,880 | 475,821 | 366,270 | 36,774 | 878,871 |

r = revised

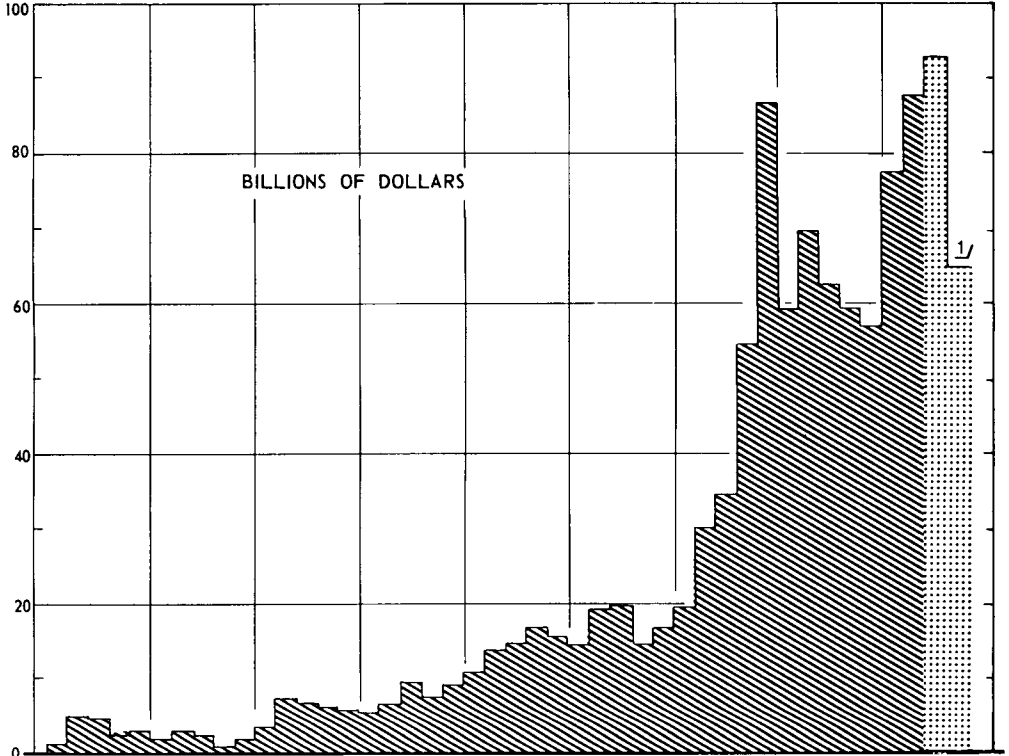
¹ For 10 months ended June 30, 1935

² The adoption of Rule 24f-2 (17 CFR 270 24f-2) effective November 3, 1977 made it impossible to report the dollar value of securities registered by investment companies

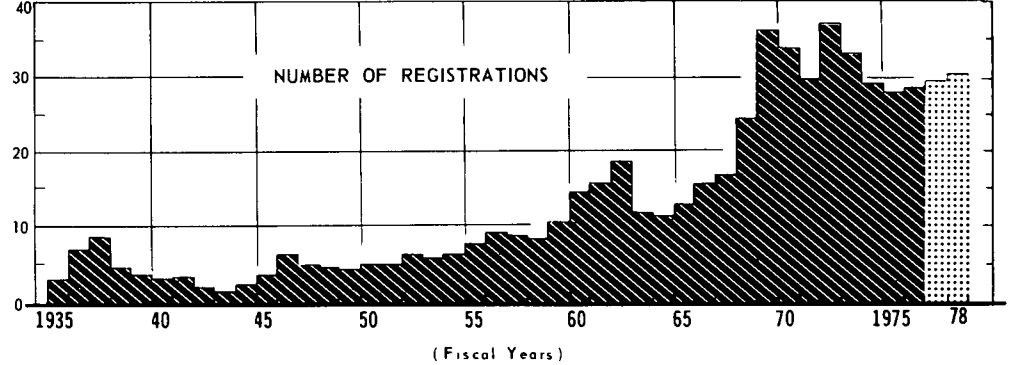
SECURITIES EFFECTIVELY REGISTERED WITH S.E.C.

Dollars Billions

1935 - 1978



Hundreds



..... FISCAL YEAR END CHANGED FROM JUNE TO SEPTEMBER

GA 121878

DATA FOR TRANSITION QUARTER JULY-SEPTEMBER 1976 NOT SHOWN ON CHARTS
EFFECTIVE REGISTRATIONS \$15.0 BILLION, NUMBER OF REGISTRATIONS 639

1/2 DOES NOT INCLUDE INVESTMENT COMPANIES AS OF 1/1/78 DUE TO RULE CHANGE

Purpose of Registration

Effective registrations for cash sale for the account of corporate issuers amounted to \$29 billion¹ in fiscal 1978 as compared to \$33 billion in fiscal 1977. With respect to distribution of these registrations between equity and debt offerings, equity offerings increased from \$6.7 billion in fiscal 1977 to \$7.9 billion—an 18 percent increase. Debt offerings increased from \$24.2 billion to \$29.2 billion—a 20.7 percent fall.

Among the securities registered for cash sale in fiscal 1978, nearly all debt issues were for immediate offerings, whereas 36.3 percent of the equity reg-

istrations were for cash sale. Registrations of extended offerings totaled \$17.5 billion with employee plan offerings accounting for \$9.1 billion. In prior years, this included sales of open-end investment companies.

Securities registered for the account of the issuer for other than cash sale totaled \$12.9 billion including \$9.3 billion of common stock. The bulk of these registrations were common stock issues relating to exchange offers, mergers and consolidations. In fiscal 1978 common stock effectively registered for this purpose totaled \$8.8 billion, a decrease of 24.1 percent from fiscal 1977.

Registrations for the purpose of secondary offerings (proceeds going to selling security holders) typically concern sales of common stock. In fiscal 1978 these registrations amounted to \$1.1 billion, or a 16 percent decline from fiscal 1977.

¹ The adoption of Rule 24f-2 (17 CFR 270.24f-2) effective November 3, 1977, made it impossible to report the dollar value of securities registered by investment companies.

Table 28
EFFECTIVE REGISTRATIONS BY PURPOSE AND TYPE OF SECURITY: FISCAL 1978

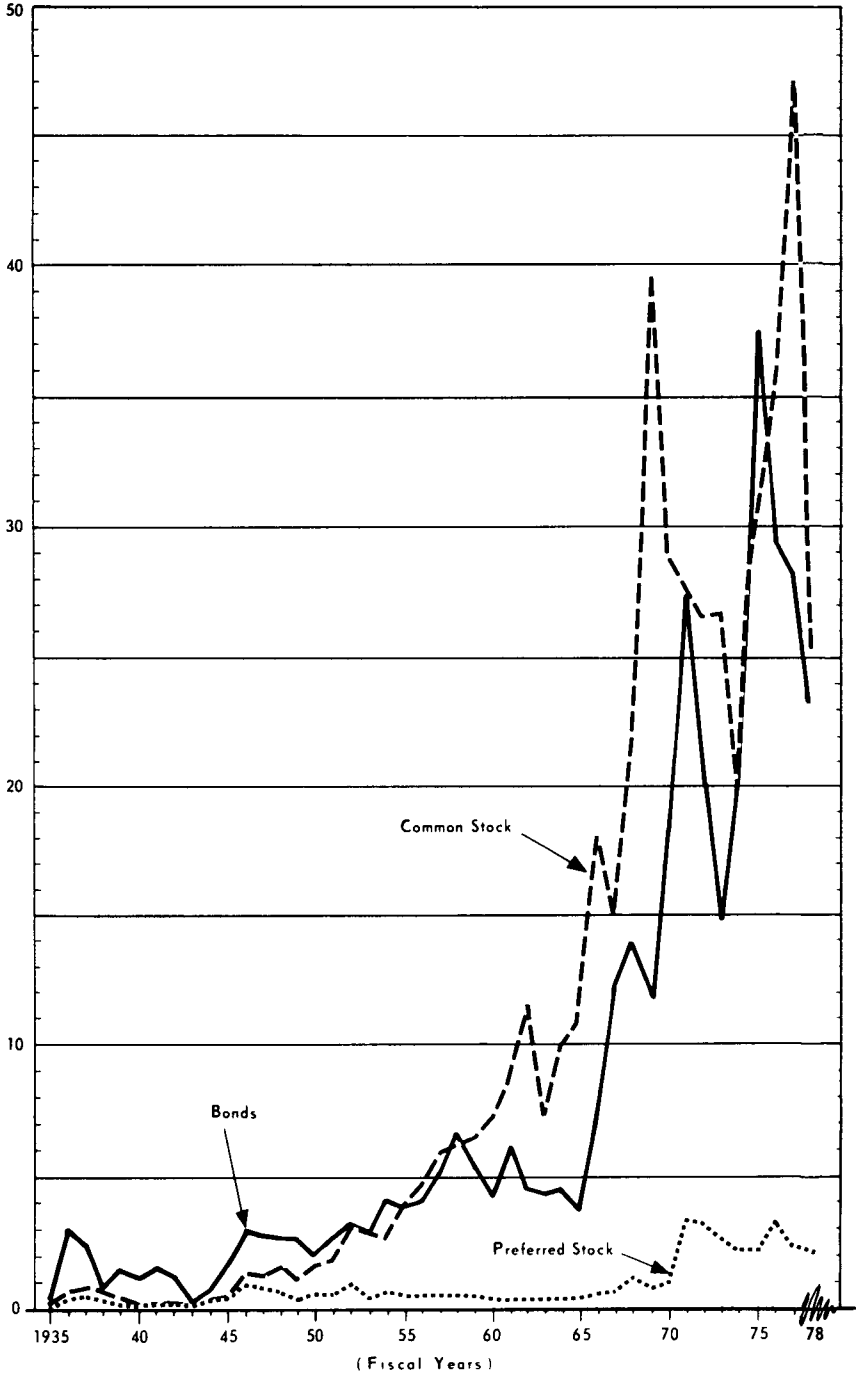
(Dollars in millions)

| Purpose of registrations | Type of security | | | |
|--|------------------|------------------------------|-----------------|--------------|
| | Total | Bonds, debentures, and notes | Preferred stock | Common stock |
| All registrations (estimated value) | 64,756 | 24,228 | 4,909 | 35,619 |
| For account of issuer for cash sale | 50,724 | 23,324 | 2,095 | 25,305 |
| Immediate offering | 33,186 | 23,230 | 2,083 | 7,873 |
| Corporate | 29,087 | 19,131 | 2,083 | 7,873 |
| Offered to | | | | |
| General public | 28,948 | 19,128 | 2,081 | 7,739 |
| Security holders | 139 | 3 | 2 | 134 |
| Foreign governments | 4,099 | 4,099 | 0 | 0 |
| Extended cash sale and other issues | 17,538 | 93 | 12 | 17,432 |
| For account of issuer for other than cash sale | 12,901 | 838 | 2,801 | 9,262 |
| Secondary offerings | 1,131 | 66 | 13 | 1,052 |
| Cash sale | 387 | 1 | — | 386 |
| Other | 744 | 65 | 13 | 666 |

EFFECTIVE REGISTRATIONS CASH SALE FOR ACCOUNT OF ISSUERS

1935 - 1978

Dollars Billions



/// FISCAL YEAR END CHANGED FROM JUNE TO SEPTEMBER

DATA FOR TRANSITION QUARTER JULY-SEPTEMBER 1976 NOT SHOWN ON CHART
BONDS \$5.1 BILLION, PREFERRED STOCK \$4 BILLION, COMMON STOCK \$6.8 BILLION

Regulation A Offerings

During fiscal year 1978, 242 notifications were filed for proposed offerings under Regulation A. Issues between

\$400,000 and \$500,000 in size predominated. It should be noted, that the ceiling for Regulation A was raised to \$1.5 million on September 11, 1978, just prior to the end of the fiscal year.

Table 29
OFFERINGS UNDER REGULATION A

| | Fiscal 1978 | Fiscal 1977 | Fiscal 1976 |
|----------------------------------|----------------|----------------|----------------|
| Size | | | |
| \$100,000 or less | 23 | 17 | 24 |
| \$100,000-\$200,000 | 33 | 30 | 36 |
| \$200,000-\$300,000 | 36 | 30 | 27 |
| \$300,000-\$400,000 | 25 | 24 | 39 |
| \$400,000-\$500,000 | 120 | 117 | 114 |
| \$500,000-\$1,500,000 | 5 | 0 | 0 |
| Total | 242 | 218 | 240 |
| Underwriters. | | | |
| Used | 55 | 52 | 37 |
| Not Used | 187 | 166 | 203 |
| Total | 242 | 218 | 240 |
| Offerors | | | |
| Issuing Companies | 223 | 205 | 222 |
| Stockholders | 5 | 7 | 12 |
| Issuers and Stockholders jointly | 14 | 6 | 6 |
| Total | 242 | 218 | 240 |

ENFORCEMENT

Types of Proceedings

As the table below reflects, the securities laws provide for a wide range of enforcement actions by the Commission. The Most common types of actions are injunctive proceedings instituted in the Federal district courts to enjoin continued or threatened securities law vi-

olators, and administrative proceedings pertaining to broker-dealer firms and/or individuals associated with such firms which may lead to various remedial sanctions as required in the public interest. When an injunction is entered by a court, violation of the court's decree is a basis for criminal contempt action against the violator.

Table 30
TYPES OF PROCEEDINGS

| ADMINISTRATIVE PROCEEDINGS | |
|---|---|
| Persons Subject to, Acts Constituting, and Basis for, Enforcement Action | Sanction |
| Broker-dealer, municipal securities dealer, investment adviser or associated person | |
| Willful violation of securities acts provision or rule, aiding or abetting such violation, failure reasonably to supervise others; willful misstatement or omission in filing with the Commission, conviction of or injunction against certain crimes or conduct | Censure or limitation on activities, revocation, suspension or denial of registration, bar or suspension from association (1934 Act, §§ 15B(c)(2)-(4), 15(b)(4)-(6), Advisers Act, §§ 203(e)-(f)) * |
| Registered securities association | |
| Organization or rules not conforming to statutory requirements. | Suspension of registration or limitation of activities, functions, or operations (1934 Act, § 19(h)(1)). |
| Violation of or inability to comply with the 1934 Act, rules thereunder, or its own rules; unjustified failure to enforce compliance with the foregoing or with rules of the Municipal Securities Rulemaking Board by a member or person associated with a member | Suspension or revocation of registration; censure or limitation of activities, functions, or operations (1934 Act, § 19(h)(1)) |
| Member of registered securities association, or associated person | |
| Being subject to Commission order pursuant to 1934 Act, § 15(b), willful violation of or effecting transaction for other person with reason to believe that person was violating securities acts provisions, rules thereunder, or rules of Municipal Securities Rulemaking Board. | Suspension or expulsion from the association, bar or suspension from association with member of association (1934 Act, §§ 19(h)(2)-(3)). |
| National securities exchange | |
| Organization or rules not conforming to statutory requirements. | Suspension of registration or limitation of activities, functions, or operations (1934 Act, § 19(h)(1)) |
| Violation of or inability to comply with 1934 Act, rules thereunder or its own rules; unjustified failure to enforce compliance with the foregoing by a member or person associated with a member | Suspension or revocation of registration, censure or limitation of activities, functions, or operations (1934 Act, § 19(h)(1)) |
| Member of national securities exchange, or associated persons | |
| Being subject to Commission order pursuant to 1934 Act, § 15(b), willful violation of or effecting transaction for other person with reason to believe that person was violating securities acts provisions or rules thereunder | Suspension or expulsion from exchange, bar or suspension from association with member (1934 Act, §§ 19(h)(2)-(3)). |
| Registered clearing agency | |
| Violation of or inability to comply with 1934 Act, rules thereunder, or its own rules; failure to enforce compliance with its own rules by participants | Suspension or revocation of registration; censure or limitation of activities, functions, or operations (1934 Act, § 19(h)(1)) |
| Participant in registered clearing agency | |
| Being subject to Commission order pursuant to 1934 Act, § 15(b)(4); willful violation of or effecting transaction for other person with reason to believe that person was violating provisions of clearing agency rules | Suspension or expulsion from clearing agency (1934 Act, § 19(h)(2)) |
| Securities information processor | |
| Violation of or inability to comply with provisions of 1934 Act or rules thereunder. | Censure or operational limitations, suspension or revocation of registration (1934 Act, § 11A(b)(6)). |
| Transfer agent | |
| Willful violation of or inability to comply with 1934 Act, §§ 17 or 17A, or regulations thereunder. | Censure or limitation of activities, denial, suspension, or revocation of registration (1934 Act, § 17A(c)(3)). |
| Any person | |
| Willful violation of securities act provision or rule, aiding or abetting such violation, willful misstatement in filing with Commission | Temporary or permanent prohibition from serving in certain capacities for registered investment company (Investment Company Act, § 9(b)). |

* Statutory references are as follows: "1933 Act", the Securities Act of 1933, "1934 Act", the Securities Exchange Act of 1934; "Investment Company Act", the Investment Company Act of 1940, "Advisers Act", the Investment Advisers Act of 1940, "Holding Company Act", the Public Utility Holding Company Act of 1935, "Trust Indenture Act", the Trust Indenture Act of 1939, and "SIPA", the Securities Investor Protection Act of 1970

Table 30—Continued
TYPES OF PROCEEDINGS

ADMINISTRATIVE PROCEEDINGS

| Persons Subject to, Acts Constituting, and Basis for, Enforcement Action | Sanction |
|--|---|
| Officer or director of self-regulatory organization | |
| Willful violation of 1934 Act, rules thereunder, or the organization's own rules, willful abuse of authority or unjustified failure to enforce compliance | Removal from office or censure (1934 Act, § 19(h)(4)) |
| Principal of broker-dealer | |
| Engaging in business as a broker-dealer after appointment of SIPC trustee | Bar or suspension from being or being associated with a broker-dealer (SIPA, § 10(b)) |
| 1933 Act registration statement | |
| Statement materially inaccurate or incomplete | Stop order suspending effectiveness (1933 Act, § 8(d)) |
| Investment company has not attained \$100,000 net work 90 days after statement became effective | Stop order (Investment Company Act, § 14(a)). |
| Persons subject to Sections 12, 13 or 15(d) of the 1934 Act | |
| Material noncompliance with such provisions. | Order directing compliance (1934 Act, § 15(c)(4)). |
| Securities Issue | |
| Noncompliance by issuer with 1934 Act or rules thereunder. | Denial, suspension of effective date, suspension or revocation of registration on national securities exchange (1934 Act, § 12(j)). |
| Public interest requires trading suspension. | Summary suspension of over-the-counter or exchange trading (1934 Act, § 12(k)) |
| Registered investment company | |
| Failure to file Investment Company Act registration statement or required report, filing materially incomplete or misleading statement of report | Revocation of registration (Investment Company Act, § 8(e)) |
| Company has not attained \$100,000 net work 90 days after 1933 Act registration statement became effective. | Revocation or suspension of registration (Investment Company Act, § 14(a)). |
| Attorney, accountant, or other professional or expert | |
| Lack of requisite qualifications to represent others; lacking in character or integrity; unethical or improper professional conduct; willful violation of securities laws or rules; or aiding and abetting such violation. | Permanent or temporary denial of privilege to appear or practice before the Commission (17 C.F.R. § 201.2(e)(1)) |
| Attorney suspended or disbarred by court, expert's license revoked or suspended, conviction of a felony or misdemeanor involving moral turpitude. | Automatic suspension from appearance or practice before the Commission (17 C.F.R. § 201.2(e)(2)) |
| Permanent injunction against or finding of securities violation in Commission-instituted action, finding of securities violation by Commission in administrative proceeding | Temporary suspension from appearance or practice before Commission (17 C.F.R. § 201.2(e)(3)). |
| Member of Municipal Securities Rulemaking Board | |
| Willful violation of securities laws, rules thereunder, or rules of the Board. | Censure or removal from office (1934 Act, § 15B(c)(8)). |

CIVIL PROCEEDINGS IN FEDERAL DISTRICT COURTS

| Persons Subject to, Acts Constituting, and Basis for Enforcement Action | Sanction |
|---|---|
| Any person | |
| Engaging in or about to engage in acts or practices violating securities acts, rules or orders thereunder (including rules of a registered self-regulatory organization) | Injunction against acts or practices which constitute or would constitute violations (plus other equitable relief under court's general equity powers) (1933 Act, Sec. 20(b), 1934 Act, Sec. 21(d); 1935 Act, Sec. 18(f); Investment Company Act, § 42(e); Advisers Act, § 209(e); Trust Indenture Act, § 321). |
| Noncompliance with provisions of law, rule, or regulation under 1933, 1934, or Holding Company Acts, order issued by Commission rules of a registered self-regulatory organization, or undertaking in a registration statement. | Writ of mandamus, injunction, or order directing compliance (1933 Act, § 20(c), 1934 Act, § 21(e); Holding Company Act, § 18(g)). |

Table 30—Continued
TYPES OF PROCEEDINGS

CIVIL PROCEEDINGS IN FEDERAL DISTRICT COURTS

| Persons Subject to, Acts Constituting, and Basis for, Enforcement Action | Sanction |
|---|---|
| Securities Investor Protection Corporation | |
| Refusal to commit funds or act for the protection of customers | Order directing discharge of obligations or other appropriate relief (SIPA, § 7(b)) |
| National securities exchange or registered securities association | |
| Noncompliance by its members and persons associated with its members with the 1934 Act, rules and orders thereunder, or rules of the exchange or association | Writ of mandamus, injunction, or order directing such exchange or association to enforce compliance (1934 Act, § 21(e)) |
| Registered clearing agency | |
| Noncompliance by its participants with its own rules. | Writ of mandamus, injunction, or order directing clearing agency to enforce compliance (1934 Act, § 21(e)) |
| Issuer subject to reporting requirements | |
| Failure to file reports required under § 15(d) of 1934 Act | Forfeiture of \$100 per day (1934 Act, § 32(b)) |
| Registered investment company or affiliate | |
| Name of company or of security issued by it deceptive or misleading | Injunction against use of name (Investment Company Act, § 35(d)) |
| Officer, director, member of advisory board, adviser, depositor, or underwriter of investment company | |
| Engage in act or practice constituting breach of fiduciary duty involving personal misconduct | Injunction against acting in certain capacities for investment company, and other appropriate relief (Investment Company Act, § 36(a)) |
| Any person having fiduciary duty respecting receipt of compensation from investment company | |
| Breach of fiduciary duty | Injunction (Investment Company Act, § 36(a)) |
| III. REFERRAL TO ATTORNEY GENERAL FOR CRIMINAL PROSECUTION | |
| Basis for Enforcement Action | Sanction or Relief |
| Any person | |
| Willful violation of securities acts or rules thereunder or willful misstatement in any document required to be filed by securities laws and rules or by self-regulatory organization in connection with an application for membership, participation or to become associated with a member thereof | Maximum penalties \$10,000 fine and 5 years imprisonment, an exchange may be fined up to \$500,000, a public-utility holding company up to \$200,000 (1933 Act, Secs 20(b), 24, 1934 Act, Secs 21(d), 32(a), 1935 Act, Secs 18(f), 29, 1939 Act, Sec. 325, Investment Co Act, Secs 42(e), 49, Advisers Act, Secs 209(e), 217) |
| REFERRAL TO ATTORNEY GENERAL FOR CRIMINAL PROSECUTION | |
| Persons Subject to Acts Constituting, and Basis for, Enforcement Action | Sanction |
| Any person | |
| Willful violation of securities acts or rules thereunder or willful misstatement in any document required to be filed by securities laws and rules or by self-regulatory organization in connection with an application for membership, participation or to become associated with a member thereof | Maximum penalties \$10,000 fine and 5 years imprisonment, an exchange may be fined up to \$500,000, a public-utility holding company up to \$200,000 (1933 Act, Secs 20(b), 24, 1934 Act, Secs 21(d), 32(a), Holding Company Act, Secs 18(f), 29, 1939 Act, Sec. 325, Investment Company Act, Secs 42(e), 49, Advisers Act, Secs 209(e), 217) |
| Any issuer which violates Section 30A(a) of the 1934 Act. | Maximum penalty \$1,000,000 fine (1934 Act, Sec. 32(c)(1)) |
| Any officer or director of an issuer, or any stockholder acting on behalf of such issuer, who willfully violates Section 30A(a) of the 1934 Act. | Maximum penalty \$10,000 fine and 5 years imprisonment (1934 Act, Sec. 32(C)(2)) |
| Any employee or agent (subject to the jurisdiction of the United States) of an issuer found to have violated Section 30A(a) of the 1934 Act, who willfully carried out the act or practice constituting such violation. | Maximum penalty \$10,000 fine and 5 years imprisonment (1934 Act, Sec. 32(C)(3)) |

Table 30—Continued
TYPES OF PROCEEDINGS

| REFERRAL TO ATTORNEY GENERAL FOR CRIMINAL PROSECUTION | |
|---|---|
| Persons Subject to, Acts Constituting, and Basis for, Enforcement Action | Sanction |
| Any person | |
| Willful violation of securities acts or rules thereunder or willful misstatement in any document required to be filed by securities laws and rules or by self-regulatory organization in connection with an application for membership, participation or to become associated with a member thereof | Maximum penalties \$10,000 fine and 5 years imprisonment, an exchange may be fined up to \$500,000, a public-utility holding company up to \$200,000 (1933 Act, Secs 20(b), 24, 1934 Act, Secs 21(d), 32(a), Holding Company Act, Secs 18(f), 29, 1939 Act, Sec 325, Investment Company Act, Secs 42(e) 49 Advisers Act, Secs 209(e) 217) |
| Any issuer which violates Section 30A(a) of the 1934 Act (foreign corrupt practices) | Maximum penalty \$1,000,000 fine (1934 Act, Sec 32(c)(1)) |
| Any officer or director of an issuer, or any stockholders acting on behalf of such issuer, who willfully violates Section 30A(a) of the 1934 Act | Maximum penalty \$10,000 fine and 5 years imprisonment (1934 Act, Sec 32(C)(2)) |
| Any employee or agent (subject to the jurisdiction of the United States) of an issuer found to have violated Section 30A(a) of the 1934 Act, who willfully carried out the act or practice constituting such violation | Maximum penalty \$10,000 fine and 5 years imprisonment (1934 Act, Sec 32(C)(3)) |

Table 31

INVESTIGATIONS OF POSSIBLE VIOLATIONS OF THE ACTS ADMINISTERED BY THE COMMISSION

| | |
|----------------------------|-------|
| Pending September 30, 1977 | 1,404 |
| Opened | 337 |
| Total for Distribution | 1,741 |
| Closed | 385 |
| Pending September 30 1978 | 1,356 |

During the fiscal year ending September 30, 1978, 196 formal orders were issued by the Commission upon recommendation of the Division of Enforcement.

Table 32

ADMINISTRATIVE PROCEEDINGS INSTITUTED DURING FISCAL YEAR ENDING SEPTEMBER 30, 1978

| | |
|---|----|
| Broker Dealer Proceedings | 62 |
| Investment Adviser Proceedings | 16 |
| Stop Order, Reg A Suspension and Other Disclosure Cases | 44 |

Injunctive Actions 1977–1978

During fiscal 1978, 135 suits for injunctions and 19 miscellaneous actions were instituted in the United States district courts by the Commission, and 20 district court proceedings were brought against the Commission. During the year this office handled 12 appellate cases involving petitions for review of

Commission decisions, 4 appeals in re-organization matters and 31 appeals in injunction and miscellaneous cases. SEC participated and filed 11 amicus curiae briefs in 11 cases.

During fiscal 1978, the General Counsel referred to the Department of Justice 105 criminal reference reports. (This figure includes 4 criminal contempt actions.)

Table 33
INJUNCTIVE ACTIONS

| Fiscal Year | Cases Instituted | Injunctions Ordered | Defendants Enjoined |
|-------------|------------------|---------------------|---------------------|
| 1969 | 94 | 102 | 509 |
| 1970 | 111 | 97 | 448 |
| 1971 | 140 | 114 | 495 |
| 1972 | 119 | 113 | 511 |
| 1973 | 178 | 145 | 654 |
| 1974 | 148 | 289 | 613 |
| 1975 | 174 | 453 | 749 |
| 1976 | 158 | 435 | 722 |
| 1977 | 166 | 336 | 715 |
| 1978 | 135 | 289 | 607 |

Criminal Proceedings

During the past fiscal year 109 cases were referred to the Department of Justice for prosecution. (This figure includes 4 criminal contempt actions.) As a result of these and prior referrals, 50 indictments were returned against 144 defendants during the fiscal year. There were also 174 convictions in 80 cases. Convictions were affirmed in 5 cases

that had been appealed, and appeals were still pending in 5 other criminal cases at the close of the fiscal year. Of 14 defendants in 12 criminal contempt cases handled during the fiscal year, 1 defendant was convicted, prosecution was declined as to 2 defendants, and 11 defendants in 10 cases are still pending. Four cases are pending in a Suspende Category.

Table 34
CRIMINAL CASES

| Fiscal year | Number of cases referred to Justice Dept | Number of Indictments | Defendants indicted | Convictions |
|-------------|--|-----------------------|---------------------|-------------|
| 1969 | 37 | 64 | 213 | 83 |
| 1970 | 35 | 36 | 102 | 55 |
| 1971 | 22 | 16 | 83 | 89 |
| 1972 | 38 | 28 | 67 | 75 |
| 1973 | 49 | 40 | 178 | 83 |
| 1974 | 67 | 40 | 169 | 81 |
| 1975 | 88 | 53 | 199 | 116 |
| 1976 | 116 | 23 | 118 | 97 |
| 1977 | 100 | 68 | 230 | 135 |
| 1978 | 109 | 50 | 144 | 174 |

Trading Suspensions

During fiscal 1978, the Commission suspended trading in the securities of 86 companies, a decrease of 22 percent from the 111 securities suspended in fiscal 1977 and a 32 percent decrease from the 126 securities suspended in fiscal 1976. Of the 86 companies whose securities were the subject of trading suspensions in fiscal 1978, 38 were suspended because of delinquency in filing required reports with the Commission. In most other instances, the trading suspension was ordered either because of substantial questions as to the adequacy, accuracy or availability of public information concerning the company's financial condition or business operations, or because of transactions in the company's securities suggesting possible manipulations or other violations.

Foreign Restricted List

The Commission maintains and publishes a Foreign Restricted List which is designed to put broker-dealers, financial institutions, investors and others on notice of unlawful distribution of foreign securities in the United States. The list consists of names of foreign companies whose securities the Commission has reason to believe have been, or are being, offered for public sale in the United States in violation of the registration requirements of Section 5 of the Securities Act. The offer and sale of unregistered securities deprives investors of all the protections afforded by the Securities Act, including the right to receive a prospectus containing the information required by the Act for the purpose of enabling the investor to determine whether the investment is suitable for him. While most broker-dealers refuse to effect transactions in securities issued by companies on the Foreign Restricted List, this does not necessar-

ily prevent promoters from illegally offering such securities directly to investors in the United States by mail, by telephone, and sometimes by personal solicitation. During the past fiscal year, two corporations were added to the Foreign Restricted List, bringing the total number of corporations on the list to 101. The following company was added during the year:

Empresia Minera Caudalosa de Panama, S.A.—The Commission received information that *Empresia Minera Caudalosa de Panama, S.A.*, a Panamanian corporation, had been engaged in offering and selling in the United States instruments purporting to be options to buy securities, or instruments appearing to represent securities. No registration statement under the Securities Act of 1933 had been filed with the Commission covering any of these instruments, so that these offers and sales may be in violation of Section 5 of the Securities Act of 1933.

List of All Foreign Corporations on the Foreign Restricted List

The complete list of all foreign corporations and other foreign entities on the Foreign Restricted List on September 30, 1977, is as follows:

Aguacate Consolidated Mines, Incorporated (Costa Rica)
Alan MacTavish, Ltd. (England)
Allegheny Mining and Exploration Company, Ltd. (Canada)
Allied Fund for Capital Appreciation (AFCA, S.A.) (Panama)
Amalgamated Rare Earth Mines, Ltd. (Canada)
American Industrial Research S.A., also known as *Investigacion Industrial Americana, S.A.* (Mexico)
American International Mining (Bahamas)
American Mobile Telephone and Tape Co., Ltd. (Canada)

Antel International Corporation, Ltd. (Canada)
 Antoine Silver Mines, Ltd. (Canada)
 ASCA Enterprises Limited (Hong Kong)
 Atholl Brose (Exports) Ltd. (England)
 Atholl Brose, Ltd. (England)
 Atlantic and Pacific Bank and Trust Co., Ltd. (Bahamas)
 Banco de Guadalajara (Mexico)
 Bank of Sark (United Kingdom)
 Briar Court Mines, Ltd. (Canada)
 British Overseas Mutual Fund Corporation Ltd. (Canada)
 California & Caracas Mining Corp., Ltd. (Canada)
 Canterra Development Corporation, Ltd. (Canada)
 Cardwell Oil Corporation, Ltd. (Canada)
 Caribbean Empire Company, Ltd. (British Honduras)
 Caye Chapel Club, Ltd. (British Honduras)
 Central and Southern Industries Corp. (Panama)
 Cerro Azul Coffee Plantation (Panama)
 Cia. Rio Banano, S.A. (Costa Rica)
 City Bank A.S. (Denmark)
 Claw Lake Molybdenum Mines, Ltd. (Canada)
 Claravella Corporation (Costa Rica)
 Compressed Air Corporation, Limited (Bahamas)
 Continental and Southern Industries, S.A. (Panama)
 Credito Mineroy Mercantil (Mexico)
 Crossroads Corporation, S.A. (Panama)
 Darien Exploration Company, S.A. (Panama)
 Derkglen, Ltd. (England)
 De Veers Consolidated Mining Corporation, S.A. (Panama)
 Doncannon Spirits, Ltd. (Bahamas)
 Durman, Ltd., formerly known as Bankers International Investment Corporation (Bahamas)
 Ethel Copper Mines, Ltd. (Canada)
 Euroforeign Banking Corporation, Ltd. (Panama)
 Financiera Comermex (Mexico)
 Financiera de Eomento Industrial (Mexico)
 Financiera Metropolitana (Mexico)
 Finansbanken a/s (Denmark)
 First Liberty Fund, Ltd. (Bahamas)
 Global Explorations, Inc. (Panama)
 Global Insurance Company, Limited (British West Indies)
 Globus Anlage-Vermittlungsgesellschaft MBH (Germany)
 Golden Age Mines, Ltd. (Canada)
 Hebillia Mining Corporation (Costa Rica)
 Hemisphere Land Corporation Limited (Bahamas)
 Henry Ost & Son, Ltd. (England)
 International Communications Corporation (British West Indies)
 International Trade Development of Costa Rica, S.A.
 Ironco Mining & Smelting Company, Ltd. (Canada)
 James G. Allan & Sons (Scotland)
 J. P. Morgan & Company, Ltd., of London, England (not to be confused with J. P. Morgan & Co., Incorporated, New York)
 Jupiter Explorations, Ltd. (Canada)
 Kenilworth Mines, Ltd. (Canada)
 Klondike Yukon Mining Company (Canada)
 Kokanee Moly Mines, Ltd. Canada
 Land Sales Corporation (Canada)
 Los Dos Hermanos, S.A. (Spain)
 Lynbar Mining Corp., Ltd. (Canada)
 Mercantile Bank & Trust Company, Limited
 Norart Minerals Limited (Canada)
 Normandie Trust Company, S.A. (Panama)
 Northern Survey (Canada)
 Northern Trust Company, S.A. (Switzerland)
 Northland Minerals, Ltd. (Canada)
 Obsco Corporation, Ltd. (Canada)
 Pacific Northwest Developments, Ltd. (Canada)
 Panamerican Bank & Trust Company (Panama)
 Paulpic Gold Mines, Ltd. (Canada)

Pyrotex Mining and Exploration Co., Ltd. (Canada)
 Radio Hill Mines Co., Ltd. (Canada)
 Rodney Gold Mines Limited (Canada)
 Royal Greyhound and Turf Holdings Limited (South Africa)
 S.A. Valles & Co., Inc. (Phillipines)
 San Salvador Savings & Loan Co., Ltd. (Bahamas)
 Santack Mines Limited (Canada)
 Security Capital Fiscal & Guaranty Corporation, S.A. (Panama)
 Silver Stack Mines, Ltd. (Canada)
 Societe Anonyme de Refinancement (Switzerland)
 Strathmore Distillery Company, Ltd. (Scotland)
 Strathross Blending Company Limited (England)

Swiss Caribbean Development & Finance Corporation (Switzerland)

PUBLIC UTILITY HOLDING COMPANIES

Assets

At fiscal year 1978, there were 15 holding companies registered under the Act of which 14 are "active." In the 15 registered systems, there were 62 electric and/or gas utility subsidiaries, 71 non-utility subsidiaries, and 22 inactive companies, or a total of 174 system companies including the top parent and subholding companies. The following table lists the active systems.

Table 35
 PUBLIC UTILITY HOLDING COMPANY SYSTEMS

| | Solely Registered Holding Companies | Registered Holding Operating Companies | Electric and/or Gas Utility Subsidiaries | Nonutility Subsidiaries | Inactive Companies | Total Companies | Other |
|--|-------------------------------------|--|--|-------------------------|--------------------|-----------------|----------------|
| Allegheny Power System (APS) | 1 | 3 | 0 | 4 | 0 | 8 | 3 |
| American Electric Power Co (AEP) | 1 | 0 | 12 | 10 | 5 | 28 | 3 ^a |
| Central & South West Corp (CSW) | 1 | 1 | 3 | 3 | 1 | 9 | 1 ^b |
| Colonial Gas Energy System (CGES) .. | 1 | 0 | 2 | 13 | 2 | 18 | - |
| Columbia Gas System (CGS) | 1 | 0 | 8 | 11 | 0 | 20 | - |
| Consolidated Natural Gas (CNG) | 1 | 0 | 5 | 6 | 0 | 12 | - |
| Eastern Utilities Associates (EUA) | 1 | 0 | 4 | 1 | 2 | 8 | 4 ^c |
| General Public Utilities (GPU) | 1 | 0 | 5 | 5 | 1 | 12 | - |
| Middle South Utilities (MSU) | 1 | 0 | 6 | 3 | 3 | 13 | 1 ^b |
| National Fuel Gas Co (NFG) | 1 | 0 | 1 | 2 | 1 | 5 | - |
| New England Electric System (NEES) .. | 1 | 0 | 4 | 2 | 0 | 7 | 4 ^c |
| Northeast Utilities (NEU) | 1 | 0 | 5 | 8 | 6 | 20 | 4 ^c |
| Ohio Edison (OE) | 0 | 1 | 1 | 0 | 0 | 2 | 2 ^a |
| Phila Electric Power Co (PhilEP) | 0 | 1 | 1 | 0 | 1 | 3 | - |
| Southern Company (SC) | 1 | 0 | 5 | 3 | 0 | 9 | - |
| Total companies ... | 13 | 6 | 62 | 71 | 22 | 174 | 8 |

^a Beech Bottom Power Co., Inc
 - inactive
 - 50% APS, 50% AEP
 Ohio Valley Elec. Corp & subs
 Indiana-Kentucky Elec. Corp.
 - electric utility
 - 37.8% AEP
 16.5% OE
 12.5% APS
 33.2% 7 other companies

^b Arklaohama Corp
 - 32% CSW
 34% MSU
 34% Oklahoma Gas & Elec

^c Yankee Atomic Electric Co 30% NEES; 31.5% NEU, 4.5% EUA
 Connecticut Yankee Atomic Power Co. 15% NEES, 44% NEU, 4.5% EUA
 Vermont Yankee Nuclear Power Corp 20% NEES, 12% NEU
 Maine Yankee Atomic Power Co 20% NEES; 15% NEU
 - statutory utility subsidiaries

Table 36

KEY FINANCIAL STATISTICS OF REGISTERED PUBLIC UTILITY HOLDING COMPANY SYSTEMS

| Name of Company | As of June 30, 1978 (000 Omitted) | |
|---|--------------------------------------|-----------------------|
| | Total Assets | Operating Revenues |
| Allegheny Power System, Inc. (APS) | \$ 2,496,961 | \$ 845,435 |
| American Electric Power Company, Inc. (AEP) | 7,697,000 | 2,199,600 |
| Central and South West Corporation (C&SW) | 2,898,751 | 1,251,978 |
| Columbia Gas Energy Systems (CGES) | 111,278 ¹ | 68,791 ¹ |
| Columbia Gas System, Inc. The (CGS) | 3,276,619 | 2,400,247 |
| Consolidated Natural Gas Company (CNG) | 2,263,405 | 1,545,452 |
| Eastern Utilities Associates (EUA) | 310,352 | 174,792 |
| General Public Utilities Corporation (GPU) | 4,441,198 | 1,302,399 |
| Middle South Utilities, Inc. (MSU) | 5,196,160 | 1,557,468 |
| National Fuel Gas Company (NFG) | 563,428 | 543,428 |
| National Fuel Gas Company (NFG) | 1,801,779 | 760,589 |
| New England Electric System (NEES) | 2,961,621 | 925,170 |
| Northeast Utilities (NEU) | 2,907,121 | 826,244 |
| Ohio Edison Company (OE) | 61,152 | 6,645 |
| Philadelphia Electric Power Co (PEP) | 9,418,639 | 2,776,854 |
| Southern Company, The (SC) | | |
| | \$46,405,464 | \$17,185,092 |

¹ As of 12-31-77.

Table 37
FINANCING OF HOLDING COMPANY SYSTEMS
(Fiscal 1978)

| | In Millions of Dollars | | | | | |
|---|------------------------|---|------------------------------------|----------------|----------------|-----------------------|
| | Bonds | Long-term Notes and/or Debentures | Pollution Control Financings | Stock | | Short Term Debt |
| | | | | Preferred | Common | |
| Allegheny Power System Inc | | | | | \$ 70.0 | \$ 200.0 |
| Monongahela Power Co | \$ 25.0 | | \$ 50.0 | | | 50.0 |
| Potomac Edison Power Co | 25.0 | | 50.0 | | | 48.0 |
| West Penn Power Co | 45.0 | | 90.0 | | | 50.0 |
| American Electric Power Co | | | | | | 174.0 |
| Appalachian Power Co | 26.0 | | 210.0 | | | 200.0 |
| Indiana-Michigan Electric Co | 100.0 | | 90.0 | 40.0 | | 250.0 |
| Indiana-Michigan Power Co | 300.0 | | | | | |
| Indiana-Kentucky Electric Co | | | 45.0 | | | |
| Ohio Power Co | 38.0 | | 115.0 | 40.0 | | 150.0 |
| Central & South West Corp | | | | | 106.8 | 270.0 |
| Central Power & Light Co | 75.0 | | 39.0 | | | 92.0 |
| Public Service of Oklahoma | | 120.0 | 50.0 | | | 92.5 |
| Southwestern Electric Power Co | 50.0 | | 18.5 | | | 76.5 |
| West Texas Utilities Co | | | | | | 41.5 |
| Colonial Gas Co | | | | | | 18.8 |
| Columbia Gas System | | | | | | 592.0 |
| Consolidated Natural Gas Co | | | | | | 100.0 |
| Eastern Utilities Associates | | | | | | |
| Fall River Electric & Light Co | | | | | | 5.9 |
| Montaup Electric Co | | | | | | 21.6 |
| General Public Utilities | | | | | | 71.0 |
| Jersey Central Power & Light Co | 50.0 | 25.5 | | 50.0 | | 127.0 |
| Metropolitan Edison Co | 50.0 | | 12.0 | | | 85.0 |
| Pennsylvania Electric Co | 60.0 | | 34.0 | | | 87.0 |
| Middle South Utilities | | | | | 140.7 | 174.8 |
| Arkansas-Missouri Power Co | 7.0 | | | | | 13.2 |
| Arkansas Power & Light Co | 150.0 | | 59.2 | | | 125.0 |
| Louisiana Power & Light Co | 135.0 | | | 30.0 | | 15.0 |
| Mississippi Power & Light Co | | | | | | 10.0 |
| New Orleans Public Service Co | | | | | | 20.0 |
| National Fuel Gas Co | | | | | | 45.0 |
| New England Electric System | | | | | | |
| New England Power Co | 50.0 | | | | | 130.0 |
| Granite State Electric Co | | | | | | 0.7 |
| Northeast Utilities | | | | | | 15.0 |
| Connecticut Light & Power Co | 40.0 | | | | | 150.0 |
| Hartford Electric Light Co | 40.0 | | | | | 35.0 |
| Holyoke Water Power Co | | | | | | 6.0 |
| Western Massachusetts Electric Co | | | | | | 40.0 |
| Ohio Edison Co | 120.0 | | | 45.0 | 118.2 | 95.5 |
| Pennsylvania Power Co | 25.0 | | 10.6 | 10.0 | | 9.7 |
| Southern Co, The | | | | | 188.1 | 100.0 |
| Alabama Power Co | 400.0 | | 54.0 | 49.0 | | 305.0 |
| Georgia Power Co | 100.0 | | 30.0 | | | |
| Gulf Power Co | 25.0 | | 1.5 | | | 40.0 |
| Mississippi Power Co | | | 19.0 | | | 36.0 |
| Connecticut Yankee Atomic Power Co | | | | | | 30.0 |
| Yankee Atomic Electric Co | | | | | | 26.0 |
| Total | \$1,936.0 | \$145.5 | \$977.8 | \$264.0 | \$623.8 | \$4,225.7 |

Fuel Programs

During fiscal year 1978, the Commission authorized \$184 million of fuel exploration and development capital expenditures for the holding company systems.

This authorization covers an annual maximum expenditure for fuel programs defined on geographical and functional terms. The following table lists the authorization by holding company system for each fuel program.

Table 38
FUEL EXPENDITURES OF HOLDING COMPANY SYSTEMS

| Holding Company Systems | (In Millions of Dollars) | | | | | |
|--------------------------------------|----------------------------------|---|-----------------------------|-------------------------------------|---------------------------|--|
| | Gas and/or Oil Drilling | Coal and/or Lignite Explora- tion | Uranium Explora- tion | Nuclear Fuel Procure- ment | Coal Gasifica- tion | Fuel Storage Transpor- tation |
| Central & South West Corp. | \$ 8.7 | \$21.7 | \$ 5.2 | \$ | \$ | \$ |
| Columbia Gas System, Inc. . . . | | | | | 2.5 | |
| Consolidated Natural Gas Co. . . | | | | | 1.0 | |
| General Public Utilities Corp. . . | | 35.0 | | | | |
| Middle South Utilities, Inc. | 13.0 | 13.6 | 10.0 | 41.0 | | 5.0 |
| National Fuel Gas Co. | 3.1 | | | | | |
| New England Electric System . . . | 13.2 | | | | | |
| Northeast Utilities | | | | 11.0 | | |
| | \$38.0 | \$70.3 | \$15.2 | \$52.0 | \$3.5 | \$5.0 |

Total = \$184.0 million

CORPORATE REORGANIZATIONS

Commission Participation

In fiscal year, the Commission entered six new Chapter X proceedings involving companies with aggregate stated assets of approximately \$165 million and aggregate indebtedness of approximately \$127 million. Including the new proceedings, the Commission was

a party in a total of 118 reorganization proceedings during the fiscal year. The stated assets of the companies involved in these proceedings totaled approximately \$5.7 billion and their indebtedness about \$5.1 billion.

During the fiscal year 24 proceedings were closed, leaving 94 in which the Commission was a party at year end.

Table 39
REORGANIZATION PROCEEDINGS UNDER CHAPTER X OF THE BANKRUPTCY ACT
IN WHICH THE COMMISSION PARTICIPATED

(Fiscal Year 1978)

| Debtor | District Court | Petition Filed | SEC Notice of Appearance Filed |
|--|----------------|----------------|--------------------------------|
| Aldersgate Foundation, Inc | M D Fla | Sept 12, 1974 | Oct 3, 1974 |
| American Associated Systems, Inc | ED Ky | Dec 24, 1970 | Feb 26, 1971 |
| American Land Corp | SD Ohio | Aug 8, 1973 | Sept 25, 1973 |
| American Mortgage & Investment Co | D S C | Dec 13, 1974 | Feb 6, 1975 |
| Arizona Lutheran Hospital ² | D Ariz | May 11, 1970 | May 25, 1970 |
| Arlan's Dept Stores, Inc | SD NY | March 8, 1974 | March 8, 1974 |
| Bankers Trust ³ | SD Ind | Oct 7, 1966 | Nov. 1, 1966 |
| Bankers Trust Co ³ | SD Miss | Dec 16, 1976 | April 5, 1977 |
| Beck Industries, Inc | SD NY | May 27, 1971 | July 30, 1971 |
| Bermec Corp | SD NY | April 16, 1971 | April 10, 1971 |
| Beverly Hills Bancorp | C D Cal | April 11, 1974 | May 14, 1974 |
| Brethren's Home, The ¹ | SD Ohio | Nov 23, 1977 | Dec 27, 1977 |
| Bubble Up Delaware, Inc | C D Cal | Aug 31, 1970 | Oct. 19, 1970 |
| BXP Construction Corp | SD NY | Jan 15, 1974 | June 10, 1974 |
| C I P Corp ³ | S D Ohio | May 23, 1975 | June 26, 1975 |
| Carolina Caribbean Corp | W D N C | Feb 28, 1975 | April 17, 1975 |
| Coast Investors, Inc ³ | W D Wash | April 1, 1964 | June 10, 1964 |
| Coffeyville Loan & Investment ² | D Kans | July 17, 1959 | Aug 10, 1959 |
| Combined Metals Reduction Co | D Nev | Sept. 30, 1970 | Sept 7, 1972 |
| Commonwealth Corp | N D Fla | June 28, 1974 | July 17, 1974 |
| Commonwealth Financial Corp ³ | ED Pa | Dec 4, 1967 | Dec 13, 1967 |
| Community Business Services, Inc ² | ED Cal | June 8, 1972 | April 30, 1973 |
| Continental Investment Corp ¹ | D Mass | Oct 31, 1978 | Oct 31, 1978 |
| Continental Mortgage Investors | D Mass | Oct 21, 1976 | Oct 21, 1976 |
| Continental Vending Machine Corp | ED NY | July 10, 1963 | Aug 7, 1963 |
| Cosmo Capital Inc ² | N D Ill | July 22, 1963 | April 22, 1963 |
| Davenport Hotel, Inc | ED Wash | Dec 20, 1972 | Jan 26, 1973 |
| Detroit Port Development Corp ³ | ED Mich | Sept 14, 1976 | Nov 17, 1976 |
| Diversified Equity Corp | SD Ind | Jan 24, 1977 | Feb 17, 1977 |
| Diversified Mountaineer Corp ³ | S D W Va | Feb 8, 1974 | April 24, 1974 |
| Dumont-Airplane & Marine ³ | SD NY | Oct 22, 1958 | Nov 10, 1958 |
| Duplan Corp | SD NY | Oct 5, 1976 | Oct 5, 1976 |
| E T & T Leasing, Inc ³ | D Md | Dec 20, 1974 | June 5, 1975 |
| Educational Computer Systems, Inc ² | D Ariz | April 26, 1972 | Nov 3, 1972 |
| Eichler Corp ² | N D Cal | Oct 11, 1967 | Oct 11, 1967 |
| Equitable Mortgage Investment Corp ² | SD Iowa | July 10, 1975 | July 10, 1975 |
| Equitable Plan Co ² | SD Cal | March 17, 1958 | March 24, 1958 |
| Equity Funding Corp of America ² | C D Cal | April 5, 1973 | April 9, 1973 |
| Farrington Manufacturing Co ³ | ED Va | Dec 22, 1970 | Jan 14, 1971 |
| First Baptist Church, Inc of Margate, Fla. | SD Fla | Sept 10, 1973 | Oct 1, 1973 |
| First Home Investment Corp of Kansas, Inc ³ | D Kan | April 24, 1973 | April 24, 1973 |
| First Research Corp ³ | S D Fla | March 2, 1970 | April 14, 1970 |
| GAC Corp | SD Fla | May 19, 1976 | June 14, 1976 |
| GEBCO Investment Corp | W D Pa | Feb 8, 1977 | March 24, 1977 |
| Wm Gluckin Co., Ltd | SD NY | Feb 22, 1973 | March 6, 1973 |
| Gro-Plant Industries, Inc ³ | N D Fla | Aug 30, 1972 | Sept 13, 1972 |
| Gulfico Investment Corp | W D Okla | March 22, 1974 | March 28, 1974 |
| Gulf Union Corp | M D La | Aug 29, 1974 | Nov 5, 1974 |
| Harmony Loan, Inc | ED Ky | Jan 31, 1973 | Jan. 13, 1973 |
| Hawaii Corp | D Hawaii | March 17, 1977 | March 17, 1977 |
| Hawkeye Land, Ltd | SD Iowa | Dec 19, 1973 | Jan 21, 1974 |
| R Hoe & Co, Inc ² | SD NY | July 7, 1969 | July 14, 1969 |
| Home-Stake Production Co | N D Okla | Sept 20, 1973 | Oct 2, 1973 |
| Houston Educational Foundation, Inc ³ | SD Tex | Feb 16, 1971 | March 2, 1971 |
| Human Relations Research Foundation ² | SD Cal | Jan 31, 1964 | Feb 14, 1964 |
| Imperial-American Resources Fund, Inc ³ | D Colo | Feb 25, 1972 | March 6, 1972 |
| Imperial '400' National, Inc | D N J | Feb 18, 1966 | Feb 23, 1966 |
| Indiana Business & Investment Trust ³ | SD Ind | Oct 10, 1966 | Feb 4, 1966 |
| Interstate Stores, Inc | SD NY | June 13, 1974 | June 13, 1974 |
| Investors Associated, Inc ³ | W D Wash | March 3, 1965 | March 17, 1965 |

See footnotes at end of table

Table 39—Continued

REORGANIZATION PROCEEDINGS UNDER CHAPTER X OF THE BANKRUPTCY ACT
IN WHICH THE COMMISSION PARTICIPATED

(Fiscal Year 1978)

| Debtor | District Court | Petition Filed | SEC Notice of Appearance Filed |
|--|----------------|----------------|--------------------------------|
| Investors Funding Corp of New York | SD NY | Oct 21, 1974 | Oct 22, 1974 |
| Jade Oil & Gas Co ² | CD Cal | June 28, 1967 | Aug 16, 1967 |
| J D Jewell, Inc ³ | ND Ga | Oct 20, 1972 | Nov 7, 1972 |
| King Resources Co ³ | D Colo | Aug 16, 1971 | Oct 19, 1971 |
| Lake Winnebago Development Co., Inc | WD Mo | Oct 14, 1970 | Oct 26, 1970 |
| Los Angeles Land & Investments, Ltd ² | D Hawaii | Oct 24, 1967 | Nov 28, 1967 |
| Louisiana Loan & Thrift, Inc ² | ED La | Oct 8, 1968 | Oct 8, 1968 |
| Lusk Corp | D Ariz | Oct 28, 1965 | Nov 5, 1965 |
| Lyntex Corp ² | SD NY | April 15, 1974 | Jan 28, 1974 |
| Dolly Madison Industries, Inc | ED Pa | June 23, 1970 | July 6, 1970 |
| Manufacturer's Credit Corp ² | D NJ | Aug 1, 1967 | July 30, 1968 |
| Mid-City Baptist Church ³ | ED La | July 30, 1968 | Oct 23, 1968 |
| Mount Everest Corp ³ | ED Pa | May 29, 1974 | Jan 28, 1974 |
| National Telephone Co., Inc | D Conn | July 10, 1975 | May 27, 1976 |
| Nevada Industrial Guaranty Co | D Nev | May 7, 1963 | July 2, 1963 |
| North American Acceptance Corp | ND Ga | March 5, 1974 | March 28, 1974 |
| North Western Mortgage Investors Corp ³ | WD Wash | Dec 12, 1973 | Dec 12, 1973 |
| Omega-Alpha, Inc ³ | ND Tex | Jan 10, 1975 | Jan 10, 1975 |
| Pacific Homes ¹ | CD Cal | Dec 9, 1977 | Feb 2, 1978 |
| Pan American Financial Corp | D Hawaii | Oct 2, 1972 | Jan 9, 1973 |
| Parkview Gem, Inc | WD Mo | Dec 18, 1973 | Dec 28, 1973 |
| Pocono Downs, Inc | MD Pa | Aug 20, 1975 | Aug 20, 1975 |
| John Rich Enterprises, Inc ³ | D Utah | Jan 16, 1970 | Feb 6, 1970 |
| Reliance Industries, Inc | D Hawaii | May 24, 1976 | Aug 10, 1976 |
| Riker Delaware Corp ³ | D NJ | April 21, 1967 | May 23, 1967 |
| Royal Inns of America, Inc | SD Cal | April 24, 1975 | June 24, 1975 |
| Scranton Corp ³ | MD Pa | April 3, 1959 | April 15, 1959 |
| Edward N Siegler & Co ² | ND Ohio | May 23, 1966 | June 7, 1966 |
| Sierra Trading Corp ³ | D Colo | July 7, 1970 | July 22, 1970 |
| Sound Mortgage Co., Inc ³ | WD Wash | July 27, 1965 | Aug 31, 1965 |
| Southern Land Title Corp | ED La | Dec 7, 1966 | Dec 31, 1966 |
| Stannoco Developers, Inc | WD NY | Feb 5, 1974 | March 7, 1974 |
| Strirling Homex Corp | WD NY | July 11, 1972 | July 24, 1972 |
| Sunset International Petroleum Corp ³ | ND Tex | May 27, 1970 | June 10, 1970 |
| TMT Trailer Ferry, Inc ³ | S D Fla | June 27, 1957 | Nov 22, 1957 |
| Thermo-Dyne, Inc ¹ | WD Okla | Feb 24, 1978 | June 5, 1978 |
| Tilco, Inc ³ | D Kans | Feb 7, 1973 | Feb 22, 1973 |
| Tower Credit Corp ³ | MD Fla | April 13, 1966 | Sept 6, 1966 |
| Traders Compress Co | WD Okla | May 12, 1972 | June 6, 1972 |
| Trans-International Computer Investment | ND Cal | March 22, 1971 | July 26, 1971 |
| Trinity Baptist Church of Jacksonville, Inc ¹ | ND Fla | June 24, 1977 | Oct 3, 1977 |
| Trustors' Corp ² | CD Cal | Sept 13, 1961 | Oct 9, 1961 |
| "U" District Building Corp | WD Wash | Dec 9, 1974 | Dec 9, 1974 |
| U S Financial, Inc | SD Cal | Sept 23, 1975 | Nov 3, 1975 |
| University Baptist Church of Jacksonville, Florida, Inc ¹ | MD Fla | May 23, 1977 | Oct 3, 1977 |
| Viatron Computer Systems Corp ² | D Mass | April 29, 1971 | April 29, 1971 |
| Virgin Island Properties, Inc ³ | D VI | Oct 22, 1971 | April 11, 1972 |
| Vinco Corp ² | ED Mich | March 29, 1963 | April 9, 1963 |
| Walham Industries Corp ² | CD Cal | July 14, 1971 | Aug 19, 1971 |
| Washington Group, Inc. | MD NC | June 20, 1977 | July 25, 1977 |
| Webb & Knapp, Inc ³ | SD NY | May 7, 1965 | May 11, 1965 |
| H R Weissberg Corp ² | ND Ill | March 5, 1968 | April 3, 1968 |
| Western Growth Capital Corp | D Ariz | Feb 10, 1967 | May 16, 1968 |
| Western National Investment Corp ² | D Utah | Jan 4, 1968 | March 11, 1968 |
| Westgate-California Corp | SD Cal | Feb 26, 1974 | March 8, 1974 |
| Wonderbowl, Inc | CD Cal | March 10, 1967 | June 7, 1967 |
| Yale Express System, Inc ³ | SD NY | May 24, 1965 | May 28, 1965 |

¹ Commission filed notices of appearance in fiscal year 1978² Reorganization proceedings closed during fiscal year 1978³ Plan has been substantially consummated but no final decree has been entered because of pending matters

SEC OPERATIONS

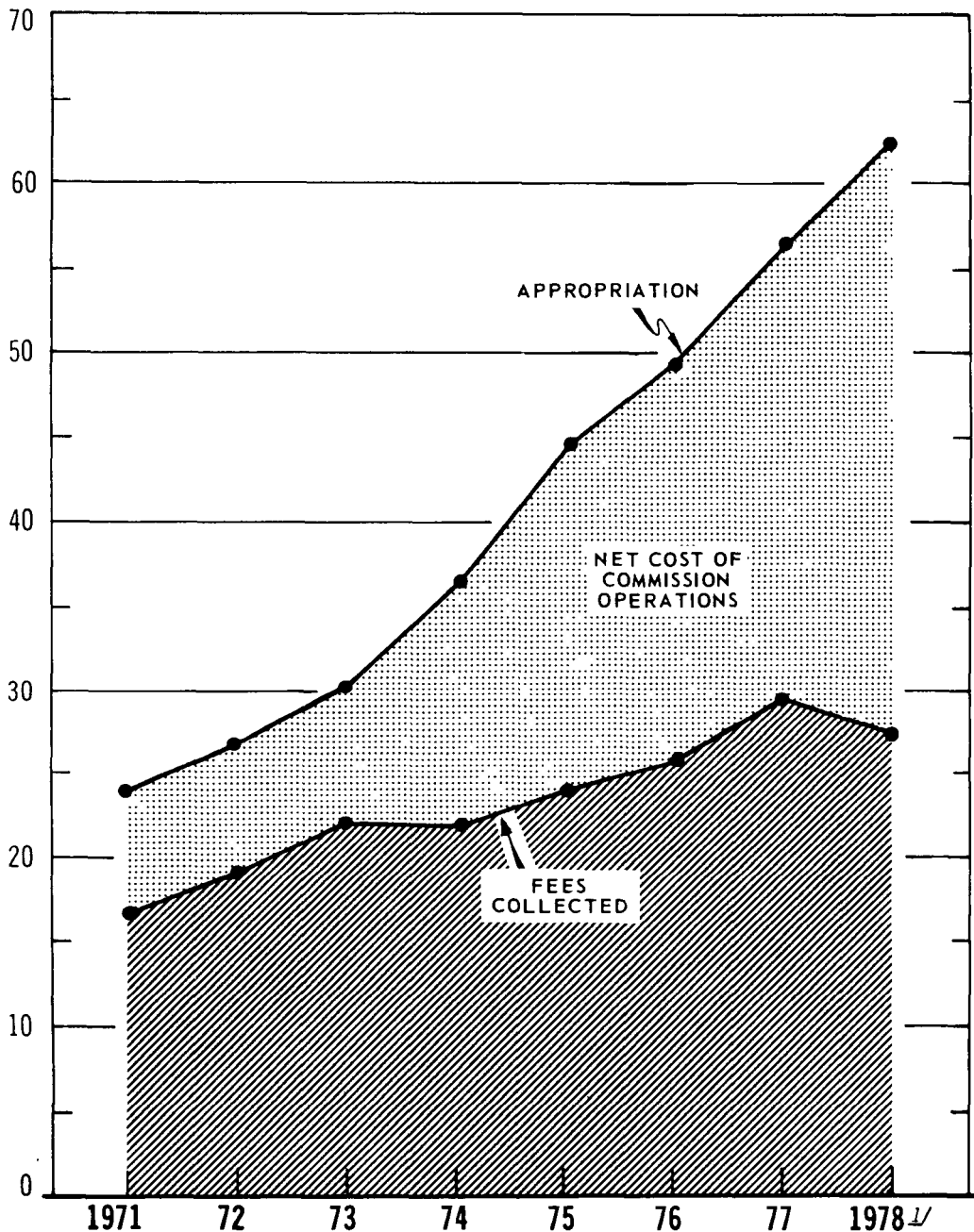
Net Cost

The Commission collected \$26.1 million dollars in fees in fiscal year 1978. This represents approximately 42 percent of the total funds appropriated by the Congress for Commission operations. By statute, the Commission is required by law to collect fees for: 1) the registration of securities; 2) the qualification of trust indentures; 3) the transactions of national securities exchanges

and registered brokers and dealers; 4) the registration of brokers and dealers who are registered with the Commission but are not members of the National Association of Securities Dealers; and 5) the certification of documents filed with the Commission. In addition, by fee schedule, the Commission imposes fees for certain filings and services. These include, but are not limited to, the filing of annual reports and preliminary proxy material.

APPROPRIATED FUNDS vs FEES COLLECTED

Dollars Millions



1/ Estimated

Table 40
BUDGET ESTIMATES AND APPROPRIATION

| Action | Fiscal 1974 | | Fiscal 1975 | | Fiscal 1976 | | Transitional Quarter | | Fiscal 1977 | | Fiscal 1978 | | Fiscal 1979 | |
|---|----------------|--------------|----------------|--------------|----------------|--------------|----------------------|--------------|----------------|--------------|----------------|--------------|----------------|--------------|
| | Posi- tions | Money | Posi- tions | Money | Posi- tions | Money | Posi- tions | Money | Posi- tions | Money | Posi- tions | Money | Posi- tions | Money |
| Estimate submitted to the Office of Management and Budget | 1,919 | \$34,027,000 | 2,219 | \$43,674,000 | 2,294 | \$54,577,000 | 2,081 | \$12,500,000 | 2,400 | \$54,822,000 | 2,133 | \$59,000,000 | 2,179 | \$66,600,000 |
| Action by the Office of Management and Budget | -204 | -2,817,000 | -225 | -1,543,000 | -276 | -7,390,000 | | | -283 | -1,724,000 | -41 | -710,000 | -47 | -1,800,000 |
| Amount allowed by the Office of Management and Budget | 1,715 | 31,210,000 | 1,994 | 42,131,000 | 2,018 | 47,187,000 | 2,081 | 12,500,000 | 2,117 | 53,098,000 | 2,092 | 58,290,000 | 2,132 | 64,800,000 |
| Action by the House of Representatives | +204 | +2,817,000 | +150 | +946,000 | | -302,000 | | -75,000 | | -98,000 | | -290,000 | -7 | -150,000 |
| Sub-total | 1,919 | 34,027,000 | 2,144 | 43,077,000 | 2,018 | 46,885,000 | 2,081 | 12,425,000 | 2,117 | 53,000,000 | 2,092 | 58,000,000 | 2,125 | 64,650,000 |
| Action by the Senate | | | | | +126 | +2,000,000 | | +250,000 | | | | +290,000 | | |
| Sub-total | 1,919 | 34,027,000 | 2,144 | 43,077,000 | 2,144 | 48,885,000 | 2,081 | 12,675,000 | 2,117 | 53,000,000 | 2,092 | 58,290,000 | 2,125 | 64,650,000 |
| Action by conferees | | | | | -63 | -1,000,000 | | | | | | -190,000 | | |
| Annual appropriation | 1,919 | 34,027,000 | 2,144 | 43,077,000 | 2,081 | 47,885,000 | 2,081 | 12,675,000 | 2,117 | 53,000,000 | 2,092 | 58,100,000 | | |
| Supplemental appropriation | | 2,200,000 | | 1,350,000 | | 1,406,000 | | 502,000 | | 3,270,000 | | 4,375,000 | | |
| Total appropriation | 1,919 | 36,227,000 | 2,144 | 44,427,000 | 2,081 | 49,291,000 | 2,081 | 13,177,000 | 2,117 | 56,270,000 | 2,092 | 62,475,000 | | |

¹ Adjusted by \$3,000,000 pay increase supplemental for fiscal year 1978, not included in fiscal year 1979 OMB submission base

