

Commonwealth of Pennsylvania



PENNSYLVANIA SECURITIES COMMISSION

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ROBERT M. LAM
CHAIRMAN

October 12, 1983

Theodore A. Levine, Associate Director
Division of Enforcement
Securities and Exchange Commission
450 - 5th Street, N.W.
Washington, D.C. 20549

Dear Mr. Levine:

The Pennsylvania Securities Commission (Commission) read with great interest the article appearing in the Wall Street Journal on Friday, October 7, 1983, with respect to the Securities and Exchange Commission (SEC) becoming vigilant in connection with savings and loan associations' (S&L) securities offerings.

Several months ago the Commission became concerned that stock offerings by S&Ls which were being made in connection with conversions from a mutual to a stock form appeared to have serious deficiencies with respect to presenting clearly to the depositors (pre-emptive offerees) and the investing public the risk factors involved in such offerings. The Commission was especially concerned that depositors, who may have limited net worth or limited sophistication with respect to securities, were being solicited to convert from a federally insured income producing account to a risky equity position without the benefit of an meaningful explanation of the risk factors involved.

The Commission found that few disclosure documents contained a risk factor section as would appear in a standard prospectus being distributed pursuant to a 1933 Act registration. In particular, the Commission was especially concerned that S&Ls which had acquired other

financial institutions in recent years and accounted for such transactions through purchase accounting principles, were presenting the book value of the S&Ls to include both the tangibles and intangibles. In many instances, the intangibles resulting from the good-will attribution relating to the acquisition of these other financial institutions exceeded the tangible net worth of the S&Ls on a three to one or even four to one ratio. In some instances the ratio was much greater. The net effect was that the tangible book value of the issuer was either far below the offering price or in some cases there was actually a substantial negative tangible book value. Only the most sophisticated investors looking in detail at footnotes in the disclosure document would have been able to discern this fact.

In some cases the purchase accounting method permitted the issuer to show "paper profits" when in fact there was an economic loss for the period. Again only the most discerning investors with knowledge of the implications of purchase accounting principles would be able to clearly understand the income (loss) position of the issuer.

The staff of the Commission had contacted the securities disclosure staff of the Federal Home Loan Bank Board and had found them to be uninterested in presenting a risk factor section in the disclosure documents. The staff of the Commission found the accounting division of the Federal Home Loan Bank Board to be extremely knowledgeable on these technical accounting issues and as such the Commission staff was somewhat perplexed in the resistance to enhance disclosure expressed by the securities disclosure staff of the Federal Home Loan Bank Board.

Accordingly the Commission had directed its staff to begin acquiring (in that they are not required to be filed under the Pennsylvania Securities Act of 1972 pursuant to an exemption for bank and S&L offerings) the disclosure documents being utilized by S&Ls in conversions in order to make a presentation to the SEC's division of Corporation Finance and hopefully the Federal Home Loan Bank Board on this subject. In light of your statement in the Wall Street Journal article, the Commission feels confident that by conveying these concerns to you that the matter will be appropriately considered and resolved.

While the Federal Home Loan Bank Board regulates disclosure solely for federally chartered S&Ls, the practice in the securities industry in the preparation of disclosure documents for state S&L offerings is to follow precedents in the federally filed disclosure documents. Accordingly improving the quality of disclosure for federally chartered S&L offerings will improve the quality of disclosure of state chartered S&L offering material.

The Commission wishes to compliment you and the SEC on the actions you have taken and if the Commission or its staff could be of any further assistance to you please do not hesitate to contact Elliott Klein, Chief Counsel, James J. Craig, Chief Accountant, or myself.

Very truly yours,



Robert M. Lam
Chairman

RML/nb

CC: Peter J. Romeo
Chief Counsel
SEC-Div. of Corporate Finance