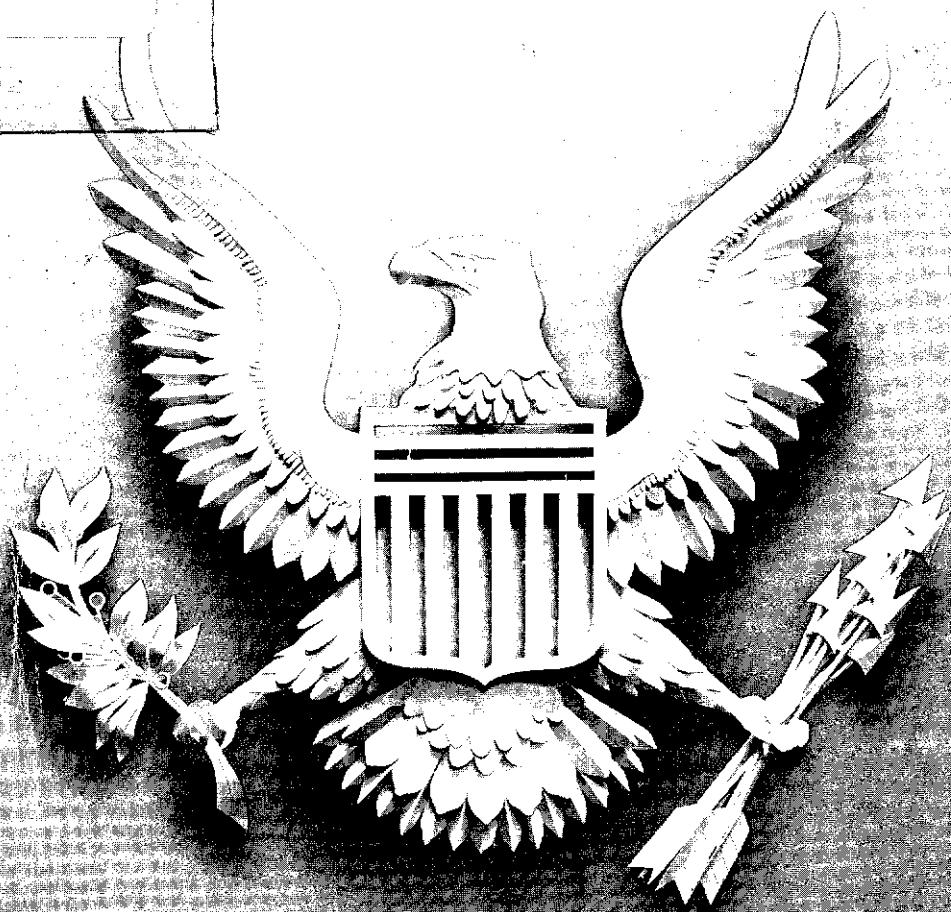


804556  
.USA3  
1986  
cop. 5



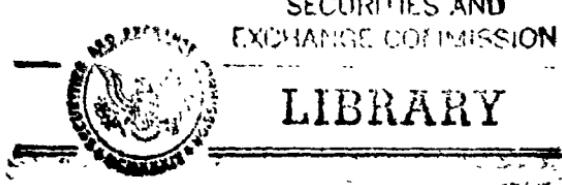
U. S. SECURITIES AND EXCHANGE COMMISSION  
FIFTY-SECOND ANNUAL REPORT 52d

U. S. SEC LIBRARY



1 9 8 6

50614010123542



SECURITIES AND  
EXCHANGE COMMISSION  
**LIBRARY**

---

For sale by the Superintendent of Documents, U S Government Printing Office  
Washington, D C 20402



OFFICE OF  
THE CHAIRMAN

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

HG4556  
U5A3  
1986  
Cop. 2

March 2, 1987

The Honorable George Bush  
President of the Senate  
Washington, D.C. 20510

The Honorable Jim Wright  
Speaker of the House  
Washington, D.C. 20515

Gentlemen:

In fiscal 1986 the Securities and Exchange Commission increased investor protections and reduced unnecessary paperwork and other expenses, ultimately borne by investors. Highlights include:

Record results or the highest levels in years were achieved by all Divisions (see table on page 2). Over the past five years, through automation, paperwork reduction and other staff and Commission initiatives, the increase in the Commission's results has compared favorably with the growth in the marketplace. For example, since fiscal 1981:

- Enforcement actions have been increased 61%.
- Full disclosure filings by issuers have increased 35%. SEC reviews of these filings have increased 71%.
- The number of registered broker-dealers has increased 57%. SEC broker-dealer oversight examinations have increased 73% and Self-Regulatory Organization inspections 83%.
- The number of registered investment companies and advisers has increased 86%. SEC inspections have increased 155%.
- Targeting problem areas has improved the quality of reviews, examinations, inspections and enforcement actions.
- The number of shares traded on the New York Stock Exchange has increased 186%, but the number of transactions has increased only 53% because of the growth of large transactions by institutions and others. The number of investors has increased 46%.
- Complaints to the SEC have increased 55%. Since 1982 all are reviewed. Most involve brokerage back office matters. They are referred to the firms' compliance departments for investigation and written response, and are tracked by the SEC through resolution. Others are referred to the SEC Enforcement Division, the Justice Department, Self-Regulatory Organizations (SROs) or state securities commissions for investigation and prosecution if warranted.

	Fiscal Years Ended September 30th						1981-86 Change
	1981	1982	1983	1984	1985	1986	
Litigation‡	121	141	161	176	153	179*	+ 48%
Enforcement Actions	191	254	261	299	269	312*	+ 61%
Filings Reviewed	6,153	6,239	6,987	7,237	9,571	10,526*	+ 71%
Broker-Dealer Oversight Exams	278	249	324	389	447	481*	+ 73%
SRO Inspections	12	19	18	20	21	22*	+ 83%
Investment Co. and Adviser Inspections	748	1,065	1,085	1,334	1,606	1,906*	+ 155%
Authorized Positions Staff Years†	2,021 1,982	2,021 1,881	2,021 1,921	2,021 1,885	2,046 1,940	2,080* 1,898	+ 3% - 4%
Budget (000,000)	\$80.2	\$83.3	\$89.7	\$94.0	\$106.4	\$106.3 <sup>+</sup>	+ 33%
Fees as a Percentage of the SEC's Budget	81%	94%	110%	129%	135%	203%*	

\* A record or the highest level in years.

† Cases litigated by the Office of the General Counsel, amicus positions, civil subpoena responses and bankruptcy appearances.

‡ Authorized Positions and actual Staff Years. The differences are due primarily to budgetary constraints and also to government-private sector wage disparities

<sup>+</sup> After a \$4.8 million reduction from the \$111.1 million appropriated due to Gramm-Rudman-Hollings, which was restored at the request of the President in fiscal 1987.

**Budget:** In fiscal 1986 the budget was reduced from the \$111.1 million appropriated to \$106.3 million (\$4.8 million or 4.3%) due to the Gramm-Rudman-Hollings Balanced Budget and Emergency Deficit Control Act. At the request of the President the Commission's fiscal 1987 budget restored the Gramm-Rudman-Hollings reduction plus \$3.4 million. Since 1981, the Commission's budget has been increased 43% to \$114.5 million in fiscal 1987. In each of the last four fiscal years registration, transfer and other fees have significantly exceeded the Commission's budget, which has happened only once before in the past 52 years. In fiscal 1986, fees exceeded the budget by 203% or \$109 million. The President has requested a \$31 million (27%) increase in the Commission's fiscal 1988 budget to \$145 million, which is presently pending before Congress. The increase is principally to cover start-up costs of the operational electronic disclosure system ("Edgar") and a 9% increase in authorized positions from 2,086 to 2,267 for enforcement and related activities. The President requests and Congress legislates the Commission's budget, personnel and fees. Fees and fines are remitted to the Treasury as received.

**Enforcement:** Enforcement actions increased 16% to 312 cases from 269 in 1985. They included 114 broker-dealer and other regulated entity cases, 69 securities offering violation cases, 49 false and misleading financial disclosure cases and a record 34 insider trading cases. In fiscal 1986, court orders required violators to disgorge a record \$38 million of illicit profits and to pay \$4 million in fines.

On November 14, 1986, a record \$100 million consent judgement was obtained against Ivan Boesky. He was also barred from the securities industry, became a

cooperating witness in ongoing investigations by the SEC and the Justice Department and consented to a felony count which may result in up to five years imprisonment and \$250,000 in fines.

While insider trading cases have received a great deal of publicity, they have only amounted to 10% or less of enforcement actions in recent years; however, they have increased significantly over prior years. During the past five years, 125 insider trading cases have been brought, as compared with 77 during the preceding 47 years. The large increase is due principally to the increase in corporate takeovers and to improved surveillance and enforcement systems and techniques by the Enforcement Division. With the support of the business and financial community, the investing public, the Administration and Congress, the SEC's ability to expose and prosecute securities frauds has been significantly enhanced by electronic market surveillance systems, transaction audit trails, heavy fines and growing cooperation from abroad (see International Accords below).

The Ivan Boesky and many other cases demonstrate that it has become increasingly difficult for inside traders to hide — at home or abroad — and that those who engage in such activities are assuming significant risks of imprisonment, heavy fines and civil suits, disbarment from the legal profession and the securities industry — and public disgrace. Insider trading has not been eradicated, but it has been inhibited and multimillions of dollars of profits that Boesky and others have been siphoning off the markets are now flowing through to legitimate investors and traders.

**International Accords:** Starting with the Swiss Accord in 1982, the Commission has implemented additional cooperation agreements on enforcement matters with Canadian, Japanese and United Kingdom authorities. Others are in prospect. The logical extension of these bilateral agreements will be multilateral agreements with virtually all major markets.

At the Commission's initiative in 1986, the 30-nation International Organization of Securities Commissions formed multinational committees to accelerate: cooperation on enforcement matters; the clearance and settlement of international securities transactions; access to each others' markets; and the growth of less developed countries' markets.

The Corporation Finance Division is preparing for the Commission's consideration a proposal to permit so-called "world class" corporations to do investment grade debt, exchange and rights offerings in certain participating countries under prospectuses that comply with their domestic requirements, subject to certain minimum provisions.

**International Linkages:** Upon the recommendation of the Market Regulation Division, the Commission approved linkage of the Midwest and Toronto stock exchanges, and the first transatlantic exchange of stock quotations by the National Association of Securities Dealers and the London Stock Exchange. The Commission has previously approved linkages of the American and Toronto stock exchanges and the Boston and Montreal stock exchanges.

About 500 companies' shares are now actively trading in more than one country. By the early 1990s we may well witness over a fivefold increase in the number

of companies with shares trading around the clock and the world through a grid of international linkages of major markets and brokerage networks.

**Program Trading:** By telescoping into minutes and hours transactions previously executed over days and weeks, computerized hedging and arbitrage has increased market volatility in dollars, but not in percentage changes of the averages. Stock index options and futures enable investors, underwriters and others to hedge market risks at a fraction of the prior costs. Computerized arbitrage brings the prices of options and futures into line with those of the underlying securities, which increases the efficiency and liquidity of the markets.

To dampen the volatility on quarterly settlement dates when options and futures expire, the Commission proposed that certain order imbalances be displayed on the ticker tape during the last half hour of trading. The results have been encouraging. The Commission also encouraged and endorsed the Chicago Mercantile Exchange's and the Chicago Board Option Exchange's proposals to settle certain stock index futures and options at opening instead of closing prices, and the CME's proposal to increase its margin requirements. The Market Regulation Division is monitoring these efforts and considering others to dampen interim and settlement volatility.

**Tender Offers:** To address discriminatory tender offers, the "all holders, best price" rule was adopted. It requires that tender offers be made to all holders of a class of securities and that the best price paid to any be paid to all. The minimum offering period of issuer tender offers was conformed to that of third party offers and withdrawal rights were extended throughout all offers. Legislation was proposed to reduce from ten to two days the 13D disclosure of the acquisition of a 5% interest in a company. The Corporation Finance Division is analyzing extensive responses received to a concept release on "unconventional" tender offers, "poison pills" and companies "opting out" of certain tender offer rules upon shareholder approval.

**One Share One Vote:** Public hearings were held on December 16 and 17, 1986 concerning the New York Stock Exchange's proposal to permit listed companies to issue classes of common stock with different voting rights upon approval by a majority of their independent directors and public shareholders. The Market Regulation Division is analyzing the comments and alternatives.

**Electronic Disclosures:** The Commission's pilot electronic disclosure system (known as "Edgar" for Electronic Data Gathering, Analysis and Retrieval) successfully completed its second full year of operation. Over 1,000 issuers have filed over 15,000 documents on Edgar. The primary purpose of Edgar is to increase the efficiency and fairness of the markets for the benefit of investors, issuers and the economy by reducing from days and weeks to minutes and hours the public dissemination of time-sensitive corporate information. This will increase the utility of such information to investors, accelerate issuers' access to the market and increase their financing flexibility. Edgar will also assist the Corporation Finance and Investment Management Divisions in improving the efficiency, breadth and quality of their filing reviews and the Enforcement Division in its investigations. Offers for the operational Edgar system have been received and are being evaluated. Comments on an advance rulemaking proposal for electronic disclosures are under review.

**Shareholder Communications:** To facilitate issuers' communications with their investors, under rules adopted by the Commission, broker-dealers began making available to issuers on January 1, 1986 the identity of their non-objecting shareholders. The Commission has issued similar rules for commercial banks under the Shareholder Communications Act of 1985.

**Certificate Immobilization:** The Commission is encouraging voluntary immobilization of debt security certificates through the greater use of electronic book-entry systems and central depositories, which will save multimillions of dollars of expenses ultimately borne by investors and reduce paperwork and other problems. Ford Motor Credit Corporation successfully consummated the first public offering of conventional corporate debt on a book-entry basis on October 21, 1986. Also, with the Commission's support, the Government National Mortgage Association announced in December 1986, its intention to begin issuing securities on a book-entry basis through the MBS Clearing Corporation by the third quarter of 1987. Upon the recommendation of the Market Regulation Division, the Commission approved the registration of the MBSCC as a clearing agency through July 1988. GNMA's initiative will accelerate the clearance and settlement of transactions and reduce GNMA fail rates, which have been running in excess of 30%.

**Proxies:** Proxies were improved and the costs reduced for the benefit of investors through the integration of disclosures, simplification of compensation plan information and greater new registrant disclosures of accountant changes.

**Economic Research:** The Office of the Chief Economist released economic studies concerning the adverse impact on share prices upon announcement of companies' intentions to adopt "poison pills"; the use of noninvestment grade debt to provide 14% of tender offer financings during the first half of 1985; and the negligible impact on stock prices of SEC enforcement of the ceiling test for those oil and gas companies which use "full cost" accounting. The OCE and the Directorate of Economic and Policy Analysis also published studies finding that multiple listing reduces the cost of transactions in both listed and OTC stock options.

**Investment Advisers / Financial Planners:** Upon the recommendation of the Investment Management Division, the Commission endorsed the National Association of Securities Dealers' proposed pilot inspection program for the investment advisers of its members and their affiliates, which account for 43% of registered investment advisers.

**Litigation:** In litigation involving the Office of the General Counsel, the Commission's positions were upheld in 86% of 81 decisions, including the insider trading misappropriation theory in U.S. v. Carpenter (cert. granted); the Commission's authority to administratively discipline accountants in Davy v. SEC; antifraud provision applicability to government securities repurchase transactions in SEC v. Drysdale Securities Corporation; the materiality of ongoing merger negotiations prior to an agreement in principle in Levinson v. Basic; the applicability of Securities Act disclosure requirements to predecessor entities in SEC v. American Board of Trade; and that tax offset rules do not mitigate tax shelter investors' rescissionary damages in Randall v. Loftsgaarden.

**Functional Regulation:** The Commission testified in support of the Bush Task Group recommendation to consolidate within the SEC the securities reporting re-

quirements of 700 publicly owned banks and thrifts. This would permit more uniform disclosures and enforcement at lower cost. The 12,000 other publicly owned companies, including 1,000 banks and thrift holding companies, presently file with the SEC.

**Small Business:** In compliance with the Small Business Investment Incentive Act's requirement to reduce state and federal regulatory burdens on small businesses, the Commission adopted and the North American Securities Administrators Association recommended to the states a uniform notification form for certain financings exempt from registration under Regulation D. Also, the asset threshold requiring registration of issuers' securities was raised from \$3 to \$5 million.

**Annual Reports:** The Corporation Finance Division approved a General Motors proposal to improve issuers' communications with their shareholders by providing more readable annual reports at lower cost, without reducing the information provided shareholders.

**Government Securities:** A study prepared in consultation with the Treasury Department and the Federal Reserve Board formed a basis for the Government Securities Act of 1986. The Act requires previously unregulated government securities dealers to register with the Commission. The Commission and the federal bank regulators share inspection and enforcement responsibilities.

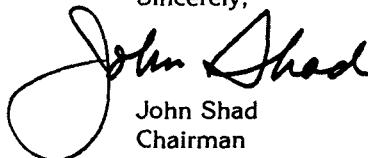
**Accounting:** Upon the recommendation of the Office of the Chief Accountant, the Commission requested the Financial Accounting Standards Board to address issues related to market value changes in financial instruments, off-balance-sheet financing and risk transfer instruments. Guidance was also provided public companies on reporting the effects of the Tax Reform Act of 1986.

**Roundtables:** Eight open roundtable discussions of the Commission and senior staff were held with leading business, academic and other authorities on major issues concerning the role of investment advisers and financial planners, index arbitrage, takeover developments, disclosure of merger negotiations, surveillance and enforcement programs, independent auditors and other matters.

**Legislation:** Commission representatives testified at 12 Congressional hearings concerning civil RICO reform, tender offer regulation, SEC appropriations, SEC oversight, bank accounting and financial reporting, disclosure of foreign investments, investment advisers and financial planners, insider trading, financial reporting and the role of the independent auditor, regulation of financial services and other matters. The staff also assisted Congressional committees in drafting legislation and provided studies and other information in response to Congressional requests.

The past year's results are a product of the ability and dedication of the staff and Commissioners. The Commission also received excellent cooperation and support from the business and financial community, the investing public, the Justice Department, the Self-Regulatory Organizations, the state securities commissions, the Administration and Congress.

Sincerely,



John Shad  
Chairman

---

---

# Table of Contents

---

<b>Chairman's Letter of Transmittal</b>	1
<b>Enforcement Program</b>	7
Key 1986 Results	7
Introduction	7
Program Areas	8
Corporate Reporting and Accounting	9
Insider Trading	10
Regulated Entities and Associated Persons	12
Securities Offering Violations	14
Market Manipulation	14
Changes in Corporate Control	15
Other Developments	15
Transnational Securities Issues	15
Sources for Further Inquiry	16
<b>Full Disclosure System</b>	17
Key 1986 Results	17
Rulemaking	18
Operational Edgar System	18
Tender Offers	18
Shareholder Communications	18
Filing Fees	19
Pricing Amendments	19
Classification of Issuers	19
Filings for Exempt Private Offerings	19
The Proxy Review Program	19
Interpretations	20
Conferences	20
<b>Accounting and Auditing Matters</b>	20
Accounting-Related Rules and Interpretations	21
Oversight of Private Sector Standards-Setting	22
FASB	22
Pensions	23
Cash Flow Reporting	23
Income Taxes	23
Financial Reporting and Changing Prices	23
Other Projects	23
Timely Financial Reporting Guidance	23
Oversight of the Accounting Profession's Initiatives	24
SEC Practice Section	24
Special Investigations Committee	24

<b>The Edgar Project</b>	<b>27</b>
<b>Regulation of the Securities Markets</b>	<b>30</b>
Key 1986 Results	30
Securities Markets, Facilities, and Trading	31
The National Market System	31
National System for the Clearance and Settlement of Securities Transactions	31
Securities Immobilization	32
Internationalization	32
Options	33
Issuer Tender Offers	34
Regulation of Brokers, Dealers, Municipal Securities Dealers, and Transfer Agents	34
Broker-Dealer and Transfer Agent Examinations	34
Rule 10b-6 and Shelf Distributions	35
Rule 10b-6 Amendments	35
Financial Responsibility Rules	35
Uniform Net Capital Rule	36
Interpretations of the Net Capital Rule	36
Transfer Agent Registration Forms	36
Bank Securities Activities	36
Extension of Credit by Broker-Dealers of Direct Participation Programs	36
Interpretive Release Concerning the Scope of Section 28(e) of the Securities Exchange Act	37
Lost and Stolen Securities	37
Transfer Agent Regulation	37
Oversight of Self-Regulatory Organizations	38
National Securities Exchanges	38
National Association of Securities Dealers, Inc.	38
Municipal Securities Rulemaking Board	38
Clearing Agencies	39
SRO Surveillance and Regulatory Compliance Inspections	39
SRO Final Disciplinary Actions	40
Status Report as of September 1986	40
Applications for Re-entry	43
<b>Investment Companies and Advisers</b>	<b>44</b>
Key 1986 Results	44
Disclosure Requirements	45
Edgar	46
Regulatory Policy	46
Investment Advisers	47
Insurance Requirements	47
Public Utility Holding Companies	47
Holding Company Financings	48
Subsidiary Service Companies	48

<b>Significant Applications and Interpretations</b>	<b>48</b>
Investment Company Act	48
Holding Company Act	49
Institutional Disclosure Program	50
<b>Other Litigation and Legal Activities</b>	<b>51</b>
Key 1986 Results	51
Litigation	52
Appeals in Commission Enforcement Actions	52
Petitions to Review Commission Orders	54
Commission Participation in Private Litigation	55
Trading on Material Non-Public Information	57
Tender Offer Litigation	58
Commission Action Under Rule 2(e)	59
Litigation Involving Requests for Access to Commission Records	61
Litigation Against the Commission and Its Staff	62
Significant Legislative Developments	63
Regulation of Financial Services	63
Regulation of Investment Advisers and Financial Planners	63
Racketeer Influenced and Corrupt Organizations Act	64
Foreign Corrupt Practices Act of 1977	64
Bank Accounting and Financial Reporting	64
Financial Reporting and the Role of the Independent Auditor	64
Regulation of the Government Securities Markets	65
Corporate Reorganizations	65
Committees	65
Estate Administration	66
Plans of Reorganization/Disclosure Statements	68
Compliance with the Registration Requirements of the Securities Act	69
Stockbroker Liquidation Proceedings	70
<b>Economic Research and Analysis</b>	<b>71</b>
<b>Management and Program Support</b>	<b>73</b>
Key 1986 Management and Program Developments	73
Information Systems Management	73
Financial Management	73
Facilities Management	74
Personnel Management	75
Public Affairs	75
Consumer Affairs	76
Equal Employment Opportunity	77
<b>Commissioners and Principal Staff Officers</b>	<b>78</b>

<b>Biographies of Commissioners .....</b>	80
John Shad .....	80
Charles C. Cox .....	80
Aulana L. Peters .....	81
Joseph A. Grundfest .....	81
Edward H. Fleischman .....	82
<b>Regional and Branch Offices .....</b>	84
<b>Footnotes .....</b>	87
<b>Appendices .....</b>	105
<b>APPENDIX TABLES</b>	
1 Unconsolidated Financial Information for Broker-Dealers ..	107
2 Unconsolidated Annual Revenues and Expenses for Broker-Dealers Doing a Public Business .....	108
3 Unconsolidated Balance Sheet for Broker-Dealers Doing a Public Business .....	109
4 Securities Industry Dollar in 1985 for Carrying/Clearing Firms .....	111
5 Unconsolidated Revenues and Expenses for Broker-Dealers (Carrying/Clearing) .....	112
6 Unconsolidated Balance Sheet for Broker-Dealers (Carrying/Clearing) .....	113
7 Broker-Dealers and Branch Offices .....	114
8 Brokers and Dealers Registered under the Securities Exchange Act of 1934 .....	115
9 Applications and Registrations of Brokers and Dealers and Investment Advisers .....	116
10 Applications and Registrations of Municipal Securities Dealers and Transfer Agents .....	117
11 Consolidated Financial Information of Self-Regulatory Organizations .....	120
12 Self-Regulatory Organizations - Clearing Agencies 1985 Revenue and Expenses .....	121
13 Municipal Securities Rulemaking Board Statements of Revenues and Expenses and Change in Fund Balance .....	122
14 Companies Registered Under the Investment Company Act of 1940 as of September 30, 1986 .....	124
15 Companies Registered Under the Investment Company Act of 1940 .....	125
16 New Investment Company Registrations .....	126
17 Investment Company Registrations Terminated .....	126
18 Market Value and Volume of Equity/Option Sales on Registered Securities Exchanges .....	128
18B Volume of Equity/Options Sales on U.S. Securities Exchanges .....	129

<b>18C Market Value of Equity/Options Sales on U.S. Exchanges</b>	<b>130</b>
<b>18D Volume of Equity/Options Sales on U.S. Securities Exchanges</b>	<b>131</b>
<b>19 Market Value of Securities Traded on All U.S. Stock Exchanges</b>	<b>133</b>
<b>20 Share Volume by Exchanges</b>	<b>134</b>
<b>21 Dollar Volume by Exchanges</b>	<b>134</b>
<b>22 Special Block Distributions Reported by Exchanges</b>	<b>135</b>
<b>23 Securities Listed on Exchanges</b>	<b>136</b>
<b>24 Value of Stocks Listed on Exchanges</b>	<b>137</b>
<b>25 Securities Traded on Exchanges</b>	<b>138</b>
<b>26 Unduplicated Count of Securities on Exchanges</b>	<b>138</b>
<b>27 Immobilization Trends</b>	<b>139</b>
<b>28 Effective Registrations</b>	<b>140</b>
<b>29 Securities Effectively Registered with S.E.C.</b>	<b>141</b>
<b>30 Securities Effectively Registered with S.E.C.</b>	<b>142</b>
<b>31 Effective Registrations by Purpose and Type of Security: Fiscal Year 1986P</b>	<b>144</b>
<b>32 Effective Registrations by Purpose and Type of Security: Fiscal Year 1985R</b>	<b>144</b>
<b>33 Effective Registrations Cash Sale for Account of Issuers</b>	<b>145</b>
<b>34 Offerings Under Regulation A (Cleared)</b>	<b>146</b>
<b>35 Types of Proceedings</b>	<b>147</b>
<b>36 Nationwide Enforcement Program Enforcement Cases Initiated by the Commission During Fiscal 1985 in Various Program Areas</b>	<b>151</b>
<b>37 Investigations of Possible Violations of the Acts Administered by the Commission</b>	<b>152</b>
<b>38 Administrative Proceedings Instituted During Fiscal Year Ending September 30, 1985</b>	<b>152</b>
<b>39 Injunctive Actions</b>	<b>152</b>
<b>40 Public Utility Holding Company Systems</b>	<b>156</b>
<b>41 Key Financial Statistics of Registered Public Utility Holding Company Systems</b>	<b>157</b>
<b>42 Reorganization Proceedings Under Chapter 11 of the Bankruptcy Code in Which Commission Entered Appearance</b>	<b>158</b>
<b>43 Appropriated Funds vs Fees Collected</b>	<b>162</b>
<b>44 Budget Estimates and Appropriations</b>	<b>163</b>
<b>Index</b>	<b>164</b>

# Enforcement Program

## Key 1986 Results

The Commission brought 312 enforcement actions during fiscal year 1986, as compared with 269 in 1985. There were 30 cases in which insider trading was the primary violation alleged, and an additional 4 cases where insider trading was alleged in addition to other primary violations. The 34 actions represent the highest number of insider trading cases brought by the Commission in a single year. There was also a substantial increase over the preceding two years in the number of civil and criminal contempt actions. The enforcement program continued to be comprehensive, with actions involving false and misleading financial disclosure, fraudulent securities offerings, and violations by broker-dealers and other regulated entities comprising the majority of the cases.

### Total Actions Initiated

	FY '81	FY '82	FY '83	FY '84	FY '85	FY '86	% Change
Total	191	254	261	299	269	312	61%
Civil Injunctive Actions	114	136	151	179	143	162	42.1%
Defendants Named	N.A.	418	416	508	385	477	
Administrative Proceedings	72	106	94	114	122	136	89%
Respondents in Proceedings	N.A.	287	189	221	199	202	
Civil and Criminal Contempt							
Proceedings	N.A.	9	14	4	3	14	
Defendants	N.A.	16	19	8	6	18	
Reports of Investigation	N.A.	3	2	2	1	0	

In 1986 the Commission obtained court orders requiring defendants to return illicit profits amounting to more than \$38.2 million, either as disgorgement or restitution to defrauded investors. Disgorgement orders in insider trading cases amounted to \$29.7 million, compared to \$2.1 million in 1985. The Commission also recovered \$3.7 million during fiscal year 1986 in civil penalties under the Insider Trading Sanctions Act of 1984 (ITSA).

The Commission referred or granted access to its files to the Department of Justice or state prosecutorial authorities in 142 cases, as compared with 145 in 1985. There were 72 criminal indictments or informations obtained during fiscal 1986 in Commission related cases, compared to 59 in 1985. There were 71 criminal convictions in Commission related cases during fiscal year 1986, compared to 93 in 1985.

## Introduction

The Commission's enforcement program seeks to preserve the integrity, efficiency and fairness of the securities markets by enforcing the Federal securities laws. These laws provide civil and administrative remedies designed to rectify past violations and prevent future violations.

Most Commission enforcement actions are preceded by a private investigation to determine whether a violation of the securities laws has occurred or is about to occur. Where necessary, the Commission may order a formal investigation and thereby authorize the staff to issue subpoenas compelling testimony and the production of documents.

Depending on the results of an investigation, the Commission may authorize the staff to commence a civil action in a United States District Court, institute an administrative proceeding, or refer the matter to the Department of Justice for criminal prosecution. Matters may also be referred to state or local authorities or self-regulatory organizations for appropriate action.

The Commission's primary civil remedy is a Federal court injunction which directs the subject to comply with the law in the future. If it is violated, contempt of court proceedings may result in imprisonment or the imposition of fines. Courts may also issue orders providing other equitable relief such as restitution, disgorgement of illicit profits, and other appropriate remedies.

The Commission is authorized to bring administrative proceedings against regulated entities such as broker-dealers, investment companies, or investment advisers, as well as persons associated with such entities. Where the Commission finds that a regulated entity has willfully violated the securities laws, it may impose remedial sanctions ranging from a censure to a revocation of the registration required for the entity to conduct business. The Commission also may censure or limit the activities of associated persons, or suspend or bar such persons from association.

Issuers of securities are subject to administrative proceedings if they fail to comply with the disclosure, proxy and tender offer provisions of the Exchange Act. Individuals causing such failures may also be named as respondents in such proceedings. Respondents may be ordered to comply with applicable provisions upon specified terms and conditions, or to take steps to effect compliance. Issuers may also be named as respondents in certain proceedings authorized by the Securities Act. In addition, the Commission may publish reports of investigation under Section 21(a) of the Exchange Act.

Criminal sanctions for Federal securities law violations include fines and imprisonment for up to five years for each violation. The Commission has developed close working relationships with the Department of Justice and U.S. Attorneys' offices to assist the investigation and prosecution of such cases. The Commission also cooperates closely with state securities regulators and self-regulatory organizations, including the National Association of Securities Dealers (NASD) and the various national securities exchanges.

## **Program Areas**

The Commission investigates and brings enforcement actions to remedy a broad range of violations. Classified by primary violation, enforcement activity during fiscal year 1986 included cases concerning corporate reporting and accounting;<sup>1</sup> insider trading;<sup>2</sup> violations by regulated entities and

associated persons;<sup>3</sup> market manipulation;<sup>4</sup> securities offerings;<sup>5</sup> changes in corporate control;<sup>6</sup> related party transactions;<sup>7</sup> civil and criminal contempt actions;<sup>8</sup> and delinquent filing cases against both issuers and individuals.<sup>9</sup>

*Corporate Reporting and Accounting*—Financial disclosure cases continued to be a high priority in fiscal year 1986. The Commission brought 35 cases containing significant allegations of financial disclosure violations against issuers or their employees, compared with 42 such cases in 1985 and 33 in 1984. The Commission also brought 15 cases alleging misconduct on the part of accounting firms or their partners or employees in fiscal year 1986, including one of the issuer disclosure cases set forth above.<sup>10</sup> There were 14 enforcement actions against accountants or accounting firms in 1985 and 18 in 1984.

Typical financial disclosure cases involve the improper valuation of assets or liabilities; the improper recognition of revenue or income; the failure to establish sufficient provisions for bad debts or other contingencies; or the failure to provide adequate disclosure concerning the issuer's true financial position. Many of these cases also involve violations of the accounting provisions of the Foreign Corrupt Practices Act. Financial disclosure cases are often complex and require more resources than other types of cases, but effective prosecution of them is essential to preserving the integrity of the disclosure system.

In one financial disclosure case, *SEC v. Carter*,<sup>11</sup> the Commission obtained injunctive relief against three executive officers who allegedly caused an issuer to overstate its net income by \$44 million as a result of failing to implement write-offs and reserve increases as recommended by the financial management of its subsidiaries. An action based on the same facts had previously been brought against the issuer during 1985.<sup>12</sup> The issuer, which had restated its financial statements prior to the Commission's action, consented to the entry of a permanent injunction and agreed to maintain an audit committee of its board of directors.

In an administrative proceeding, *In the Matter of American Express Co.*,<sup>13</sup> the Commission found that the manner in which an issuer had accounted for two reinsurance transactions engaged in by a wholly owned subsidiary was not in accordance with generally accepted accounting principles. The Commission accepted the issuer's offer of settlement in which it agreed, among other things, to comply with the reporting provisions of the Exchange Act.

Financial disclosure cases are sometimes accompanied by allegations of insider trading. In one injunctive action,<sup>14</sup> for example, the Commission alleged that an issuer had failed to disclose substantial losses of trade credit and had failed to write down its interest in a refinery. The Commission filed a separate injunctive action against an officer of the issuer alleging that he had sold stock while in possession of material, nonpublic information concerning the issuer's financial problems.<sup>15</sup>

Financial disclosure cases may also involve misconduct on the part of the independent accountants who examine and issue an opinion on the issuer's financial statements. One example is *In the Matter of Seidman and*

*Seidman*,<sup>16</sup> an administrative proceeding brought pursuant to Rule 2(e) of the Commission's Rules of Practice against a national accounting firm. The Commission concluded, in its Order, that the firm had failed to comply with generally accepted auditing standards in connection with its examination of an issuer's financial statements. The firm was censured and ordered to comply with its undertakings to implement new procedures and policies designed to prevent a recurrence of the practices found to be deficient.

In addition to financial disclosure cases, the Commission brought six cases involving the misrepresentation or failure to disclose information concerning related party transactions, the compensation of officers, or other matters during fiscal 1986. The Commission also brought 18 delinquent filing actions against issuers during the fiscal year, compared with 19 in 1985 and 15 in 1984.

*Insider Trading*—Individuals who purchase or sell securities while in possession of material, nonpublic information relating to such securities, in violation of a fiduciary duty or other relationship of trust and confidence, undermine the expectation of fairness and honesty that is the basis of investor confidence in the nation's securities markets. The trading of standardized options contracts, coupled with tender offers and other acquisitions, has increased opportunities for those with material nonpublic information to reap large profits.

The Commission's insider trading enforcement program achieved record results in fiscal year 1986. The 30 cases brought during the year represented an increase of 50 percent over 1985, and included several of the most significant insider trading cases ever brought by the Commission.<sup>17</sup> The Commission obtained court orders requiring defendants to disgorge over \$29.7 million, compared to \$2.1 million in 1985, with the amount recovered in four separate cases exceeding the highest amount recovered in an insider trading case prior to fiscal year 1986. The Commission also obtained \$3.7 million during fiscal year 1986 in civil penalties under ITSA.

In *SEC v. Levine*,<sup>18</sup> the Commission brought its largest insider trading case up to September 30, 1986 against Dennis Levine, an investment banker, two Panamanian companies allegedly under his control, and a Swiss citizen who acted as a broker for Levine's trades through a Bahamian subsidiary of a Swiss bank. The Commission alleged, among other things, that Levine made \$12.6 million by trading in the securities of at least 54 issuers while in possession of material, nonpublic information about actual or proposed tender offers, mergers, and other business combinations.

Levine agreed to disgorge at least \$11.6 million, including \$10.6 million in his Bahamian bank account. Levine also consented to a permanent injunction against future violations of the Federal securities laws, and to the issuance of an administrative order barring him from the securities business. In a related criminal proceeding, Levine pleaded guilty to one count of securities fraud, two counts of income tax evasion, and one count of perjury.

Over the following five months, the Commission's continuing investigation of Levine's activities led to a series of cases against four individuals who were participants in the scheme.<sup>19</sup> Those individuals collectively were

ordered to pay \$3.7 million in disgorgement and \$875,000 in civil penalties. The consent judgement of \$100 million against Ivan F. Boesky was filed after the close of fiscal 1986, on November 14, 1986 and is not included in the foregoing data.

In *SEC v. The First Boston Corp.*,<sup>20</sup> the Commission alleged that a securities firm had engaged in unlawful trading, for its own account, while in possession of material, nonpublic information received from an investment banking client. First Boston's corporate finance department allegedly received confidential information from a corporation concerning a forthcoming announcement of a \$1.2 billion addition to the corporation's property-casualty loss reserves. The corporate finance department allegedly conveyed this information to a First Boston insurance analyst, who thereafter communicated the information to persons in its trading department. Although the securities of the corporation were placed on the firm's restricted list, a First Boston trader sold stock for the firm's account.

Besides consenting to the entry of a permanent injunction against future violations, First Boston agreed to disgorge profits of \$132,138 derived from the alleged trading violations, to pay a \$264,276 penalty under ITSA, and to review and modify its restricted list and "Chinese Wall" procedures.

The Commission obtained the largest civil penalty paid to date under ITSA in *SEC v. Katz*,<sup>21</sup> a case in which it alleged that a financial analyst conveyed nonpublic information concerning a proposed merger to his father, who then shared that information with his broker and his father-in-law. The father agreed to disgorge slightly over \$1 million and pay a civil penalty of \$2.1 million. The Commission obtained an additional \$1.3 million in disgorgement or penalties from the other three defendants in the case.

The detection and prosecution of insider trading emanating from abroad pose unique problems. The Commission's investigative subpoena power is limited to persons and entities within the United States, and even when foreign persons or firms are effectively served, foreign secrecy or blocking laws may prohibit disclosure of the requested information.

Two cases initiated during 1981 and concluded during fiscal year 1986 illustrate differing approaches to transnational insider trading cases. In *SEC v. Banca Della Svizzera Italiana, et al.*,<sup>22</sup> call options on the common stock of St. Joe Minerals Corporation were purchased through the U.S. securities accounts of a Swiss bank, Banca Della Svizzera Italiana (BSI), on the day before the announcement of a tender offer for all of the outstanding shares of St. Joe. The Commission immediately filed an injunctive action naming BSI and certain unknown purchasers as defendants, and obtained a freeze of BSI assets at a New York bank. The Commission then sought to determine the identities of the BSI customers who directed the trades. When BSI declined to reveal its customers' identities, contending that such disclosures would violate Swiss bank secrecy laws, the Commission obtained a U.S. court order compelling BSI to disclose its customers' identities.

On June 3, 1986, over four years after the Commission ascertained the identity of the purchasers, the district court held that one of BSI's customers,

Giuseppe B. Tome, together with an Italian business associate, had engaged in insider trading. The court ordered them to disgorge their insider trading profits with interest. Tome, whose potential liability amounts to \$5.8 million, was also held liable for the profits of his associate and certain still-unknown investors who allegedly traded on his tips concerning the tender offer.

In *SEC v. Certain Unknown Purchasers of the Common Stock of, and Call Options for the Common Stock of, Santa Fe International Corporation*,<sup>23</sup> initiated in October 1981, the Commission alleged that "unknown purchasers" had unlawfully purchased the securities of Santa Fe International Corporation through Swiss bank accounts immediately prior to the announcement of a merger. After filing the action against the unknown purchasers, the Commission requested assistance under the 1977 Treaty on Mutual Assistance in Criminal Matters between the Swiss Confederation and the United States. The Commission received documents responsive to its request three years after its original inquiry, following a prolonged process which included a second request by the Commission and many appeals by the defendants. During February 1986, all remaining defendants agreed to settle the Commission's action and disgorge \$7.8 million in profits and interest. Six of the eight defendants also consented to permanent injunctions against future violations.

As the litigation in these cases progressed, Switzerland and the United States entered into a Memorandum of Understanding (MOU) in 1982. The MOU mandated the establishment of a private agreement among all members of the Swiss Bankers' Association to provide assistance to the Commission in cases involving insider trading prior to tender offers or mergers. Where certain criteria are met, the signatory banks may freeze profits from the alleged unlawful trading and disclose the identity of a customer and other information to the Commission without violating Swiss law. The Commission successfully used the MOU in the investigation preceding the filing of the *Katz* case described above.

*Regulated Entities and Associated Persons*—The enforcement program area that accounts for the largest number of cases involves regulated entities such as broker-dealers, investment companies, investment advisers and transfer agents. As the securities markets grow and more individuals come into contact with the financial services industry, it becomes increasingly important to ensure that regulated entities conduct their business with integrity and fairness. The Commission commenced 114 enforcement proceedings involving regulated entities during fiscal year 1986. Nineteen cases involved securities offering violations by regulated entities. Of the other cases, 61 were brought against broker-dealers or persons associated with broker-dealers, 30 primarily involved investment advisers, two primarily involved investment companies, and two concerned transfer agents.

The broker-dealer cases involved, among other things, fraudulent sales practices, violations of the net capital and customer reserve provisions, and books and records violations. Among the cases brought by the Commission in this area was an administrative proceeding, *In the Matter of Kidder Peabody & Company*,<sup>24</sup> in which the Commission found that a broker-dealer

firm had wrongfully used customers' fully paid securities as collateral for bank loans and government securities repurchase agreements. The Commission censured the firm, and ordered it to comply with its undertakings to implement and maintain procedures designed to prevent a recurrence of the violations.

In another administrative proceeding, *In the Matter of Prudential Bache Securities, Inc.*,<sup>25</sup> the Commission found that a broker-dealer had failed to define adequately and implement firm-wide procedures for supervision and compliance, thereby contributing to fraudulent sales practices by registered representatives in two branch offices. As part of the settlement of the case, the firm retained an independent consultant to review its supervisory and compliance procedures and make recommendations to the firm. Separate administrative proceedings were brought against individuals associated with the firm.<sup>26</sup>

The Commission also brought an injunctive action against E. F. Hutton Group, Inc., and two administrative proceedings against its broker-dealer subsidiary.<sup>27</sup> In the injunctive action, the Commission charged that annual reports filed by the parent company were inaccurate because they failed to disclose changes in net interest income resulting from bank overdrafting practices engaged in by the broker-dealer subsidiary. In one of the two administrative proceedings, the Commission censured the firm and ordered it to comply with its undertakings: (1) to engage an independent consultant to review its policies and procedures regarding customer securities and money, (2) to adopt the recommendations of the consultant unless otherwise directed by the Commission, and (3) to refrain from opening any new retail brokerage offices until the later of 120 days from the date of the Commission's Order or the date on which the consultant's recommendations are adopted. In the second administrative proceeding, which addressed the subsidiary's role as an investment adviser and distributor to registered investment companies, the Commission found that the firm had incorrectly calculated distribution expenses and had failed to comply with dividend calculation procedures set forth in its prospectus. The Commission ordered the firm to pay the investment companies or their affected shareholders \$1 million, and to employ an independent consultant to review and make recommendations relating to its administration and operation as an investment adviser.

In *SEC v. The Spangler Group, Inc. and Mark Emerson Spangler*,<sup>28</sup> the Commission alleged that, among other things, a Boston-based investment adviser made material misrepresentations to prospective clients and the Commission concerning his educational background and employment history, exaggerated his investment performance results, and forged an auditor's opinion regarding the financial condition of his company in order to secure new clients. The Commission obtained a temporary restraining order enjoining further antifraud violations and denying defendants access to client funds and securities. Thereafter, orders were entered, by consent, freezing all assets of the defendants, appointing a receiver to take control of and account for approximately \$30 million of investors' funds, and per-

manently enjoining the defendants from violating the antifraud provisions of the Investment Advisers Act. In an administrative proceeding based upon the same facts,<sup>29</sup> the Commission barred the individual from acting as, or associating with, an investment adviser, brokerage firm, or investment company. The Commission revoked the registration of The Spangler Group.

During fiscal year 1986, the Commission revoked the registration of seven firms, suspended eight and censured 15. This compares with three revocations, seven suspensions, and 16 censures in fiscal 1984.

Also during the year 58 individuals were barred, 20 suspended, and 11 censured, as compared to 47 bars, 49 suspensions, and four censures in 1985.

*Securities Offering Violations*—Some issuers fail to register public offerings of their securities, although required to do so by the Securities Act. Some purport to rely on exemptions to registration requirements which are not available. Some violate antifraud provisions of the Federal securities laws by making material misrepresentations or omissions in connection with a securities offering.

There were 69 cases principally involving offering violations by issuers and other persons brought during fiscal year 1986, 49 in 1985 and 48 in 1984. (These figures do not include 19 cases principally involving offering violations on the part of regulated entities, which are discussed above under the caption "Regulated Entities and Associated Persons.")

In one securities offering case, *SEC v. Doerring & Associates, Inc.*,<sup>30</sup> the Commission alleged that the defendants had misrepresented or failed to disclose material facts in the offer and sale of interests in real estate partnerships, and had misappropriated at least \$3 million from such partnerships for their own use. The Commission obtained a temporary restraining order against further violations of the registration and antifraud provisions, and an order freezing approximately \$10 million of investor's funds pending an appropriate judicial resolution.

The Commission made a special effort during fiscal year 1986 to curb abuses arising from "blank check" offerings, in which an issuer raises funds without identifying the type of business to which the proceeds of the offering will be applied. In some instances, undisclosed promoters may use such offerings as a vehicle to raise funds for prearranged mergers and other purposes. The Commission brought 21 administrative proceedings during fiscal year 1986 to suspend the effectiveness of registration statements filed in connection with blank check offerings.

*Market Manipulation*—The Commission is charged with ensuring the integrity of trading on the national securities exchanges and in the over-the-counter markets. The Commission's staff, the exchanges and the NASD engage in surveillance of these markets. The Commission brought 14 cases involving market manipulation during fiscal year 1986, compared with seven in 1985.

Among the cases brought by the Commission in this area was *SEC v. Worldwide Ventures Corp.*,<sup>31</sup> in which it alleged that the defendants had manipulated the price of an issuer's common stock by issuing false statements about the issuer's financial condition and its business prospects, by

arranging transactions designed to artificially maintain or increase the price of the stock, and by offering free stock to brokers as an inducement for them to solicit customers to buy the issuer's stock. Allegedly as a result of these activities, the price of the issuer's stock increased from 25 cents per share to \$3.50 per share, thereby allowing certain of the defendants to sell their stock at a substantial profit.

*Changes in Corporate Control*—Sections 13 and 14 of the Exchange Act govern proxy solicitations and the filing of reports by persons or groups who make a tender offer or acquire beneficial ownership of more than five percent of a class of equity securities registered with the Commission. These requirements are intended to ensure that investors have the material information needed to make informed investment or voting decisions concerning potential changes in the control of a corporation. During fiscal year 1986, six enforcement actions were brought in this area, compared to five in 1985 and 11 in 1984.

In one case, *In the Matter of Revlon, Inc.*,<sup>32</sup> the Commission found that a corporation which was the subject of a tender offer had failed to make timely disclosure of negotiations to sell certain assets and to effect a leveraged buyout of the remaining assets. In another case, *In the Matter of BF Goodrich Co.*,<sup>33</sup> the Commission found that a proxy statement soliciting shareholder approval of a provision designed to prevent "greenmail" payments was misleading in that it failed to disclose that the issuer had made such a payment during the preceding year.

## Other Developments

*Transnational Securities Issues*—As noted above in the discussion of insider trading cases, the Commission's ability to detect and prosecute transnational securities violations has been enhanced by agreements reached with Switzerland concerning assistance in such cases.

During fiscal year 1986, the Commission continued to discuss issues relating to transnational securities violations with officials of other governments. On September 23, 1986, the Commission announced the signing of a Memorandum of Understanding under which the Commission, the Commodity Futures Trading Commission, and the United Kingdom's Department of Trade and Industry established procedures governing assistance in market oversight and investigations. This is the first accord negotiated by the Commission which provides assistance for a broad range of matters relating to market conduct and the regulation of investment and brokerage businesses. It is contemplated that the agreement will terminate upon negotiation of a Treaty between the two countries.

On May 23, 1986, the Commission entered into a Memorandum of Understanding with the Japanese Ministry of Finance under which the parties agreed to facilitate requests for surveillance and investigatory information on a case-by-case basis.

Members of the Commission and its staff participated in the July 1986 conference of the International Association of Securities Commissions, at which 58 countries were represented. A significant result of the meeting

was the establishment of a committee, to be chaired by the Commission, to promote greater cooperation in information exchanges concerning securities law enforcement.

*Sources for Further Inquiry*—The Commission publishes in the SEC Docket litigation releases which describe its civil injunctive actions and criminal proceedings involving securities-related violations. Among other things, these releases report the identity of the defendants, the nature of the alleged violative conduct, and the disposition or status of the case. Commission orders that institute administrative proceedings or provide remedial relief also are published in the SEC Docket.

Each of the enforcement actions brought during fiscal 1985 is listed in the Appendix to this report. Appropriate references are made to the litigation releases and Commission orders published in the SEC Docket.

# Full Disclosure System

## Key 1986 Results

The full disclosure system is administered by the Division of Corporation Finance. The disclosure system is designed to provide investors with full and accurate material information, foster investor confidence, contribute to the maintenance of fair and orderly markets, facilitate capital formation, and inhibit fraud in the public trading, voting, purchase, and sale of securities.

### Full Disclosure Filings Given a Full Review

	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	1981-6 Change
Total Filings	6,153	6,239	6,987	7,237	9,571	10,526	+ 71.1%
Securities Act Registration Statements	2,050	1,857	2,435	2,677	2,385	3,277	+ 59.8%
10-K Annual Reports	325	1,245*	1,012*	1,283*	2,135*	1,741* + 435.7%	
Tender Offers (14D-1)	205	116	92	121	148	146	- 28.8%
Proxy Contests	66	68	60	60	86	68	+ 3%
Annual Meeting Proxies	577	698	895	1,217	1,683	1,629	+ 192.5%

\* Includes reports reviewed in connection with other filings

In fiscal 1986, approximately 12,000 issuers made 76,708 full disclosure filings with the Commission, an increase of 6.7 percent over fiscal 1985. Of these, 1,688 were made by filers through the Edgar system. The number of registration statements filed under the Securities Act of 1933 (Securities Act) increased 29% to 7,356 from 5,696 filings in fiscal 1985. This includes 2,181 and 1,587 filings, respectively, by issuers who had not previously offered securities to the public.

During the year, the staff fully reviewed financial statements of 3,818 different registrants. This included the review of 1,701 registration statements filed by new issuers, 1,340 registration statements filed by issuers with existing public security holders, 236 registration statements relating to mergers or acquisitions involving financial and business disclosures by two or more companies (74 of which were filed by new issuers) and annual reports of 1,741 issuers (17.1 percent of the reports filed). The staff also fully reviewed annual meeting proxy statements of 1,629 issuers, 79 proxy

statements relating to going private transactions, 68 proxy contest filings and 504 tender offer schedules.

## Rulemaking

*Operational Edgar System*—The Commission published for comment an advance notice of proposed rulemaking on June 26, 1986 to assist it in preparation of proposed rules for the operational Edgar system.<sup>34</sup> The release seeks comment on how to update the rules to take advantage of the efficiencies of electronic filing and processing. It addresses several issues including mandatory electronic filing, signatures, incorporation by reference and exhibits.

*Tender Offers*—The Commission adopted amendments to its issuer and third party tender offer rules on July 11, 1986.<sup>35</sup> The amendments provide that a tender offer must be open to all holders of the class of securities subject to the tender offer and that any security holder must be paid the highest consideration paid to any other security holder during the tender offer. In addition, the Commission amended existing rules concerning minimum offering periods and withdrawal rights. A tender offer is now required to remain open for at least ten business days upon the announcement of an increase or decrease in the percentage of securities being sought or the consideration offered. The amendments provide that withdrawal rights extend throughout the offering period and eliminate the extension of withdrawal rights upon commencement of a competing bid.

On July 31, 1986, the Commission issued a concept release relating to corporate takeovers,<sup>36</sup> seeking public comment on the effects of substantial acquisitions of securities effected during the pendency of, or immediately after the termination of, a tender offer and whether a regulatory response is appropriate; establishing a security holder approval requirement for the adoption of "poison pill" plans; and permitting issuers to "opt-out" of the requirements imposed by tender offer rules through the adoption of charter amendments by security holders. The Commission is reviewing comments made in response to this release with a view to possible rulemaking or legislative proposals.

*Shareholder Communications*—On October 15, 1985, the Commission amended its shareholder communications rules, which govern the process by which registrants communicate with the beneficial owners of securities registered in the name of a broker, dealer, or other nominee.<sup>37</sup> The amendments provide, among other things, that a registrant that wishes to obtain a list of the beneficial owners of its securities must request information from all brokers with customers who are beneficial owners; a broker must provide a list of non-objecting beneficial owners to registrants as often as they request the information, rather than only once a year, and within five business days of the compilation date; a registrant may mail its annual report directly to security holders if it notifies the broker at the time it requests beneficial owner information; and a broker may employ an intermediary to act as its designated agent in performing its shareholder communications obligations.

The Commission published for comment on May 29, 1986 proposals intended to implement provisions of the recently enacted Shareholder Communications Act of 1985.<sup>38</sup> These proposals were adopted with modifications on November 25, 1986. The proposals govern communications and proxy processing with respect to securities registered in the name of a bank, association, or other entity that exercises fiduciary powers as well as clarify the circumstances in which registrants need not deliver annual report and proxy or information statements to security holders. In addition, the Commission will consider in the near future, proposed amendments concerning owners who purchased securities through an employee benefit plan.

*Filing Fees*—On January 9, 1986, the Commission amended the rules setting filing fees for certain Securities Exchange Act of 1934 (Exchange Act) acquisition and business combination transactions.<sup>39</sup> The amendments follow legislation that requires payment to the Commission of a filing fee calculated on a percentage of the transaction's value for tender offers and proxy and information statements involving an acquisition, merger, consolidation, sale or other disposition of substantially all the assets of a company.

*Pricing Amendments*—On October 27, 1986, the Commission published for comment proposals intended to allow registrants, under specified conditions, to omit information on the public offering price, other matters dependent upon the public offering price, and the underwriting syndicate from the form of prospectus filed as part of a registration statement that is declared effective.<sup>40</sup> The proposals would require that the omitted information be contained in the form of prospectus used in connection with the public offering after the effective date of the registration statement. The proposals also would amend the filing rules for prospectuses used after effectiveness to eliminate unnecessary filings, classify prospectuses according to the nature of the information being added or modified, and shorten the filing period.

*Classification of Issuers*—On July 8, 1986, the Commission increased the total asset threshold requirement for registration under the Exchange Act from \$3 million to \$5 million. Corresponding changes also were made to the Exchange Act rules governing termination of reporting requirements.<sup>41</sup> The Commission also requested public comment about other criteria to govern application of the Exchange Act reporting system.<sup>42</sup>

*Filings for Exempt Private Offerings*—On October 2, 1986, the Commission adopted revisions (proposed on June 5, 1986) to Form D, the notice required to be filed when a transaction is effectuated in reliance upon the exemptions from the Securities Act registration requirements provided by Section 4(6) or Regulation D.<sup>43</sup> The revisions permit a uniform filing format to satisfy both federal and state requirements and eliminate the requirement to provide certain statistical information about the issuer. In addition, the revisions eliminate the six-month updating and final filing requirements so that only an initial filing within 15 days of the first sale of securities is necessary.<sup>44</sup>

*The Proxy Review Program*—On November 4, 1986, the Commission determined to adopt comprehensive proxy rule amendments. The amend-

ments bring to the proxy context the benefits of the integrated disclosure system, simplify proxy disclosure concerning compensation plans, and require new registrants to provide disclosure concerning changes in accountants and related disagreements.

## Interpretations

On September 23, 1986, the Commission issued an interpretive release indicating that domestic branches and agencies of foreign banks will be treated as "banks" for purposes of the Section 3(a)(2) exemption from the Securities Act registration requirements. This interpretation is dependent, in each case, on the existence of Federal and/or State banking regulation of the branch or agency substantially equivalent to that applicable to Federal or State chartered domestic banks doing business in the same jurisdiction.

## Conferences

*SEC Government-Business Forum on Small Business Capital Formation—* The fifth annual SEC Government-Business Forum on Small Business capital formation was held in Washington, D.C. on September 25-27, 1986. Approximately 175 small business executives, accountants, attorneys, and government officials met to devise methods to implement recommendations of previous Forums and the 1986 White House Conference on Small Business and to discuss securities, financial services, liability insurance, payroll costs, and ERISA issues.

*SEC/NASAA Conference under Section 19(c) of the Securities Act of 1933—* In March 1986, approximately 35 senior staff officials of the Commission met with representatives of the North American Securities Administrators Association Inc. in Washington, D.C. to discuss methods of effectuating greater uniformity in Federal-State securities matters.

## Accounting and Auditing Matters

The Federal securities laws provide for the audit of financial statements of publicly held corporations by independent accountants. Thus, those laws have placed upon the accountant important responsibilities in facilitating the capital formation process, and as a result, the economy as a whole.

Today, the accounting profession is subject to a unique combination of public and private sector efforts designed to ensure that the profession meets its public responsibilities. These efforts include peer review and other membership requirements of the American Institute of Certified Public Accountants' (AICPA) Division for CPA Firms, private sector standards-setting, the Commission's programs (including oversight of private sector initiatives), state licensing activities and private civil litigation against accounting firms. This framework has been built over time and is subject to continued refinements and improvements.

The primary Commission programs for ensuring compliance with the accounting and financial disclosure aspects of Federal securities laws are:

- *Rulemaking* initiatives which supplement accounting standards, implement financial disclosures and establish independence criteria for accountants;
- The *review and comment process* which results in improvement of filings, identification of emerging accounting issues (which can result in rulemaking or private sector standards-setting), and identification of problems warranting enforcement actions;
- The *enforcement program*, which imposes legal sanctions and serves to deter irregularities by enhancing the care with which registrants and their accountants analyze accounting issues; and
- *Oversight* of private sector efforts to establish accounting and auditing standards and to improve the quality of audit practice.

The Commission's direct efforts are multiplied by initiatives of the Financial Accounting Standards Board (FASB), the AICPA and other activities of the profession under Commission oversight. In addition to Commission enforcement actions, significant numbers of actions are brought by private litigants, many of which are a direct result of Commission actions.

The cumulative effect of the Commission's programs, private sector initiatives and civil litigation comprises a comprehensive system under which the integrity of financial reporting for public companies is constantly being challenged, modified and improved.

The Commission's review and comment process and enforcement programs are discussed elsewhere in this report. The remainder of this section summarizes the Commission's accounting-related rules and interpretations and the oversight function.

## **Accounting-Related Rules and Interpretations**

Regulation S-X provides guidance as to the form and content of financial statements filed with the Commission. The Commission has also adopted various rules that specify disclosure of financial information outside of the financial statements. For example, certain supplementary financial information, selected financial data and a management's discussion and analysis of the company's financial condition and results of operations are required by Regulation S-K.

To address significant accounting issues, the Commission may issue interpretive releases and, when announcing rule changes, provide guidance for compliance with new or amended rules. In addition, the Commission staff periodically issues Staff Accounting Bulletins (SABs) to inform the financial community of its views on accounting and disclosure issues. For example, in December 1985, a SAB was issued on accounting for and disclosure of financial guarantees.<sup>45</sup> In December 1985 and June 1986, SABs were issued on two issues relating to business combinations of financial institutions. The first of these concerned goodwill amortization,<sup>46</sup> and the second, adjustment of loan loss allowances.<sup>47</sup> In July 1986, a SAB was issued on discounting property-casualty insurance reserves.<sup>48</sup> The staff's views on accounting for research and development arrangements were published in September 1986.<sup>49</sup> An omnibus SAB covering several issues was issued

in early October. It discussed certain issues relating to preferred stock, cheap stock, and the applicability of SABs.<sup>50</sup>

Recent rulemaking initiatives reflect the Commission's efforts to upgrade financial and accounting disclosure and, at the same time, simplify that disclosure. During the past year, the Commission finalized amendments to Regulation S-X (a) to rescind obsolete or duplicative rules,<sup>51</sup> (b) to clarify rules dealing with the presentation of consolidated financial statements in Commission filings,<sup>52</sup> and (c) to require, under certain circumstances, disclosure of the nature and extent of a registrant's repurchase and reverse repurchase transactions and the associated degree of risk.<sup>53</sup> The Commission also published its views on the significance of certain oral guarantees to the financial reporting process.<sup>54</sup>

## Oversight of Private Sector Standards-Setting

In addition to its direct action through rulemaking and other programs, the Commission monitors the structure, activity, and decisions of the private sector standards-setting organizations.

**FASB**—Although the Commission has adopted Regulation S-X, promulgated other rules and disclosure requirements in the financial reporting area, and has published interpretations and guidance where necessary, it has generally refrained from prescribing the accounting methods to be followed in the preparation of financial statements.

In lieu of specifying accounting principles, the Commission has presumed financial statements to be misleading or inaccurate unless prepared in accordance with accounting principles which have substantial authoritative support. Under this concept, the Commission looks to the FASB to provide the initiative in establishing and improving accounting principles. Oversight of the process involves not only Commission review of the standards set, but also the direct participation of staff members and, in some instances, the Commission itself in the initial setting of standards. Staff members monitor developments closely and are in frequent contact with the FASB, participate in meetings, public hearings, and task forces. The Commission monitors the progress of FASB projects and meets periodically with the FASB to discuss topical issues.

For example, the Commission believes that there are broad-based accounting measurement and recognition issues involved in the complex financial instruments and financial transactions available in the marketplace. In fiscal 1985, recognizing that these issues affect SEC registrants as well as other entities (including publicly held banks and savings and loans that report to other government agencies), the Commission authorized the Chief Accountant to send a letter to the FASB recommending that the FASB add a project to its agenda to deal with the accounting issues involved in the broad area of financial assets and transactions.

In fiscal 1986, the FASB added a major long-term project to its agenda that will address financial instruments and off balance sheet financing issues. The project is comprised of several parts, some of which will be de-

veloped simultaneously. Significant parts of the project include (a) disclosure about financial assets and transactions, (b) accounting for risk-transfer instruments such as guarantees and interest rate hedging instruments, (c) off balance sheet financing arrangements, (d) the appropriate measurement basis for financial instruments, and (e) accounting for securities with both debt and equity characteristics.

*Pensions*—In December 1985, the FASB issued two statements dealing with the complex and controversial topic of pensions.<sup>55</sup> The first statement addresses the accounting and disclosure for pension plans by employers. The second statement dictates how gains and losses should be recognized upon termination of certain pension plans.

*Cash Flow Reporting*—In July 1986, the FASB issued a proposed statement which would require a statement of cash flows as part of a full set of financial statements of all business enterprises, replacing the statement of changes in financial position. A final statement is expected to be issued in 1987.<sup>56</sup>

*Income Taxes*—In September 1986, a proposed statement on accounting for income taxes was issued by the FASB, which requires comprehensive inter-period tax allocation based on a liability approach. Public hearings and a final statement are scheduled for 1987.<sup>57</sup> The Commission also issued an interpretive release related to the proposed statement immediately after the Tax Reform Act of 1986 was enacted. The release specifies that registrants may provide quantified disclosure of the impact of the tax legislation by pro forma application of the FASB's proposed statement. Further, the release indicates that registrants not providing quantified disclosures should nonetheless discuss the impact of the Tax Reform Act of 1986 on existing deferred tax amounts. All registrants should disclose the potential effects of the tax legislation on future operations and liquidity, if material.<sup>58</sup>

*Financial Reporting and Changing Prices*—In September 1986, the FASB issued an exposure draft that would supersede earlier pronouncements on reporting the effects of changing prices, making previously required disclosure voluntary. A final statement was issued before the end of calendar 1986. The specific disclosure previously required is voluntary for calendar 1986 annual reports, but general disclosure on the effects of inflation is still required in Management's Discussion and Analysis pursuant to Regulation S-K.<sup>59</sup>

*Other Projects*—Other significant projects on the FASB's technical agenda include accounting for investments in subsidiary and non-subsidiary entities, nonrefundable loan fees, stock compensation plans, and accounting for the insurance and utility industries.

*Timely Financial Reporting Guidance*—Encouraged by the Commission, the FASB has continued its efforts to provide more timely guidance on emerging issues. Several technical bulletins were issued in fiscal year 1986 by the FASB staff on specific issues. These included guidance on accounting for (a) leases,<sup>60</sup> (b) purchase of life insurance,<sup>61</sup> (c) certain issues related to business combinations,<sup>62</sup> and (d) purchase of treasury shares in excess

of current market price (greenmail).<sup>63</sup> Also, the Emerging Issues Task Force (in which the Commission's Chief Accountant plays a significant role) has discussed over 115 issues since its inception in 1984, covering a range of specific issues on topics such as financial instruments and financial institutions, business combinations, and income taxes. A number of the issues were introduced by or at the request of the SEC. On many issues, the group reached a consensus that (a) a single method of accounting is called for based on existing literature, (b) existing guidance is adequate, or (c) the issue does not present a pervasive problem. Other issues have been referred to the FASB or the AICPA for action or further consideration. The Commission expects the positions agreed upon at those meetings to be followed by registrants; registrants that do not follow them will be asked to justify departure from any consensus reached. Based on the work of the EITF in the first two years, the Commission believes that the EITF is performing a useful role in providing timely guidance to registrants and their accountants.

## Oversight of the Accounting Profession's Initiatives

In addition to oversight of the private sector process for setting accounting standards, the Commission also oversees various activities of the accounting profession conducted primarily through the AICPA. These include the Auditing Standards Board, which establishes generally accepted auditing standards; the Accounting Standards Executive Committee, which provides guidance on specific industry practices and prepares issues papers on accounting topics for consideration by the FASB; and the SEC Practice Section (SECPs) of the Division for CPA Firms, which seeks to improve the quality of accounting firms through various membership requirements including peer review.

The Auditing Standards Board has made progress in fiscal year 1986 on a number of initiatives to improve the quality of independent audits. For example, an auditing standard on reports on the application of accounting principles was issued in July 1986, in response to concerns about "opinion shopping."<sup>64</sup> Other standards-setting projects, including projects relating to auditor responsibilities for detection and reporting of fraud and evaluation and reporting on internal controls are progressing in development.

The AICPA, along with other organizations, sponsored the National Commission on Fraudulent Financial Reporting ("NCFFR"), which is an independent commission to study issues involved in the prevention and detection of fraud in the context of financial reporting. The NCFFR expects to complete its work and issue a report in fiscal 1987.

In addition to the AICPA's initiatives, members of the accounting profession have developed proposals designed to improve the quality of independent audits. A position paper by Price Waterhouse ("PW") recommended modified standards which would require an auditor (a) to review and evaluate a company's management controls, and (b) to identify circumstances indicating a higher risk of management fraud and to perform additional

tests if necessary.<sup>65</sup> PW further recommended formation of a statutory self-regulatory organization with mandatory membership for firms practicing before the SEC, and a variety of initiatives to limit accountants' liability. A second position paper by seven major accounting firms recommended, among other things, (a) increased disclosure in SEC filings of risks and uncertainties and that such disclosure be audited, and (b) mandatory membership in the SECPS for firms practicing before the SEC.<sup>66</sup>

The Commission reviewed the merits of the initiatives described above, as well as a bill introduced in Congress entitled, "The Financial Fraud Detection and Disclosure Act of 1986." In addition, the Commission held a Roundtable to discuss these issues with representatives from academia, industry, the accounting profession and others. The Commission believes that the results of the ASB and NCFFR projects should provide valuable insight into the need for and nature of changes in the fraud detection and internal control areas.

*SEC Practice Section*— The Commission oversees the activities of the SECPS through frequent contact with the Public Oversight Board (POB) and members of the executive and peer review committees of the SECPS. In addition, the staff reviews POB files and selected working papers of the peer reviewers. The Commission believes the peer review process contributes significantly to improving the quality control systems of member firms and thus should enhance the consistency and quality of practice before the Commission. According to the POB's Annual Report as of June 30, 1986, 391 firms have voluntarily become members of the SECPS, including all firms with 30 or more SEC reporting clients.<sup>67</sup>

In the past year, several professional groups have called for mandatory peer review, or mandatory membership in an organization conducting peer reviews, for auditors of all Commission registrants. As discussed above, both Price Waterhouse and a group of seven major accounting firms issued proposals in this area. In addition, a special committee of the AICPA re-examined the AICPA Code of Ethics and concluded that the accounting profession should establish a mandatory program to monitor practice to improve quality.<sup>68</sup> Adoption of the Committee recommendation would effectively require that accounting firms which practice before the SEC (and whose members belong to the AICPA) be members of the SECPS. The Commission is considering the feasibility of various methods of requiring peer review for firms with SEC clients.

Other refinements have been made in 1986 to the SECPS and the peer review process. Each SECPS member firm is required to adopt a Statement of Philosophy covering the broad principles influencing the firm's quality control and operating procedures. Each member firm must also establish policies and procedures concerning the rendering of opinions on the application of generally accepted accounting principles to other than audit clients. Compliance with the new requirements will be tested during peer reviews. Peer reviewers will be required to refer in their peer review report to a letter of comment, if such a letter is issued. A letter of comment contains a description of matters leading to a modified report and other recommendations on matters which were not so serious as to require a modified

peer review report. The Commission strongly encourages continuing refinements in the program and its staff will continue to suggest modifications where appropriate.

*Special Investigations Committee*— Activities of the Special Investigations Committee (SIC) supplement peer review. The SIC determines whether allegations of failure in the conduct of an audit indicate need for improvements in, or compliance with, quality control systems of the reporting firms and whether changes in professional standards are required. If specific members of the firm's professional staff may have failed to follow established policies and procedures, the SIC considers whether corrective action taken by the firm is appropriate.

The POB monitors the activities of the SIC and has complete access to the process and to SIC files. In its June 30, 1986 Annual Report, the POB concluded that the SIC is achieving its objectives by effectively complementing the peer review process and improving the quality of professional practice and literature.<sup>69</sup>

During the past year, the SECPS has established procedures for limited SEC access to certain information about the SIC's process to enable the SEC to more effectively oversee this aspect of the profession's program. After experimenting with this arrangement, the Commission staff concluded that certain changes were necessary in order to achieve its oversight objective. In fiscal year 1986, the SIC conducted a review of its processes, and a Task Force is considering refinements to the current process including (a) establishing specific guidelines to determine when a special peer review of a firm will be performed, (b) further expanding the circumstances in which member firms report cases to the SIC, and (c) making the results of SIC inquiries available to subsequent peer review teams. During a meeting with the POB in July 1986, the Commission was informed that the SECPS is also considering requiring additional steps to be taken in an SIC inquiry. Recommendations in this regard are expected to be formulated by early 1987.

The Commission is encouraged by the continuing efforts to improve the SIC process. The ultimate test, however, is the extent to which the SECPS is able to achieve sufficient public credibility in this area.

---

---

# The Edgar Project

---

## Introduction

The Commission's electronic disclosure system, Edgar, completed its second full year of pilot operations on September 24, 1986. When fully operational, Edgar will accelerate dramatically the filing, processing, dissemination and analysis of time-sensitive corporate information filed with the Commission. The primary purpose of Edgar is to increase the efficiency and fairness of the securities markets for the benefit of investors, corporations and the economy. Under Edgar, as information is electronically filed with the Commission, it will be accessible to investors, the media and others on personal and business computer screens in minutes, instead of days and weeks.

The pilot system has successfully demonstrated the feasibility of electronic filing. Over 15,000 electronic filings have been made and the Commission is moving forward with a fully operational system.

## Pilot System

The Pilot system began with a group of volunteer companies whose filings are processed by the Division of Corporation Finance. At the end of fiscal 1986, 237 such companies (plus 135 investment companies) were filing electronically. These filers range from major industrial companies to those which made their initial public offerings on the system. While additional Pilot participation has been limited as of August 31, 1986, other companies may continue to take advantage of the test facilities of the Pilot system.

During the year, filings processed by the Division of Investment Management were included in the Pilot system. In addition to filings made by 21 companies under the Public Utility Holding Company Act of 1935, which were included in the Pilot in 1985, a volunteer group of 135 investment companies in seven management investment company complexes and four unit investment trust complexes with 16 registered investment companies and over 1,500 individual series, began to file electronically. Further, all management investment companies were invited to submit their semi-annual reports on Form N-SAR electronically. To facilitate electronic filing of Form N-SAR, each complex was sent software on a pre-programmed diskette which automatically prepares and formats the tagged answer sheet for filing with Edgar. Four hundred forty-one companies have taken advantage of the opportunity to submit this form electronically.

In fiscal 1986, the major developmental work on the Pilot Edgar system was completed. Enhancements were added to the system to make electronic filing more convenient for filers and to test the potential for productivity improvements in the operational system. These enhancements

included automatic notification to filers by electronic mail of acceptance or rejection of filings and the ability to accept and process tender offer and contested proxy material. Further, the utility of the intelligent workstations used to examine filings was improved in several ways: (1) certain portions of the selective review screening sheet are completed automatically; (2) examiners may request that a notification message automatically appears in the workstation in-box when certain events occur; and (3) improvements in the menu-driven software for the workstations reduce the time needed to select and use various functions.

Further, an approach to data tagging is being tested. A voluntary schedule is being filed by participants whose filings are processed by the Division of Corporation Finance. The schedule uses a specified format and standard captions to identify data for ratio calculation. Edgar performs the calculations automatically at the time of filing acceptance. Initial results have been encouraging.

## **Operational System**

During the past year, significant progress was made toward the operational Edgar system. A revised Request for Proposals ("RFP") was issued on May 6, 1986 with bids due and the contract to be awarded in 1987. Issuance of the RFP followed extensive comment from potential bidders, information vendors, users and filers. The RFP issued for the operational system includes changes made in the system as a result of the comments. It reflects an effort to balance, within legal requirements and budgetary constraints, the needs of the Commission, the filing community, the contractor, and users of Commission information. The RFP requires the contractor to support the following functions: receipt, internal processing, dissemination of filings, systems development, facilities management, backup and recovery, training, security, and links to existing Commission automated systems.

The RFP requests that offerors propose phase-in schedules for both the Divisions of Corporation Finance and Investment Management by criteria such as company size, industry or dissemination market interest. The phase-in schedule will be determined by the Commission after consultation with the contractor and after notice and comment in a rulemaking proceeding.

One of the objectives of Edgar is one-stop filing for issuers of new and public companies so that one filing on Edgar will meet the requirements of the states and self-regulatory organizations. To this end, the staff has worked closely with the North American Securities Administrators Association, the stock exchanges and the National Association of Securities Dealers. The RFP recognizes the needs of the states and the self-regulatory organizations.

Paralleling the procurement effort, steps have been taken with respect to the rulemaking necessary for the operational system. The Divisions of Corporation Finance and Investment Management formed task forces to conduct a comprehensive review of existing rules and to develop proposed rules for the operational system.

On June 26, 1986, the Commission issued an Advance Notice of Proposed Rulemaking.<sup>70</sup> It sought comment on the rule changes necessary to require electronic filing and to facilitate electronic filing by updating the rules to take advantage of the efficiencies of electronic filing and processing by filers, as well as by the Commission. Specific areas discussed in the release include mandatory electronic filing, signatures, exhibits, and amendments and supplements to filings.

## **Conclusion**

In the coming year, work on the operational system will include evaluation of proposals, award of a contract, proposal and adoption of rules and planning for the transition.

# Regulation of the Securities Markets

## Key 1986 Results

The Division of Market Regulation, with the assistance of the Regional Offices, is charged with the responsibility of overseeing the operations of the nation's securities markets and market professionals. In fiscal year 1986, over 11,000 broker-dealers, and ten exchanges as well as the over-the-counter market were subject to the Commission's oversight.

### Market Value of Equity Securities Transactions *in billions*

FY '81	FY '82	FY '83	FY '84	FY '85	FY '86	81-86 % Increase
\$564	\$534	\$1,005	\$1,025	\$1,147	\$1,735	208%

### B/D Oversight Examinations

FY '81	FY '82	FY '83	FY '84	FY '85	FY '86	
278	249	324	389	447	481	73%

### Surveillance and Regulatory Compliance Inspections of SRO's

FY '81	FY '82	FY '83	FY '84	FY '85	FY '86	
12	19	18	20	21	22	83%

### Matters referred by the SEC Regional Offices to SROs

FY '81	FY '82	FY '83	FY '84	FY '85	FY '86	
N.A.	N.A.	132	186	343	235	

### SRO Final Disciplinary Actions

FY '81	FY '82	FY '83	FY '84	FY '85	FY '86	
N.A.	809	802	1,123	971	921	

In fiscal 1986 the Commission's secondary market internationalization program made significant progress. The Commission explored issues of concern with securities markets and market participants, facilitated the development of international linkages between securities markets and clear-

ing agencies, and ensured that such linkages incorporate adequate market surveillance and information sharing arrangements.

During the fiscal year, the Commission approved several new options products, a new uniform margin system, and a simplified, more understandable, options disclosure document. The Commission also held a Roundtable on Index Arbitrage trading to develop a better understanding of the benefits gained from stock index products in reducing costs to investors and the price volatility occurring four times during the year when both options and futures expire on the same day.

Progress was made toward a certificate reduced trading environment, by increased reliance on book-entry systems. As a result of efforts this year, forty-six states now allow domiciliary insurance companies to use securities depositories.

In the inspection area, the Commission improved its productivity in the broker-dealer regulatory program through the development of specialized computer programs. These systems also monitor referrals to SROs pertaining to broker-dealer performance.

## **Securities Markets, Facilities and Trading**

*The National Market System*—Rule 11Aa2-1 under the Exchange Act requires that transactions in national market system (NMS) securities be reported on a real-time basis, increasing market efficiency and improving execution of orders. Over 2500 over-the-counter (OTC) securities now are designated as NMS securities, 400 more than last year.

The Commission took action on several important NMS initiatives. It adopted temporary amendments to Rules 10a-1 and 31-1 under the Exchange Act, the short sale and transaction fee rules, respectively, to exclude from coverage all NMS securities traded on an exchange on a listed or unlisted trading privileges basis.<sup>71</sup> The Commission also approved an automated interface between the Cincinnati Stock Exchange's National Securities Trading System and the Intermarket Trading System.<sup>72</sup>

The Commission also continued to study automation in the OTC market. The Division of Market Regulation issued two no-action positions concerning regulation of automated OTC trading systems, informing system developers that the Division would not recommend enforcement action if such systems were not registered as exchanges.<sup>73</sup> The Commission also directed the Division of Market Regulation to consider new regulatory approaches for such systems.

*National System for the Clearance and Settlement of Securities Transactions*—The Commission approved a proposed rule change by the National Securities Clearing Corporation ("NSCC") that established an automated system for the processing of customer account transfers,<sup>74</sup> and approved proposed rule changes by the New York Stock Exchange, Inc., the National Association of Securities Dealers, Inc. ("NASD"), and the Municipal Securities Rulemaking Board that require members to use this system.<sup>75</sup> The Commission also approved a proposed rule change by the Midwest Securities Trust Company for a pilot program that established a centralized, au-

tomated system for the processing of transactions in commercial paper.<sup>76</sup> The Commission also approved, on a pilot basis, a proposed rule change by NSCC that established centralized and automated processing of mutual fund securities sold by broker/dealers.<sup>77</sup>

*Securities Immobilization*—In fiscal year 1986, the Commission continued to make progress in its efforts to increase the immobilization of securities in securities depositories. For example, several states removed restrictions on depository use by domiciliary insurance companies for their portfolio assets. Forty-six states now allow domiciliary insurance companies to use depositories. Also during the fiscal year, issuers, transfer agents, broker-dealers and clearing agencies, through several task forces, continued their cooperative efforts to identify ways to increase the immobilization of securities certificates and to experiment with uncertificated book-entry systems. In fact, year-long efforts of one task force, which consists of major investment banking firms, were rewarded in early October 1986, when Ford Motor Credit Corporation became the first "book-entry only" corporate debt issuer by issuing \$200 million of three-year notes in "global certificate form" through Depository Trust Company.

*Internationalization*—The Commission's secondary market internationalization program made significant progress during fiscal year 1986. As part of its ongoing efforts to foster a dialogue on the issues raised by the increased transnational trading of securities, the Commission released a staff summary of the comments received in response to the Global Trading Release.<sup>78</sup> In addition, the Commission worked to facilitate the development of international linkages between securities markets and clearing agencies, and to ensure that such linkages incorporate adequate market surveillance and information sharing arrangements. During the fiscal year, the Commission approved the National Association of Securities Dealers, Inc.—London Stock Exchange quotation sharing pilot program, the first market linkage between a U.S. self-regulatory organization and an exchange not located in North America.<sup>79</sup> The Commission also approved an international trading linkage between the Midwest and Toronto Stock Exchanges, the third such linkage involving U.S. and Canadian markets.<sup>80</sup> To facilitate trading in the securities included in these linkages, the Commission staff issued no-action letters to the Canadian Depository for Securities, Limited ("CDS") and The Stock Exchange, London, England, permitting them to establish automated securities processing links with their U.S. counterparts without registering as clearing agencies in the United States.<sup>81</sup>

The Commission has continued to improve its ability to expose and prosecute those who would abuse the integrity of international securities markets. During the fiscal year, the Commission and the Japanese Ministry of Finance agreed to facilitate each agency's respective requests for surveillance and investigatory information on a case-by-case basis.<sup>82</sup> In addition, the Commission entered into a memorandum of understanding with the United Kingdom's Department of Trade and Industry regarding the sharing of information.

The Commission also approved a proposed rule change that enables certain Canadian banks and trust companies to qualify as escrow receipt issuers thereby enabling Canadian writers of equity call options to cover their positions at local financial institutions, and not through U.S. financial institutions as previously required.<sup>83</sup> Another rule change amended a clearing agency's rules to clarify that all securities deliveries, pledges and transfers through its facilities are governed by the Illinois Uniform Commercial Code, including key provisions that were recently amended to recognize the validity of book-entry movements of securities held in fungible bulk at a foreign clearing corporation.<sup>84</sup> The Commission also received a Form CA-1 application for clearing agency registration from the International Securities Clearing Corporation.<sup>85</sup>

*Options*—During fiscal 1986, the Commission amended Rule 9B-1 under the Exchange Act which provides for the distribution to investors of an options disclosure document.<sup>86</sup> The amendment eliminated the requirement that the disclosure document contain information regarding the uses of the options classes discussed by the document. The Commission also adopted an amendment to Rule 3a12-8 under the Exchange Act that exempted Japanese government debt securities from the Exchange Act for purposes of marketing futures contracts on those securities in the United States.<sup>87</sup> In addition, the Commission issued a release proposing amendments to the Rule exempting United Kingdom, Canadian, and Japanese government debt securities from the Exchange Act for purposes of allowing the trading and marketing in the U.S. of futures contracts on such securities by boards of trade which are not located in the country which issued such securities.<sup>88</sup> In addition, the Commission approved proposals by the Chicago Board Options Exchange ("CBOE") and the American Stock Exchange ("Amex"), respectively, to implement CBOE's retail automatic execution system ("RAES") for options on the Standard and Poor's 100, and Amex's automatic execution system ("AUTO-EX") for options on the Major Market Index, on a permanent basis.<sup>89</sup> In addition, the Commission approved CBOE's proposal to begin a six month pilot using RAES for the execution of individual equity options.<sup>90</sup> Moreover, the Commission approved proposals submitted by the New York Stock Exchange and Amex, respectively, to trade two new broad-based index options, NYSE's BETA Index, and Amex's Institutional Index.<sup>91</sup> Further, the Commission approved a proposal by the Philadelphia Stock Exchange, Inc. ("Phlx") to trade options on the European Currency Unit ("ECU").<sup>92</sup> The ECU represents the weighted value of the currencies of ten of the member states of the European Economic Community. In addition, the Commission approved CBOE's proposal to trade European-style options on five foreign currencies.<sup>93</sup> Finally, the Commission also approved proposals submitted by the five options exchanges as well as the NASD to establish a uniform, premium-based customer margin system for short options positions, which became effective on January 31, 1986.<sup>94</sup>

In fiscal 1986, the Commission also focused on the impact on the market of certain arbitrage and related trading strategies involving index

options and futures and the underlying component stocks on the last trading day before expiration (the so-called "Expiration Friday" phenomenon). In October 1985, the Division of Market Regulation sent a letter to the options SROs soliciting their views and comments on various alternatives to address Expiration Friday activity.<sup>95</sup> In response, the SROs commissioned a study of the expiration day effects of index options and futures trading on the market.<sup>96</sup> The study found that both stock market volatility and trading volume is significantly greater on Expiration Fridays than on other days. Nevertheless, it concluded that the magnitude and frequency of expiration day price effects did not warrant any structural changes to expiration day procedures in view of the important hedging uses for index futures and options and the fact that arbitrage activity maintains the essential pricing linkages necessary to facilitate such hedging.

The Commission also responded to a letter from Congressman Dingell requesting the Commission's views on issues related to program and arbitrage trading and its effects on options, futures and stock markets.<sup>97</sup> The Commission's response analyzed the costs and benefits of several alternative procedures that have been suggested to address the concerns in this area. In a continuing effort to address Expiration Friday concerns, the Commission held a Roundtable discussion on index arbitrage and its effects on the marketplace.<sup>98</sup> Finally, at the Commission's request, the New York Stock Exchange experimented with the disclosure of so-called "Market-on-Close" orders at 3:30 p.m. on the September 19, 1986, Expiration Friday<sup>99</sup>.

*Issuer Tender Offers*—On July 11, 1986, the Commission published a release adopting amendments to Exchange Act Rule 13e-4.<sup>100</sup> Rule 13e-4 regulates tender offers and exchange offers by issuers for their own securities. The amendments, which parallel the requirements of Rule 14d-10 for third party tender offers, require that an issuer tender offer must be extended to all holders of the subject securities and that all security holders must be paid the highest consideration paid to any other security holder during the tender offer. The amendments also extend withdrawal rights throughout the offer, and require the offer to remain open for ten business days from an increase or decrease in the percentage of shares sought or consideration offered.

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

*Broker-Dealer and Transfer Agent Examinations*—During fiscal year 1986, the Commission improved productivity through the increased use of computers in its broker-dealer regulatory programs. Systems to monitor referrals to the SROs as well as to maintain accurate profiles of broker-dealers located in various regions of the country have been developed. In addition, a pilot test begun in fiscal year 1985 to analyze the feasibility of using portable computers to conduct broker-dealer examinations was completed, and indicated that use of such computers can improve examiner productivity.

The broker-dealer oversight program was revised in order to place greater emphasis on review of sales practices at large national firms. These examinations included on-site reviews at both the headquarters and a number of branch offices of the chosen firms. In addition, continued concern that organized crime figures or others might attempt to launder funds through broker-dealers has led both SEC and SRO staff to spend more examiner hours on that phase of the examination and to revise the Commission's related examination procedures.

The staff completed 481 oversight examinations of SRO members, an 8% increase over the record 447 examinations completed in FY 1985. The staff also completed 69 cause examinations, a decrease from the 145 conducted last fiscal year and 228 in FY 1984. The continued decrease in the number of cause examinations resulted from increased referrals to SROs of matters for which they have adequate remedies.

The staff also conducted 102 transfer agent examinations. These examinations were conducted following guidelines set by the staff which are designed to improve examination selection and to followup on deficiencies noted in prior examinations.

*Rule 10b-6 and Shelf Distributions*—On September 11, 1986, the Commission issued an interpretive release with respect to shelf distributions and Exchange Act Rule 10b-6, which proscribes certain conduct by participants in a distribution of securities.<sup>101</sup> Until recently, the staff had interpreted Rule 10b-6 in the context of shelf distributions to require every distribution participant, including every shelf shareholder, to comply with the applicable cooling-off period prior to any offers or sales off the shelf by any shelf shareholder. The interpretive release formulates a revised position, which is briefly that, unless an individual shelf shareholder is affiliated with the issuer or another shelf shareholder or is acting in concert with the issuer or another shelf shareholder, the restrictions of Rule 10b-6 with respect to the individual shelf shareholder apply only when the individual shelf shareholder is offering or selling shares off the shelf. The release also discusses the application of Rule 10b-6 to broker-dealers during such distributions.

*Rule 10b-6 Amendments*—On October 22, 1985, the Commission issued a release soliciting comments on proposed amendments to Rule 10b-6. If adopted, the amendments would permit broker-dealers to engage in solicited brokerage up until specified cooling-off periods; define Rule 10b-6's applicability to distribution participants; modify Rule 10b-6's restrictions on exercise of standardized call options; and revise Rule 10b-6's preamble.<sup>102</sup>

*Financial Responsibility Rules*—On September 4, 1986 the Commission issued a release soliciting comments on some proposed amendments to the Commission's financial responsibility and recordkeeping rules in connection with the treatment of repurchase and reverse repurchase agreements entered into by registered broker-dealers.<sup>103</sup> The proposed amendments to the rules are intended to ensure accountability of monies and securities obtained through repurchase agreements and to place a cap on the leverage now available to firms participating in the repurchase agreement market. With respect to hold-in-custody repurchase agreements<sup>104</sup> the

proposed amendments will further the purposes of the Commission's financial responsibility rules, which are to provide safeguards with respect to the financial responsibility and related practices of brokers and dealers.

*Uniform Net Capital Rule*—On November 14, 1986 the Commission approved amendments to the net-capital rule, Rule 15c3-1, which: (1) recognize hedged positions between non-convertible corporate investment grade fixed income securities; (2) recognize hedged positions between non-convertible fixed income securities and U.S. Government bond futures; and (3) reduce the haircut for hedged corporate bond positions.<sup>105</sup>

*Interpretations of the Net Capital Rule*—On February 14, 1986 the Division issued a no-action letter to the Philadelphia Stock Exchange in which it acknowledged the risk-reducing features of maintaining offsetting positions in forwards obtained in the interbank market and options in the seven major foreign currencies.<sup>106</sup>

On February 27, 1986, the Division issued a no-action letter to the New York Stock Exchange permitting brokers and dealers to apply certain reduced haircut charges under the net capital rule to positions comprised of options or futures contracts as to broad-based stock market indices offset by a basket of securities in the actual index.<sup>107</sup>

*Transfer Agent Registration Forms*—On March 27, 1986, the Commission adopted new forms for the registration and monitoring of transfer agents.<sup>108</sup> A simplified Form TA-1 was implemented to conform with that used by the federal bank regulatory agencies and a new Supplement was designed to provide information about persons associated with non-bank, non-issuer transfer agents. In addition, new Form TA-2 was created to provide annual reports of essential processing information about each transfer agent's activities, which will enhance the Commission's oversight of these registrants.

*Bank Securities Activities*—On July 1, 1985, the Commission adopted Rule 3b-9 under the Exchange Act.<sup>109</sup> The rule requires banks to conduct certain securities activities through broker-dealers registered under the Exchange Act. These activities are: 1) public solicitation of brokerage for transaction-related compensation, 2) receipt of transaction-related compensation for providing brokerage services for trust, managing agency or other accounts to which the bank provides advice, or 3) dealing in or underwriting securities. The rule also contains several exceptions for banks that conduct only limited securities activities.

Rule 3b-9 became effective on January 1, 1986. The Commission has received at least 170 applications from bank affiliates which were submitted in order to facilitate compliance with the Rule. Between December 1985 and June 1986 the Commission issued numerous letters granting banks and their affiliates additional time to comply with Rule 3b-9 in order to ease the registration process. Those extensions expired September 1, 1986.

*Extension of Credit by Broker-Dealers of Direct Participation Programs*—On March 7, 1986, the Commission adopted Rule 3a12-9 under the Exchange Act.<sup>110</sup> The rule exempts the securities of certain direct participation programs from those provisions of the Exchange Act that currently prohibit broker-dealers from arranging extensions of credit to investors to

purchase securities. The rule allows broker-dealers, subject to certain conditions, to participate in public offerings of securities of direct participation programs that provide for mandatory installment payments by purchasers.

*Interpretive Release Concerning the Scope of Section 28(e) of the Exchange Act*—On April 23, 1986, the Commission issued an interpretive release under Section 28(e) of the Exchange Act.<sup>111</sup> Section 28(e) provides a safe harbor for money managers who use commission dollars generated by account transactions to pay for research and brokerage services. In the release the Commission clarified its interpretation of certain provisions of Section 28(e) and discussed various disclosure obligations of money managers under the federal securities laws. The Commission also expressed its views regarding best execution obligations of fiduciaries for their clients' transactions and its views and those of the United States Department of Labor regarding directed brokerage practices by sponsors of employee benefit plans.

*Lost and Stolen Securities*—In 1977, the Commission instituted the Lost and Stolen Securities Program. The Commission's designee, the Securities Information Center, maintains an up-to-date database on lost, stolen and counterfeit securities. Program participants number just over 19,600, and include securities organizations, federally-insured banks and non-bank transfer agents. Year-end statistics for 1985 show a 19% increase in the dollar value of securities certificates reported lost, stolen or counterfeit. As a result, the total value of certificates in the database increased from \$7.9 billion to \$9.8 billion during 1985. The number of certificates reported as lost, stolen or counterfeit also increased 3% from 491,944 in 1984 to 506,223 in 1985. SIC also reported approximately a 14% increase in the number of certificates about which participants inquired in 1985: from 2,658,886 in 1984 to 3,029,304 in 1985. Finally, the number of 1985 inquiries from participants that matched previous reports of lost, stolen or counterfeit securities ("hits") by certificate was 3,022.

On November 29, 1985,<sup>112</sup> the Commission published for public comment a number of amendments to the Lost and Stolen Securities Program. The proposed amendments seek to clarify common questions about the program, codify certain longstanding interpretations of the rules governing the program, focus the rule on negotiable certificated securities and effectuate certain recommendations made by the General Accounting Office.

*Transfer Agent Regulation*—The Commission adopted amendments to Exchange Act Rules 17Ad-5 and 17Ad-10. The amendments to Rule 17Ad-5 require registered transfer agents to respond promptly to written inquiries from security holders concerning dividend and interest payments. The Rule 17Ad-10 amendments expand the time period afforded transfer agents to recover over-issued securities before mandatory buy-in of those securities.<sup>113</sup> The Commission also proposed amendments to Rule 17Ad-1 that treat each line on a depository-presented shipment control list as a separate item for turnaround purposes and certain recordkeeping purposes.<sup>114</sup> The Commission approved those amendments as modified to reflect industry comments and suggestions.<sup>115</sup>

## Oversight of Self-Regulatory Organizations

*National Securities Exchanges*—As of September 30, 1986, ten exchanges were registered with the Commission as national securities exchanges. During the fiscal year, the Commission granted applications by exchanges to delist 109 equity and debt, and 20 options issues, and granted applications by issuers requesting withdrawal from listing and registration for 32 issues. In addition, during the fiscal year the Commission granted 577 applications by exchanges for unlisted trading privileges.

The exchanges reported to the Commission 419 final disciplinary actions imposing a variety of sanctions upon member firms and their employees. This compares with 530 final disciplinary actions in fiscal 1985.

During the fiscal year, the Commission received 181 proposed rule changes from exchanges. Among the significant rule filings approved by the Commission were: (1) revisions to the New York Stock Exchange ("NYSE") constitution;<sup>116</sup> (2) a final series of proxy surcharges and rates of reimbursement for NYSE and American Stock Exchange member firms in connection with their compliance with shareholder communication requirements;<sup>117</sup> (3) amendments to the NYSE customer account transfer rule;<sup>118</sup> and (4) amendments to NYSE trading halt procedures.<sup>119</sup>

*National Association of Securities Dealers, Inc.*—The NASD, with over 6400 members, is the only national securities association registered with the Commission. In fiscal 1986, the NASD reported the disposition of 252 formal and summary disciplinary actions and 174 formal and summary actions by the Association's NASDAQ Trading Committee.

In addition, the Commission received 33 filings of proposed rule changes from the NASD. During 1986, the Commission approved NASD proposals: amending the NASD's Code of Arbitration to conform the NASD's arbitration procedures to amendments made to the Uniform Arbitration Code by the Securities Industry Conference on Arbitration;<sup>120</sup> amending the Uniform Practice Code to establish timeframes to be adhered to by broker-dealers when transferring customer securities accounts from one member firm to another member firm;<sup>121</sup> amending the requirements of the Series 7 General Securities Representative exam to cover developments in the securities industry and to place more emphasis on application, evaluation and analysis than on factual recall;<sup>122</sup> and amending the Rules of Fair Practice to require members to maintain records of their aggregate short positions as well as their customers' short positions in NASDAQ securities.<sup>123</sup>

The Commission also denied a petition for a rehearing from one broker-dealer that sells securities issued by its affiliate ("self-underwriting"), to amend the NASD's rule regulating those offerings. The petitioner, a former SECO broker-dealer, requested that the Commission amend the NASD's rules to be consistent with the Commission's self-underwriting rules under the obsolete SECO program.<sup>124</sup>

*Municipal Securities Rulemaking Board*—In fiscal 1986, the Commission received and approved 13 filings of proposed rule changes from the MSRB. Of particular note was the modification of MSRB Rule G-11(g), to change

the time period during which syndicate managers must inform members about order allocations.<sup>125</sup>

## **Clearing Agencies**

During the fiscal year, the Commission received 99 proposed rule changes from registered clearing agencies and approved 89 proposed rule changes generally providing greater financial protection for clearing agencies and reducing costs to market participants. For example, Options Clearing Corporation rule changes provided for uniform, same-day funds settlement<sup>126</sup> and increased capability of qualifying banks to issue escrow receipts covering short options call positions without increasing clearing agency exposure from that activity.<sup>127</sup> The Commission also approved a complete restructuring of Options Clearing Corporation's non-equity options margin program that uses options price and portfolio theories to measure more accurately the clearing agency's financial exposure from members' options activity.<sup>128</sup>

The Commission also approved rule changes that further extended automated clearance and settlement services for municipal securities. Efficient processing of when-issued and syndicate takedown transactions was made available nationwide,<sup>129</sup> and two depositories established bearer municipal bond programs.<sup>130</sup> Moreover, one depository established automated processing services for invitations to tender municipal securities.<sup>131</sup> Finally, municipal securities brokers' broker participation in the National Clearance and Settlement System was facilitated by a clearing agency proposal to establish a special clearing fund formula that reduces the minimum clearing fund contribution requirements for brokers' brokers.<sup>132</sup>

## **SRO Surveillance and Regulatory Compliance Inspections**

The Commission continued its program of referring to SROs matters that are appropriate for SRO investigation and, as necessary, disciplinary action. The use of a computerized tracking system to track SRO referrals instituted in FY 1985 was enhanced this fiscal year. The Commission continued during the fiscal year to encourage the SROs to pursue greater numbers of sales practices related matters, while also evaluating SRO performance on handling all referrals in order both to formulate recommendations for improved procedures at the SROs and to make determinations as to the type of matters that are appropriate for referral to SROs or the states. This fiscal year 235 matters were referred to the SROs as compared with 343 in fiscal 1985. The decrease in matters referred as compared with last fiscal year is attributable to a determination to track only the more significant referrals. The number of referrals for FY'86 is a 26% increase over the number of matters referred in fiscal year 1984.

Section 19(d)(1) of the Securities Exchange Act of 1934 and Rule 19d-1 thereunder requires all self-regulatory organizations to file notice with the Commission of all final disciplinary actions.

A Rule 19d-1 filing may report a completed action that was initiated at any time during the last four years. This time lag frequently reflects the severity of the violation(s) charged, the number of respondents involved,

or the complexity of the underlying facts. Thus, SROs generally conclude cases involving minor or technical violations with a single respondent in less than a year; cases involving serious trading violations (e.g., price manipulation, prearranged trading, frontrunning, etc.) require more time to complete because of the necessity to demonstrate specific intent to the disciplinary panel that acts as a trier of fact. Consequently, the absolute number of Rule 19d-1 notices submitted by a SRO in a given year is not a precise measure of its proficiency in market surveillance and compliance. Nevertheless, the number of actions reported can be useful in assessing the regulatory effectiveness of different SROs over similar time periods, and this information has proved useful in focusing inspections of SRO regulatory programs.

### SRO Final Disciplinary Actions FY 86

In fiscal 1986 the American Stock Exchange ("AMEX") filed 52 Rule 19d-1 filings; the Chicago Board Options Exchange ("CBOE") filed 166; the New York Stock Exchange ("NYSE") filed 112; the Philadelphia Stock Exchange ("PHLX") filed 18; the Pacific Stock Exchange ("PSE") filed 68; the Boston Stock Exchange ("BSE") filed 2; and the Midwest Stock Exchange ("MSE") filed 2; as well as 426 filed by the National Association of Securities Dealers ("NASD").

SRO Final Disciplinary Actions					
	1982	1983	1984	1985	1986
Exchanges	334	475	394	530	419
NASD District Committees	429	227	667	348	252
NASDAQ and MSC Committee <sup>133</sup>	248	100	62	93	174
TOTALS	809	802	1123	971	845

During the fiscal year, the staff conducted 22 inspections of SRO market surveillance, disciplinary, compliance, and operational programs.

The staff completed an inspection of the NYSE's Stock Watch and Industry Analysis programs during the year. The inspection revealed that in response to previous recommendations, the NYSE is developing a new real-time surveillance system. The new system will compare current trading to historical norms for each exchange listed issue to produce exceptions which will then be investigated by staff. In contrast to the current surveillance system, which uses quantitative exception parameters for groups of stocks, the new system will incorporate price and volume characteristics of each stock into its exception parameters. It is expected that the new system will be tested during the later part of 1986. The inspection also noted ways in which other surveillance exception reports could be enhanced. Late in the year, the Division began an inspection of the NYSE's Department of Enforcement. This inspection should be completed in October of 1986.

The staff also completed comprehensive inspections of the Amex's surveillance, investigatory and enforcement programs for both equities and

equity options. The equities inspection revealed improvements in the surveillance and investigatory programs resulting from the establishment of automated surveillance reports and refinements in the equity audit trail. The equity options inspection disclosed that surveillance of upstairs member firms had improved, and encouraged additional automation of the surveillance of floor members. The equity options inspection also found that the Amex instituted a highly successful new order ticket review procedure designed to monitor specialist performance.

During 1986, the staff inspected both the equities and equity options surveillance and disciplinary programs of the PSE to determine if the Exchange had appropriately responded to previous inspection findings. The inspection revealed improvement in the surveillance and disciplinary programs of the PSE, and that both the equities and equity options programs were functioning adequately. In addition the PSE had implemented a significantly improved options audit trail.

The staff also completed comprehensive inspections of Phlx's equities and equity options surveillance programs. The equity options inspection noted significant improvement from the previous inspection. Although several minor deficiencies were noted, the program was found to be functioning adequately. In response to the inspection findings, the Phlx agreed to implement steps to enhance surveillance of Phlx primary issues.

The staff also conducted an inspection of the NASD's Qualification Section to evaluate enforcement standards for inclusion and deletion of securities in the NASDAQ System. The inspection found that the Qualifications Section was effectively managed, and that established procedures were followed consistently. Late in the year the staff began an inspection of the NASD's surveillance and disciplinary programs regarding the NASDAQ market. This inspection revealed substantial improvements in NASDAQ surveillance programs and progress toward an effective audit trail for NASDAQ securities.

The staff also completed inspections of the Spokane Stock Exchange, Inc. ("SSE") and the Intermountain Stock Exchange, Inc. ("ISE"). Recommendations resulting from the SSE inspection included creation of a new, comprehensive self-regulatory program for the Exchange and coordination of that program with the NASD's member firm examination program. Following the ISE inspection, the exchange proposed a voluntary dissolution. Subsequently, however, the Commodities Exchange, Inc. ("COMEX") and the ISE executed an agreement for the purchase of ISE's registration as a national securities exchange. Subject to Commission approval the ISE would continue to exist as a dormant exchange, owned by the COMEX.

The staff also completed an inspection of the BSE equity surveillance program. The inspection revealed that BSE is developing a new automated order routing and execution system. BSE has agreed to use this system and implement various automated enhancements to its surveillance programs.

In 1986 the inspection program continued to emphasize increasing the accuracy of audit trails as a means of improving automated surveillance.

As part of each inspection, staff met with exchange personnel to discuss audit trail developments and ways in which further improvements could be made. Significant progress was achieved during the year by the NYSE, the NASD and the PSE in their audit trails.

The staff conducted an inspection of the NYSE's Department of Enforcement in order to analyze the NYSE's policy not to investigate customer complaints, terminations of registered representatives for cause and notices by members of disciplinary action taken against their registered representatives ("cause matters"). In response to staff recommendations, the NYSE indicated that a preliminary investigation of all potential sales practice violations would be undertaken unless matters were deferred to another SRO or previously investigated. Additional policy changes to be implemented include the periodic review of cases designated "no open," adoption of a uniform system for recording customer complaints, procedures to improve reporting among NYSE departments, improved documentation of why cause referrals are not documented and improved file storage and retrieval.

A comprehensive inspection of compliance programs at the Phlx, including routine examinations, financial surveillance and cause investigations, was conducted during fiscal year 1986. As a result of the concerns noted during that inspection, the Phlx entered into a contract with the NASD to conduct all compliance responsibilities for its foreign currency options members on the behalf of the Exchange.

A comprehensive compliance inspection of the CBOE was completed during the fiscal year. That inspection reviewed cause investigations, routine examinations and formal disciplinary actions, and disclosed weakness in routine sales practice examinations and cause investigations, as well as minor deficiencies in financial examinations of members and the development of formal disciplinary actions.

The staff also conducted inspections of eight of the fourteen NASD district offices. Inspections of the district offices in Seattle, Denver, Dallas, Chicago, Cleveland, Philadelphia, and New York were conducted by the Commission's Regional Offices. Inspections of the district offices in Kansas City and New York (two inspections of New York) were conducted by the Washington, D.C. office. The NASD district office inspections generally revealed that the NASD was meeting its oversight responsibilities under the Act. The inspections did reveal isolated deficiencies in the processing of examinations, documentation of financial surveillance, documentation and scope of cause investigations and processing of formal disciplinary action programs. With respect to the district office in New York, the staff noted serious delays in processing examinations and cause investigations as well as delays in processing the related formal disciplinary actions. The inspections also noted that a number of management changes have occurred in that district and that improvements had been made in addressing procedural deficiencies. In addition to the inspections conducted during fiscal year 1986, the staff encouraged and monitored automation by the NASD of its district recordkeeping functions as well as the development of a program to use computers for conducting field examinations of broker-

dealers. Reviews of the arbitration programs administered by the NASD and NYSE were in progress at the end of the fiscal year. Finally, the staff met with the NYSE and the NASD on a quarterly basis to discuss current regulatory, examination and oversight issues.

In response to continued investor complaints concerning delays in transferring accounts between broker-dealers, the staff monitored the progress of the recently implemented automated transfer system.

*Applications for Re-entry*—During the fiscal year the Division of Market Regulation received 113 SRO applications to permit persons subject to statutory disqualifications, as defined in Section 3(a)(39) of the Exchange Act, to become associated with broker-dealers.<sup>134</sup> This number of filings, a 50% increase from fiscal year 1985, represents by far the largest number of 19h-1 filings ever received and processed by the staff in any one fiscal year. The distribution of filings among the SROs was the following: NASD (88); NYSE (21); and AMEX (4). Of the total filings processed, (5) applications were subsequently withdrawn; 100 completed; and 8 were pending at the year end. One application was denied by the Commission. The staff refused to take a no action position in one application.

In February 1986, the Division of Market Regulation requested that these clearing agencies prepare formal comprehensive risk assessment reports, as contemplated in Securities Exchange Act Release No. 19600,<sup>135</sup> which enumerated the standards for Clearing Agency Registration. These risk assessment reports would be presented to the clearing agencies' respective Boards of Directors and filed with the Division by January 1, 1987. In addition, because new services and systems are developed and offered to clearing agency participants fairly regularly, the Division has requested these risk assessment reports be updated annually.

Primary responsibility for examining and inspecting registered clearing agencies was shifted to the Commission's regional offices in 1986. The Division of Market Regulation, in conjunction with appropriate New York, Chicago, Los Angeles and Philadelphia personnel, will coordinate this transfer to the regional offices and provide support assistance and counsel to regional office examiners. Transfer of the clearing agency inspection program to the regional offices will ensure more regular Commission oversight of securities depositories and clearing corporations, and allow the Commission to utilize the expertise and experience of its regional office examiners who conduct broker-dealer, transfer agent, and investment adviser inspections.

# Investment Companies and Advisers

## Key 1986 Results

The Division of Investment Management oversees the regulation of investment companies and investment advisers under two companion statutes, the Investment Company Act of 1940 (Investment Company Act) and the Investment Advisers Act of 1940 (Investment Advisers Act), and administers the Public Utility Holding Company Act of 1935 (Holding Company Act).

During 1986 the number of registered investment companies increased by 19% and the assets they manage increased by 61%. The number of investment advisers registered increased by 7%. This rate of increase is significantly lower than that experienced in prior years because about 1,500 advisers did not wish to file the new uniform registration form, thus terminating their registrations.

### Number of Active Registered Investment Companies and Investment Advisers

	FY '81	FY '82	FY '83	FY '84	FY '85	FY '86	81-86 % Increase
Investment Companies	1,574	1,830	2,057	2,210	2,458	2,912	85%
Investment Advisers	6,265	5,445	7,043	9,083	10,908	11,707*	87%

### Investment Company and Adviser Assets Under Management (in billions)

	FY '81	FY '82	FY '83	FY '84	FY '85	FY '86	81-86 % Increase
Investment Companies	\$315	\$315	\$360	\$370	\$ 525	\$ 742	136%
Investment Advisers	\$450	\$670	\$780	\$850	\$1,170	\$1,400	211%

### Inspections/Examinations of Investment Companies and Advisers

	FY '81	FY '82	FY '83	FY '84	FY '85	FY '86	81-86 % Increase
Investment Companies	236	355	348	497	567	643	168%
Investment Advisers	512	710	737	837	1,039	1,263	146%
Total Examinations	748	1,065	1,085	1,334	1,606	1,906	155%

\* The registrations of up to 3,000 of these advisers may be cancelled during 1987 for failing to file the new, uniform adviser registration form.

During fiscal 1986 the Division and the regional offices continued efforts to coordinate their regulatory activities with state authorities that share the Commission's jurisdiction over investment advisers, by conducting joint examinations, providing training for state examiners, and routinely sharing examination results.

Due to the large growth in the number of investment advisers registered with the Commission in recent years, the Commission took steps to reevaluate the current regulatory structure for advisers. An SEC Roundtable on Investment Advisers and Financial Planners was held on May 7, 1986 to give the Commission the benefit of the views of outside experts. Discussion at the Roundtable centered on industry growth, and whether it poses additional risks to investors; disclosure to investors and how it can be improved; and alternatives to the current regulatory system, including the establishment of one or more self-regulatory organizations for advisers and greater emphasis on state regulation.

Regulation of investment advisers and financial planners was also the topic of a hearing held on June 11, 1986 by the Subcommittee on Telecommunications, Consumer Protection and Finance of the House Committee on Energy and Commerce. In testimony at the hearing the Commission stated that, although any abuse is unacceptable, the evidence of abuse by planners and advisers was limited. Improved coordination with the States and productivity enhancements are enabling the SEC to deal with the industry's expansion under current regulation. The SEC is continuing to work with both state regulators and industry representatives to ensure the continuation of cost-effective investor protection.

The staff also cooperated with the National Association of Securities Dealers ("NASD") as it began a pilot program to evaluate the feasibility of conducting inspections of NASD members who are also registered investment advisers. The pilot is designed to provide information on whether the NASD might function as a self-regulatory organization for investment advisers.

The Division and the Regional Offices conducted an investment adviser training program for NASD examiners participating in the NASD pilot program, which will continue into the coming year.

During the year personal computers were used increasingly by Commission examiners, both for on-site inspections of investment companies and investment advisers and in subsequent report writing and file maintenance. These computer applications hold the promise of adding considerable economies to the program's examination capabilities.

## **Disclosure Requirements**

The Commission adopted Form N-14, a simplified form for registering securities issued by management investment companies and business development companies in business combination transactions.<sup>136</sup> The Commission proposed a package of new rules and rule amendments that would standardize the computation of mutual fund performance data used in advertisements and sales literature to enhance investors' ability to compare performance claims.<sup>137</sup>

## **Edgar**

In July, 1985, the Division's Office of Public Utility Regulation began accepting electronic filings from registered public utility holding company systems and their member companies. The Division also formed an Edgar Pilot Branch in October, 1985, which began processing electronic filings for a volunteer group of investment company registrants in November, 1985. The volunteers include a representative group of 158 management investment companies and 72 unit investment trusts with over 2,000 active series. Additional electronic filings of Form N-SAR (semi-annual report of registered investment companies) also were made by 441 registered management investment companies not participating full-time in the Edgar pilot. As of September 30, 1986, the Division had received 5,063 Edgar filings.

In October, 1986, the Commission published for comment a proposed rule that would allow optional electronic filing of Form 13F, the report of securities holdings filed by institutional managers. The rule would specify a uniform format and require that electronic filings of this form be made on magnetic tape, a medium particularly suited to large, formatted data filings.<sup>138</sup>

## **Regulatory Policy**

In January 1986, the Commission issued an advance concept release requesting comment on whether Rule 10f-3 under the Investment Company Act should be amended to provide better protection for investors and greater flexibility for investment companies. The current rule provides a limited exemption from a statutory prohibition against acquisitions by a registered investment company of securities underwritten by an affiliate of the company during the existence of the underwriting or selling syndicate to give investment companies greater flexibility in making investments, while providing better safeguards against overreaching.<sup>139</sup>

In March 1986, the Commission adopted amendments to Investment Company Act Rule 2a-7, which permits money market funds to use the amortized cost method of valuing their portfolio securities or the penny-rounding method of computing their price per share. The amendments allow funds to acquire put options and treat variable note or floating rate debt securities with periodic demand features (a type of put option) as short-term securities under specified conditions.

At the same time, the Commission amended Investment Company Act Rule 12d3-1 to clarify when investment companies may acquire demand features and another type of put option known as standby commitments, and adopted a new Rule 2a41-1 allowing registered investment companies to assign a fair value of zero to standby commitments.<sup>140</sup>

In September 1986, the Commission proposed Rule 6c-9 under the Act to provide, under specified conditions, an exemption from the Act to foreign banks that offer or sell their debt securities and non-voting preferred stock in the United States, either directly or through a finance subsidiary.

The Commission also solicited comment on the conditions under which foreign banks offering or selling their own equity securities in the United States should be exempted from the Act.<sup>141</sup>

In June 1986, the Commission proposed an amendment to Rule 31a-2 to permit investment companies to maintain required records on magnetic tape, disk, or other computer storage medium, in order to recognize the use of computers in the industry.<sup>142</sup>

## Investment Advisers

On November 14, 1985, the Commission adopted Rule 205-3, which permits registered investment advisers, under specified conditions, to receive performance-based compensation.<sup>143</sup> On January 1, 1986, the new Form ADV became effective, a uniform form for the registration of investment advisers with the states and the Commission. All previously registered investment advisers were required to re-register on the new form by March 31, 1986. On September 9, 1986, the Commission adopted Rule 202 (a)(1)-1, which provides that a transaction that does not result in a change of actual control of an investment adviser will not be deemed to be an assignment requiring client consent.<sup>144</sup> Also in September 1986, the Commission proposed Rule 206(4)-4 to codify an investment adviser's fiduciary obligation to give material financial and disciplinary information to clients.<sup>145</sup> That proposed rule would set forth a general disclosure standard and provide guidance on some of the types of information that advisers must disclose to clients.

## Insurance Requirements

In May 1986, the Commission adopted Rule 151 under the Securities Act, establishing a "safe harbor" for specified types of annuity contracts.<sup>146</sup> The rule assists insurance companies to determine which of their annuity products are not covered by the registration and other requirements of the federal securities statutes. Rule 151 defines the term "annuity contract or optional annuity contract," as used in Section 3(a)(8) of the Securities Act, to include any contract offered by a corporation subject to state insurance regulation, under which the insurer assumes the investment risk, and which is not marketed primarily as an investment.

On October 15, 1985, the Commission amended Rule 22c-1 under the Investment Company Act,<sup>147</sup> permitting insurance company separate accounts offering variable annuity contracts an extended time period for processing and pricing initial purchase payments.

## Public Utility Holding Companies

There are now 13 registered holding companies with aggregate assets as of March 31, 1986, of \$82.6 billion, an increase of \$4.4 billion, or 5.6% over June 30, 1985. Total operating revenues, as of March 31, 1986 were \$34.1 billion, a \$0.3 million decrease from June 30, 1985. There are 65

electric or gas utility subsidiaries, 74 non-utility subsidiaries, and 22 inactive companies in the 13 registered systems, a total of 174 companies operating in 24 states (excluding seven power supply subsidiary companies).

In March 1986 the Commission revised Holding Company Act Rule 70 and amended Rule 50. The revision to Rule 70 increased the number of persons affiliated with investment bankers and commercial bankers who may serve as officers or directors of public utility holding companies and their subsidiaries. The amendment to Rule 50 conformed it to the shelf registration provisions of Securities Exchange Act Rule 415. Rule 50 governs competitive bidding procedures for the distribution of securities issued by public utility holding companies and their subsidiaries.<sup>148</sup>

*Holding Company Financings*—During fiscal 1986, the Commission authorized \$9.3 billion of senior securities and common stock financing for the 13 registered systems: \$7.7 billion in long-term debt financing, with \$1.6 billion in common and preferred stock. Long-term debt financing increased by 113.9% over fiscal 1985, primarily attributable to redemption and tender offer refinancings of over \$2.4 billion from decreasing interest rates. Over \$1.1 billion of pollution control financing and \$5.3 billion of short-term debt financing were approved. The pollution control financing was a 50% decrease from amounts authorized in fiscal year 1985. This decrease represents the uncertainties of the tax-exempt market caused by Congressional limitations on tax-exempt securities and the recent tax legislation. Short-term debt decreased by 7% over the previous year. Total financings in fiscal 1986 of \$15.7 billion exceeded financings authorized in fiscal 1985 by \$3.6 billion, an increase of over 29.8%. The Commission authorized \$134 million for fuel exploration and development activities during 1986.

*Subsidiary Service Companies*—At the end of calendar year 1986, 12 subsidiary service companies provided managerial, accounting, administrative and engineering service to 11 of the 13 registered holding companies. Billings for services rendered to the holding company systems amounted to \$1.5 billion or 4.4% of the total revenues generated by the electric and gas operating utilities. Subsidiary service companies are heavily labor-intensive, employing 18,241 staff, and have assets of \$901.5 million.

The Commission's continuing review of holding company fuel procurement activities, accounting policies and annual reports of the subsidiary service companies and fuel procurement subsidiaries, and the review of non-utility quarterly reports resulted in savings to consumers during the fiscal year of approximately \$43.7 million.

## **Significant Applications and Interpretations**

*Investment Company Act*—The Commission issued an order on January 30, 1986, exempting the IDS Mutual Fund Group ("Group") from Section 10(f) of the Investment Company Act and Rule 10f-3, to permit Group funds to purchase securities through affiliated underwriting syndicates (most significantly Shearson Lehman Brothers Inc.) in amounts exceeding the limits of Rule 10f-3(d). The order was subject to several conditions designed to

assure investor protection, and two sets of quantity limitations on the aggregate amount of securities an individual fund could purchase from the affiliated underwriter.

An order was issued by the Commission on March 17, 1986, permitting the Kemper Investment Trust, Series 1 and Subsequent Series ("Trusts") to invest a substantial amount of assets in the shares of the Kemper Mutual Funds in excess of the limitations on a "fund of funds" in Section 12(d)(1) of the Act. The Trusts are a series of unit investment trusts that maintain portfolios of zero-coupon obligations and underlying fund shares. Affiliated transactions associated with the purchases were also approved under Section 17(d) of the Investment Company Act and Rule 17d-1.

On June 19, 1986, Shearson Lehman Brothers Inc. ("Shearson") and members of the IDS Mutual Fund Group were exempted from Section 17(a)(3) of the Investment Company Act by a Commission order that permitted the Funds to lend portfolio securities to Shearson and its affiliated broker-dealers, subject to conditions to ensure the Funds fair treatment and protection from overreaching. Regarding the loans, the applicants were also granted an order under Section 17(d) and Rule 17d-1 to permit associated joint transactions between Shearson and the Funds.

On July 23, July 28, and August 12, 1986, the Commission issued orders of exemption under Section 6(c) of the Act permitting, respectively, Westpac Banking Corporation, an Australian bank, and Barclays PLC and National Westminster Bank PLC, English bank holding companies, to issue and sell equity securities in the U.S. under several conditions, including that the foreign banks have a substantial presence in the U.S. and that they be regulated as banks both in their home country and the U.S. These were the first foreign banking entities granted exemptions permitting them to make general offerings of equity securities in the U.S. Previously, foreign banks had been granted exemptions covering general offerings of debt securities.

*Holding Company Act*—The Commission issued a notice of, and order for, hearing on two applications filed by South Jersey Industries, Inc. on its proposed acquisition of Chesapeake Utilities Corporation and a declaratory order that the proposed acquisition of Chesapeake common stock would not affect South Jersey's exemption under the Act.<sup>149</sup> A hearing was ordered to commence on January 22, 1986; however, on January 24, 1986 South Jersey withdrew its applications, citing Chesapeake's changed financial condition.

The Commission issued an order authorizing Cleveland Electric Illuminating Company and Toledo Edison Company to become wholly-owned subsidiaries of Centerior Energy Corporation, a newly created, predominantly intrastate public utility holding company. A request for hearing by an Ohio consumers organization was denied.<sup>150</sup> The merger of the two Ohio utilities represented one of the largest utility combinations in recent history. With combined assets of over \$9 billion, the new holding company is the 18th largest electric utility system in the United States.

The Commission issued a series of orders authorizing the Middle South Utilities, Inc. system to enter into several financing transactions totalling

\$1 billion.<sup>151</sup> The financial viability of the system had deteriorated from rate relief insufficient to compensate for the construction of two nuclear generating plants. The deterioration had extended to a point where the Commission was unable to make the findings required under the Holding Company Act to authorize needed transactions. However, during the fall and winter of 1985-86 adequate rate relief was received by the system companies, allowing the Commission to authorize these transactions.

The Commission issued an order authorizing Columbia Gas System to form a non-utility subsidiary, Producer Settlement Corporation, to assist in the financing of up to \$800 million of first mortgage bonds. These bonds are issued to independent gas producers as compensation for the renegotiation of over \$5 billion of high take-or-pay gas contracts.<sup>152</sup> The renegotiation of the gas contracts was needed to reverse the substantial declining earnings of Columbia from the slide in natural gas rates authorized by regulatory bodies.

The Commission issued a notice of, and an order for, hearing on an application by Columbia Gas System to form a new gas marketing subsidiary, TriStar Gas Marketing, Inc.<sup>153</sup> TriStar proposed to purchase spot market gas in the open market and arrange for delivery to end-users using associate and non-associate pipeline facilities. The Office of the Consumer Counsel of Ohio and two independent gas marketing companies intervened and requested a hearing. A hearing was ordered to start on July 21, 1986; however, on July 17, 1987 Columbia withdrew its application, citing changed market circumstances.

The Commission issued an order authorizing CSW Credit, Inc., a non-utility subsidiary of Central & South West Corporation, to factor the accounts receivables of specified non-associate electric utilities, in addition to those of its associate companies.<sup>154</sup> The order limits the amount of non-associate accounts receivables to less than those of the associate companies.

*Institutional Disclosure Program*—Securities Exchange Act Section 13(f)(1) and Rule 13f-1 under it requires specified “institutional investment managers” to file quarterly reports on Form 13F. Managers filing these reports disclose specified equity holdings of the accounts over which they exercise investment discretion. As of June 30, 1986, Form 13F reports had been filed by 1,543 managers for holdings totaling \$1.091 trillion.

Form 13F reports are available to the public at the Commission’s Public Reference Room promptly after filing. Two tabulations of the information contained in these reports are available for inspection: (1) an alphabetical list of the individual securities, showing the number of shares held by the managers reporting the holding; and (2) a list with the total number of shares of a security reported by all reporting managers. Both tabulations normally are available about two weeks after the date on which the reports must be filed.

The tabulations are prepared by an independent contractor selected through the competitive bidding process. The contractor provides its services to the Commission without charge, and is required to make a variety of specified tabulations available to the public at reasonable prices within ten days after receiving the reports.

# Other Litigation and Legal Activities

## Key 1986 Results

	FY '83***			FY '84			FY '85			FY '86		
	Win	Loss	Other*	Win	Loss	Other*	Win	Loss	Other*	Win	Loss	Other*
Supreme Court and												
Appellate Courts	38	6	3	37	8	5	36	4	5	32	3	2
District Court	40	4	4	26	2	2	23	3	2	21	0	1
Bankruptcy Court**	NA	NA	NA	13	3	2	20	5	0	13	3	1
Other	6	1	6	4	0	0	7	0	0	4	1	0

\* Issue not reached, split decision, etc.

\*\* State Courts and Administrative Tribunals

\*\*\* Includes third party subpoena cases, which were deleted for FY 1984-1986 results.

Figures for FY '81 and FY '82 have not been compiled.

The General Counsel represents the Commission in all litigation in the United States Supreme Court and the Courts of Appeals, defends the Commission and its employees when sued, prosecutes administrative disciplinary proceedings against professional persons under Rule 2(e) of the Commission's Rules of Practice, and appears amicus curiae on behalf of the Commission in significant private litigation involving the Federal securities laws. In addition, under the supervision and direction of the General Counsel, the Regional Offices represent the Commission in corporate reorganization cases under the Bankruptcy Code that have a substantial public investor interest. The General Counsel also seeks to ensure that objectives of the Commission's enforcement and regulatory programs are accomplished, that judicial interpretations of the Federal securities laws afford adequate protection to investors, and that the Commission is able to discharge its statutory responsibilities, unimpeded by lawsuits against the agency or its staff.

The General Counsel represented the Commission in 285 litigation matters during fiscal year 1986. During the year, 37 courts of appeals and Supreme Court cases were concluded, all but three favorably to the Commission. There were 18 appeals before the Supreme Court and Federal courts of appeals of cases in which a party subject to a Commission injunctive action challenged the lower court's resolution of the case in a manner favorable to the Commission or, much less frequently, the Commission challenged an adverse decision. Of these appeals, seven were concluded, with only two outcomes unfavorable to the Commission. The foregoing compares with the following cases in fiscal year 1985: a total of 289 matters, of which 37 were appeals of injunctive action cases. Of those appellate cases, 15 were concluded, with only two outcomes unfavorable to the Commission.

There also were 25 appellate and district court actions seeking to overturn Commission orders, primarily those issued in administrative proceedings or affirming self-regulatory organization disciplinary proceedings against regulated entities such as broker-dealers. Of these appeals, eight were concluded, with no adverse results. In fiscal year 1985, there were 20 actions, 12 of which were concluded with only one adverse result.

The Commission handled 42 amicus cases during the year (compared to 44 such cases in fiscal year 1985). The Commission participated in 19 private cases that were decided; only two of these resulted in a decision adverse to views advocated by the Commission.

The General Counsel also handled more than 218 other proceedings before the Commission or in the Federal district courts, compared to 185 in fiscal year 1985. These included 24 suits brought against the Commission or its staff, and 54 suits, including actions under various public information statutes, seeking access to Commission documents. Of the latter, 46 involved discovery subpoenas in private actions in which the Commission is not a party. In fiscal year 1985, there were 63 suits brought against the Commissioners or the Commission's staff, and 78 suits (including 54 third-party subpoenas) under the various public information statutes.

In addition to litigation, the General Counsel is involved in significant legislative and regulatory work. For example, the Office assisted the Chairman in preparing testimony on a number of important issues, including regulation of financial services, regulation of investment advisers and financial planners, the Commission's responsibilities regarding bank financial reporting, and financial reporting and the role of the independent auditor. The Office also assisted the Commission in preparing a legislative proposal to amend the private civil liability provisions of the Racketeer Influenced and Corrupt Organizations Act.

During fiscal year 1986, 116 debtors with securities registered under the Securities Exchange Act of 1934 (Exchange Act) in the hands of the public commenced Chapter II reorganizations. The Commission entered its appearance in 48 of these cases, involving aggregate assets of \$10.6 billion and about 260,000 public investors. The Commission entered an appearance in one case to pursue a specific law enforcement interest. A list of these cases is set forth in Table 42 in the Appendix to this Report. The Office also submitted proposed amendments to the Bankruptcy Rules to the Committee on Rules of Practice and Procedure of the Judicial Conference of the United States in connection with that committee's review of the Bankruptcy Rules following the passage of The Bankruptcy Amendments and Federal Judgeship Act of 1984.

## Litigation

*Appeals in Commission Enforcement Actions*— This litigation consists primarily of attempts by defendants in Commission injunctive actions to obtain reversal by a court of appeals of district court decisions finding that they have violated the law, enjoining them, and/or ordering other relief such

as disgorgement of illegal profits. In addition, the Commission, when it is denied relief, will in some cases take an appeal.

In *SEC v. Drysdale Securities Corp.*,<sup>155</sup> the Commission appealed the district court's dismissal of the Commission's complaint for injunctive relief in an action involving a fraud by a government securities dealer that caused losses to institutional investors of almost \$300 million. The Commission's complaint alleged, among other things, that an accountant engaged in securities fraud by preparing false financial statements that concealed the dealer's insolvency and that were relied upon by the investors. The district court dismissed the complaint, holding that, since the alleged misrepresentations did not pertain to the merits of the government securities traded or to their issuer, they did not occur "in" or "in connection with" the offers, purchases or sales of securities, and therefore did not violate antifraud provisions of the Federal securities laws. The Court of Appeals for the Second Circuit reversed, reasoning that the securities were transferred as a direct result of the misrepresentations of the dealer's financial condition, and that these misrepresentations related to a significant part of the consideration for the securities transactions—the dealer's concurrent agreement to repurchase or to resell the securities.

In *SEC v. The American Board of Trade*,<sup>156</sup> the United States Court of Appeals for the Second Circuit, which had previously issued a decision in this case in 1984,<sup>157</sup> affirmed the district court's ruling on remand in favor of the Commission. In the prior decision, the court had stayed an injunction against defendants' further illegal sales of unregistered short-term notes to provide them with an opportunity to seek registration of the notes. In its decision in 1986, the court found that registration of the notes could not be effected because the defendants could not provide certain essential certified financial statements. As a result, the court upheld an order granting the Commission's motion to lift the stay of the injunction against illegal sales and enjoining temporarily redemptions of existing notes, pending formulation of a plan to terminate the notes program. There are now outstanding over \$80 million of these unregistered notes.

In *SEC v. Rogers*,<sup>158</sup> a divided panel of the United States Court of Appeals for the Ninth Circuit affirmed (two to one) the district court's judgment that the defendant did not violate the antifraud and registration provisions of the Federal securities laws in connection with the offer and sale of tax-shelter investments in South American gold mining properties. The court held that the district court's findings of fact with respect to defendant Rogers' liability were not clearly erroneous.

The same court affirmed a judgment against the Commission in another injunctive action alleging violations of the registration and antifraud provisions, *SEC v. Belmont Reid & Co.*<sup>159</sup> The court held that sales contracts for the delayed delivery of gold coins at a substantial discount from the market price of gold were not securities. The court stated that the case "was a close one," but reasoned that, even though investors were dependent upon the promoter to use their funds to develop a mining enterprise capable of producing the coins, a security was not present since the investors' "primary

purpose" was to profit from the rise in the price of gold during the early 1980's. The Commission has filed a petition for rehearing of that decision.

*Petitions to Review Commission Orders*—Petitions to courts of appeals for judicial review of Commission orders arise from Commission administrative proceedings conducted under various provisions of the Federal securities laws, including proceedings to review disciplinary actions by national securities exchanges and the National Association of Securities Dealers, Inc. (NASD).<sup>160</sup> These proceedings may involve, among other things, issues central to the Commission's enforcement program and thus to the integrity of the securities markets, including questions of interpretation of the securities statutes.

For example, in *Lowell H. Listrom & Co. v. SEC*,<sup>161</sup> the United States Court of Appeals for the Eighth Circuit has been asked to review the Commission's determination that a broker-dealer violated recordkeeping, confirmation and credit-extension regulations under the Exchange Act in connection with a best-efforts underwriting. Petitioner contends that the Commission's recordkeeping and confirmation requirements were not applicable to transactions by those persons who sought to participate in the underwriting by submitting a written subscription agreement. The Commission has urged the court to uphold its interpretation of these rules as applying to transactions by all persons who did business with the broker in the underwriting rather than only those persons who engaged in oral transactions, since the rules at issue are important prophylactic measures designed to provide regulators with tools for detecting broker-dealer misconduct, and to guard against abuses in the underwriting of new issues.

In *Exchange Services v. SEC*,<sup>162</sup> the United States Court of Appeals for the Fourth Circuit affirmed a Commission decision that upheld an NASD determination that order takers employed by the petitioner, a discount broker-dealer, must qualify as registered representatives by passing the general securities examination required by the NASD of all persons who engage in the securities business. The court deferred to the judgment of the Commission, which had concluded that, notwithstanding the limited nature of their duties, petitioner's order takers must pass the general examination because of their regular and continuous contact with the investing public. The court also upheld the Commission's judgment to refrain from considering, in the context of a proceeding involving a particular brokerage firm, allegations that the existing testing requirements are too onerous in light of the limited nature of order takers' duties. The court emphasized that the NASD and the Commission, in a separate inquiry, are conducting an ongoing review of overall testing requirements.

And in *Earl v. SEC*,<sup>163</sup> the United States Court of Appeals for the Ninth Circuit affirmed an order of the Commission that upheld sanctions imposed by the NASD on the petitioner, who admittedly misappropriated funds from customers and his firm while employed as a branch manager of a broker-dealer firm. Rejecting the petitioner's contentions, the court of appeals found that the Commission did not abuse its discretion either in upholding these sanctions or in denying petitioner oral argument and leave to adduce additional evidence before the Commission.

*Commission Participation in Private Litigation*—The Commission also participates as a friend of the court in selected private litigation that involves significant securities law issues. Such litigation is an important supplement to the Commission’s enforcement program. In addition, because the Federal securities laws provide for private remedies as well as governmental enforcement actions, decisions in private cases may have precedential effect on the Commission’s own regulatory activities.

In *Randall v. Loftsgaarden*,<sup>164</sup> the Supreme Court reversed a decision of the United States Court of Appeals for the Eighth Circuit. The Supreme Court held that the recovery available to a defrauded tax-shelter investor, suing under either Section 12(2) of the Securities Act or Section 10(b) of the Exchange Act to rescind the fraudulent transaction or to obtain rescissionary damages, may not be reduced by any tax benefits the investor has received from the investment. Adopting arguments urged by the Commission and the United States in a friend of the court brief, the Court reiterated the important deterrent purpose of private rights of action under the Federal securities laws.

In light of its ruling in *Loftsgaarden*, the Supreme Court also vacated and remanded two rulings by the United States Court of Appeals for the Second Circuit requiring offset of tax benefits: *Salcer v. Envicon Equities Corp.*<sup>165</sup> and *Freschi v. Grand Coal Venture*.<sup>166</sup> Still pending before the Tenth Circuit is *Feldman v. Pioneer Petroleum Corp.*,<sup>167</sup> in which the Commission filed a brief on an issue left open by the Supreme Court in *Loftsgaarden*—whether tax benefits should be deducted from a Section 10(b) “out-of-pocket” recovery. The Commission’s position is that it is likewise improper to offset tax benefits against an out-of-pocket recovery.

In *Point Landing v. Omni Capital International*,<sup>168</sup> the Court of Appeals for the Fifth Circuit affirmed the dismissal of claims under Section 10(b) and Rule 10b-5 based on alleged fraudulent misrepresentations in the sale of silver straddle commodity futures through discretionary trading accounts. Consistent with the position argued in briefs filed (at the request of the court) by the Commission and by the Commodity Futures Trading Commission, the court held that the plaintiff purchasers had no private cause of action under Section 10(b) and Rule 10b-5, but could sue only under the Commodity Exchange Act (CEA). Thus, the court agreed with both agencies that Section 2(a)(1)(A) of the CEA, which gives exclusive jurisdiction over commodity accounts to the CFTC, also preempts private actions under the securities laws based on Commission rules. The court deemed it unnecessary to decide whether the CEA also preempts private rights of action that are self-executing, in the sense that they do not rely on the promulgation of a Commission rule.

In *Long Island Lighting v. Barbash*,<sup>169</sup> the United States Court of Appeals for the Second Circuit agreed with the position urged by the Commission in a friend of the court brief concerning the interpretation of the Commission’s proxy solicitation rules. Noting that these rules expressly apply to communications “reasonably calculated” to influence shareholder votes, the court of appeals rejected the standard adopted by the district court—

that only communications “targeted directly at shareholders” are subject to the proxy rules. That unduly narrow standard, the court stated, would allow easy evasion of the rules. The court of appeals also held that the proxy rules apply to materials published in newspapers and to communications addressing matters of public interest. A dissenting judge would have first considered the First Amendment issue the district court had considered in connection with the newspaper advertisement involved in this case.

In *Beaumont v. American Can Company*,<sup>170</sup> the United States Court of Appeals for the Second Circuit affirmed the district court’s dismissal of a private action brought against the American Can Company for violations of the Commission’s antifraud and disclosure rules in connection with the 1982 merger of Associated Madison Companies, Inc., into an American Can subsidiary. The plaintiffs, former shareholders of Associated Madison, claimed that, in violation of the rules, the joint proxy statement and prospectus for the merger failed to disclose information relating to the merger price terms contained in letters from American Can requesting no-action positions and exemptions under certain Commission rules. Consistent with the position argued by the Commission in its brief (filed at the request of the court), the court held that the facts concerning the exemptions and no-action positions were not material for purposes of disclosure to Associated Madison’s shareholders.

In *Rembold v. Pacific First Federal Savings Bank*,<sup>171</sup> the Commission filed a friend of the court brief in the United States Court of Appeals for the Ninth Circuit, urging that the jurisdiction of a Federal district court under the Federal securities laws to consider claims alleging fraud in connection with the sale of stock by a savings and loan association, pursuant to its conversion to a stock company, is not ousted by the Federal Home Loan Bank Board’s approval of the conversion. The Commission also urged that position in a brief filed in the United States Court of Appeals for the Eleventh Circuit in *Craft v. Florida Federal Savings & Loan Association*.<sup>172</sup> In *Rembold*, the court stated it agreed with the Commission’s position and reversed the lower court; in *Craft*, the court said it need not reach that question in light of its disposition of the appeal on another ground.

In *Brawer v. Options Clearing Corp.*,<sup>173</sup> the Commission filed a friend of the court brief in the United States Court of Appeals for the Second Circuit in a suit instituted by a writer of put options. Plaintiff alleged that the Options Clearing Corporation (OCC) and the American Stock Exchange had violated a provision of their by-laws (part of a standardized options contract) when they did not adjust the price and terms of the options after an issuer exchange offer that effected an alleged recapitalization. The district court had dismissed the complaint on the ground that no Federal cause of action existed against a registered clearing agency or national securities exchange for violation of self-regulatory organization rules. The Commission urged affirmance on different grounds, arguing that the plaintiff had not alleged a violation of the adjustment rule (which provides that the adjustment decision was to be made in the sole discretion of a committee of the OCC) in the absence of sufficient allegations that the adjustment decision was tainted by fraud or bad faith. The Commission further urged that,

if a violation of the adjustment rule had been alleged, the common law breach-of-contract remedy provided an adequate remedy; therefore, no separate Federal remedy need be implied. The Commission asked that the appeals court not reach the issue whether an implied action may lie against an exchange.

In *Merrill Lynch, Pierce, Fenner & Smith v. Bobker*,<sup>174</sup> involving a tender offer for less than all of the issuer's securities, the District Court for the Southern District of New York, as urged by the Commission in a brief filed at the request of the court, found that a short sale made by a shareholder during the proration period of the tender offer, after he had tendered all of his shares, violated the hedged-tendering prohibitions of Rule 10b-4. Under the rule, the shareholder was required to repurchase the securities subject to the short sale or withdraw those securities from the tender by the end of the proration period.

In *Manufacturers Hanover Trust Co. v. Drysdale Securities Corp.*,<sup>175</sup> a private action arising out of the same circumstances as *SEC v. Drysdale Securities Corp.* (discussed under appeals in enforcement actions), the Commission filed a friend of the court brief, at the court's request, taking the position that traditional repurchase agreements for United States government securities were not separate securities for purposes of the Securities Act and the Exchange Act. Rather, the Commission urged, as the Second Circuit had held in the Drysdale Securities Corp. case, that fraud in repurchase agreements occurs in connection with the purchase and sale of the underlying security and is subject to the antifraud provisions for that reason. The court of appeals affirmed the jury verdict for the plaintiff on this basis, not reaching the question whether repurchase agreements were separate securities.

In *SIPC v. Vigman*,<sup>176</sup> the Securities Investor Protection Corporation sought review in the United States Court of Appeals for the Ninth Circuit of a district court order dismissing, on standing grounds, securities fraud claims arising out of the collapse of two California brokerage firms. The Commission filed a memorandum with the court of appeals urging that unauthorized broker-dealer trading in customer accounts can violate Rule 10b-5. The Commission explained that, under the "shingle" theory, a broker-dealer may be held liable under Rule 10b-5 for conduct inconsistent with its implied representation that customer accounts will be managed with fairness and honesty and in accordance with industry standards.

In *Levinson v. Basic, Inc.*,<sup>177</sup> the Commission filed a brief in the United States Court of Appeals for the Sixth Circuit urging the court to reject the lower court's holding that merger negotiations are never a material event until an agreement in principle is "reasonably certain." The court of appeals agreed with the Commission and held that, at least where a company makes statements about corporate developments, merger negotiations may be material to investors even before there is an agreement in principle. The court agreed with the Commission.

*Trading on Material Non-public Information*—The issue of when trading on material non-public information violates the Federal securities laws con-

tinues to be actively litigated. This year the Commission submitted amicus briefs in two cases.

In *United States v. Carpenter*,<sup>178</sup> the United States Court of Appeals for the Second Circuit affirmed the criminal convictions of defendants who traded on information that one defendant, a columnist for the Wall Street Journal, obtained in the course of his employment and tipped to the other defendants. The defendants had sought dismissal of the charges, arguing that, unlike other cases involving trading on misappropriated information, in this case the only party from whom the information was stolen was not itself a participant in securities transactions. Agreeing with the position urged by the Commission, the court rejected that argument. The court held that trading on information misappropriated in breach of an employer-imposed fiduciary duty of confidentiality violates Section 10(b) and Rule 10b-5 even though the victim of the fraud was not itself a purchaser or seller of securities.

In *Anheuser-Busch v. Thayer*,<sup>179</sup> the Commission filed a brief in a Rule 10b-5 action brought by Anheuser-Busch against a former Anheuser-Busch director and other defendants. Anheuser-Busch's complaint alleged that the director and other defendants traded on nonpublic information misappropriated by the director from the plaintiff concerning Anheuser-Busch's plans to acquire another company, causing the price of the target company's stock to increase dramatically. As a result, Anheuser-Busch claims, it had to pay a higher price for that stock than it otherwise would have paid. The Commission's brief, filed in connection with defendants' motions for summary judgment, urged the court to hold that a person who trades in securities while in possession of nonpublic information he has misappropriated or who tips others who trade, violates Rule 10b-5, as do his tippees. The Commission also urged the court to hold that a private plaintiff like Anheuser-Busch that satisfies the standing requirements for bringing suit under Rule 10b-5 may sue persons who violate the rule by such tipping or trading. The district court, apparently agreeing with the Commission, denied defendants' motions for summary judgment.

*Tender Offer Litigation*—This year the Commission, as in past years, filed friend of the court briefs in several cases involving tender offers.

In *Radol v. Thomas*,<sup>180</sup> the Solicitor General, at the request of the Supreme Court, filed a brief expressing the views of the United States and the Commission as to whether certiorari should be granted to review a decision by the United States Court of Appeals for the Sixth Circuit. The court of appeals had upheld a judgment entered on a jury verdict for the defendants in a class action brought by former target shareholders of Marathon Oil Company challenging U.S. Steel's acquisition of the company. In that decision, and in a companion case, *Starkman v. Marathon Oil Co.*,<sup>181</sup> the court of appeals rejected the plaintiffs' contention that certain appraisals of Marathon's oil and gas reserves should have been disclosed in the context of U.S. Steel's tender offer, holding that neither these appraisals nor any other form of future-oriented or "soft" information is material to a target shareholder's decision to tender unless the underlying projections regarding future corporate and economic events are virtually certain. Because the Sixth

Circuit's decision turned in large part on specific Commission rules prohibiting the disclosure of appraisals of the target company's oil and gas reserves, which rules since have been amended, the Commission urged the Supreme Court to deny certiorari on the ground that the case did not provide an appropriate vehicle for consideration of the materiality of soft information. The Court denied certiorari.

In *Moran v. Household International*,<sup>182</sup> the Commission filed a friend of the court brief urging the Supreme Court of Delaware to hold that a "poison pill" defense to tender offers adopted by Household International without submission to its shareholders was not in the interests of the corporation's shareholders. The Supreme Court of Delaware disagreed and upheld the poison pill plan. In so ruling, the court held that the plan was an appropriate response to certain types of coercive hostile tender offers. The court rejected the Commission's arguments that the plan would preclude shareholder consideration of all hostile tender offers, and would deter proxy contests by persons opposed to management.

In *Hanson Trust PLC v. SCM Corp.*,<sup>183</sup> the Commission filed, at the request of the Second Circuit, a memorandum taking the position that Hanson Trust's extensive open market purchases of SCM stock within hours of terminating its tender offer for that stock created a sufficiently serious question whether Hanson Trust violated Section 14(d) of the Exchange Act to support the district court's entry of a preliminary injunction. The Commission argued that a "purported" termination of a tender offer should not be given effect if designed to evade the Williams Act and that, under an eight factor test, open market and privately negotiated purchases may constitute an unconventional tender offer. The Second Circuit held that the purchases by Hanson did not constitute an unconventional tender offer since the sellers—professional arbitrageurs—were sophisticated and thus did not require the protections of the Williams Act.

*Commission Action Under Rule 2(e)*—Under Rule 2(e) of its Rules of Practice, the Commission may suspend or bar from practicing before it professionals who have violated the Federal securities laws, been enjoined, or engaged in unethical or improper professional conduct. Most Rule 2(e) proceedings involve the conduct of accountants and lawyers; they play a critical role in the disclosure of full and accurate information to the investing public. Thus, the ability to discipline those who have engaged in violative conduct is necessary to protect the integrity of the Commission's processes.

In the last year, final determinations have been reached in several Rule 2(e) proceedings involving accountants and a lawyer; proceedings are still pending against other accountants.

In *Davy v. SEC*,<sup>184</sup> the Ninth Circuit affirmed the Commission's order permanently barring an accountant from practice before the Commission based on antifraud violations and improper professional conduct. Significantly, the court reaffirmed the validity of Rule 2(e), rejecting a challenge to the Commission's authority to promulgate the Rule. The court held that the authority granted the Commission under Section 23(a)(1) of the Exchange Act to establish rules and regulations "as may be necessary or appropriate

to implement the provisions" of the Act provides the statutory foundation for the Rule. The court explicitly adopted the 1979 opinion in *Touche Ross v. SEC*,<sup>185</sup> in which the Second Circuit comprehensively analyzed the history and bases of the Rule and found it a proper exercise of the Commission's prerogative to discipline professionals whose misconduct could undermine the Commission's processes. The Davy case thus represents a significant judicial endorsement of the Commission's authority to regulate the professionals who practice before it.

In *Michael S. Hope, C.P.A.*,<sup>186</sup> the Commission formally censured Hope, the engagement partner for the audits of a company's 1980 and 1981 financial statements. Without admitting or denying the Commission's allegations, Hope consented to a Commission Opinion and Order finding that his conduct in connection with those audits had been improper within the meaning of Rule 2(e)(I)(ii). The Commission found that the company's 1980 and 1981 financial statements were materially misstated and were not presented in accordance with Generally Accepted Auditing Standards because the auditors had failed to obtain sufficient competent evidence concerning several assertions in the financial statements, had failed to exercise the due care required of independent auditors, and had failed to perform the audits with the requisite level of professional skepticism. The Commission accepted Hope's offer of settlement based on his representation that he had not practiced before the Commission as an independent public accountant for over three years.

In another Rule 2(e) proceeding, *John E. Harrington and Gregory B. Arnott*,<sup>187</sup> the Commission disciplined two accountants for their role in Fox & Company's audits of Flight Transportation Corporations' financial statements for 1979, 1980 and 1981. The Commission had charged that Flight, two of its subsidiaries and its president, during that period, fraudulently reported nonexistent sales and assets as part of a scheme for attracting public investments that were to be used for the personal benefit of Flight's management. Without admitting or denying the Commission's allegations, the two respondents consented to an Opinion and Order finding that Harrington, formerly a partner in Fox & Company, had engaged in improper professional conduct in all three audits, and that Arnott, formerly a manager with Fox & Company, had engaged in improper professional conduct in the 1980 and 1981 audits. The Commission found that Harrington and Arnott had not performed the audits in accordance with Generally Accepted Auditing Standards in that they failed to maintain an attitude of professional skepticism throughout the audits and had failed to obtain sufficient competent evidence of the existence of the material assets and revenues of Flight's subsidiaries. What evidence the auditors did obtain for those assets and revenues came directly from Flight's management. Based on its findings, the Commission barred Harrington from appearing and practicing before it, with permission to apply for readmission after five years. Arnott was suspended with permission to apply for limited readmission after one year and full readmission after two.

In *Gary L. Jackson*,<sup>188</sup> the Commission affirmed the administrative law judge's initial decision barring Jackson from practicing as an accountant

before the Commission based on entry of a permanent injunction, by consent, against further violations of the reporting provisions of the Exchange Act. In disciplining Jackson, the Commission relied upon evidence disproving his contention that he was unaware that his audit would be used in a document filed with the Commission. However, the Commission also emphasized that accountants should be aware that certified financial statements may be used in Commission filings without their express consent.

And in *Richard Hirschfeld*,<sup>189</sup> the Commission adopted the initial decision of the Administrative Law Judge permanently barring Hirschfeld from practice before it as a lawyer. Hirschfeld was disciplined based on a permanent injunction for antifraud violations entered by the court in *SEC v. Champion Sports Management*.<sup>190</sup> Based on Hirschfeld's serious misconduct in that case and prior injunctions entered against him for antifraud violations, the Administrative Law Judge held that the public interest required that Hirschfeld be barred permanently from practicing before the Commission as a lawyer.

*Litigation Involving Requests for Access to Commission Records*—Although the Commission received numerous Freedom of Information Act (FOIA) and confidential treatment requests in fiscal year 1986, only five of those requests resulted in the filing of court actions against the Commission; four were resolved in the Commission's favor and one is pending. The Commission received 1671 requests under the FOIA for access to Commission records. Approximately 40% of the 1986 results were for investigatory files. The Commission also received 2003 requests for confidential treatment from persons who submitted information. In fiscal year 1986, 64 requestors appealed the denial or partial denial of FOIA requests to the Commission's General Counsel, who has delegated authority to decide such appeals. Additionally, two confidential treatment requesters appealed the denial of their requests.

In *Mermelstein v. SEC*,<sup>191</sup> the district court upheld the Commission's withholding under Exemption 8 of the FOIA of a Commission examination report on a self-regulatory organization. The court agreed with the Commission that securities exchanges are "financial institutions" for purposes of the FOIA and, thus, Commission examination reports of the exchanges may be exempt from disclosure under Exemption 8.

In *Safecard Services v. SEC*,<sup>192</sup> the district court ruled that an FOIA requester's entitlement to a Vaughn index (a listing of the documents withheld from disclosure) does not attach until after administrative remedies have been exhausted. The court denied the requester's motion to compel the Commission to provide a Vaughn index prior to administrative appeal of the FOIA Officer's decision to withhold various documents. The results of the administrative review, the court noted, could obviate the need for an index or at least reduce the number of documents in dispute. The requester, therefore, must await the ruling on the administrative appeal but may thereafter seek a Vaughn index as part of any subsequent judicial challenge to the final agency action.<sup>193</sup>

The Commission also was served with discovery subpoenas in fiscal year 1986 in private actions in which the Commission is not a party. These private parties seek information from Commission investigatory files or testimony from present or former Commission employees related to their pending litigation.

*Litigation Against the Commission and Its Staff*—During fiscal year 1986, the Commission and its staff were defendants in 39 actions in which persons sought to challenge Commission rules, to enjoin Commission law enforcement efforts, to obtain damages awards, or to challenge personnel decisions. The Commission prevailed in each case decided during the fiscal year; 16 cases were still pending at year-end.

In *American Bankers Association v. SEC*,<sup>194</sup> the district court affirmed the validity of Commission Rule 3b-9. With certain exceptions, that rule requires a bank that wishes to engage in a general securities business to register with the Commission as a securities broker-dealer, so that it will be subject to the requirements imposed on such broker-dealers for the protection of their customers and the integrity of the securities markets. The American Bankers Association (ABA) argued that the Commission lacked authority to adopt the rule because banks had been excluded from the Commission's regulatory authority. The district court rejected the ABA's argument, holding that Rule 3b-9 falls within an area Congress intended the Commission to regulate. The court noted that while "banks" were excluded from the definition of "broker-dealer" in 1934, that exclusion is prefaced by the words "unless the context otherwise requires," and the services now promoted by banks are "functionally indistinguishable" from those offered by registered brokers and dealers. The court held that the statute and legislative history were unclear, and it would defer to the Commission, which had acted reasonably in promulgating the rule. The ABA's appeal from the district court's decision, decided after the close of the fiscal year, was in favor of the ABA position.

In *Sprecher v. von Stein*,<sup>195</sup> the Second Circuit upheld a district court order dismissing a suit against the Commission, its Commissioners and three staff members for failure to state a claim or, alternatively, granting summary judgment for the defendants. The plaintiff claimed that the staff was conducting an investigation solely to harass him, and alleged violations of constitutional rights as well as various common-law torts. The court of appeals found the allegations to be "insubstantial," "speculative," "conclusory" and in general "without merit." The court reaffirmed a prior decision in which it held that the exclusive method to challenge a Commission investigation was in a subpoena enforcement proceeding. Plaintiff's appeal from the district court's award under Rule II to the Commission of \$14,000 in costs and attorneys' fees is currently pending before the Second Circuit.

In *Prevatte v. SEC*,<sup>196</sup> the Sixth Circuit affirmed the district court's dismissal of a complaint against the Commission and several Commission employees alleging that the Commission had unlawfully disqualified plaintiffs from engaging in the securities business. The court affirmed the lower court's decision that the claims were barred on res judicata and immunity

grounds. The court previously had rejected Prevatte's allegations that his due process rights had been violated by the NASD and the Commission in proceedings to bar him from the securities industry.<sup>197</sup>

In addition, the Commission litigated five actions involving personnel matters. Three were decided in the Commission's favor;<sup>198</sup> the remaining two are pending.

Further, three actions were filed under the Right to Financial Privacy Act seeking to block the Commission from obtaining access to customer records at banks. In all of these cases, the district court found that the Commission was properly seeking the subpoenaed records for a legitimate law enforcement inquiry and enforced the Commission's subpoenas.

Finally, only one motion was filed in court in fiscal year 1986 under the Equal Access to Justice Act seeking attorneys fees and expenses. The motion is pending.

## **Significant Legislative Developments**

*Regulation of Financial Services*—During the latter part of the 99th Congress, the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations conducted a broad inquiry into the fundamental premises underlying the present statutory provisions mandating a separation of banking from commerce and of banking from investment banking. Chairman Shad testified before the Subcommittee on July 22, 1986, concerning issues suggested by the possibility of legislative relaxation of the prohibitions of the Glass-Steagall Act to permit banks to engage in additional securities activities. In addition, the Commission staff prepared extensive responses to the Subcommittee's requests for additional information and factual data related to the underwriting, market-making, and investment advisory activities of securities firms, in order to assist the Subcommittee in evaluating the current competitive situation and the possible role that banks might play if permitted.

The Commission's testimony reiterated its longstanding view that, as the lines of demarcation between the banking and securities industries continue to erode, reform of financial regulation should be governed by the principle of functional regulation. Functional regulation means that regulation should be by functional activities, rather than by outmoded industry classification, and fragmented regulation of essentially similar activities should be ended. Consistent with this principle, the Commission supported permitting banks to underwrite municipal revenue bonds and mutual funds, provided that they are required to conduct these new and existing securities activities in separate corporate affiliates within a bank holding company structure, subject to the same regulations and administered by the same regulator, as others that engage in such activities.

*Regulation of Investment Advisers and Financial Planners*—On June 11, 1986, the Chairman testified before the House Subcommittee on Telecommunications, Consumer Protection and Finance concerning investment advisers and financial planners. The Chairman observed that the recent growth of investment advisers and financial planners correlated with the increase in

securities trading and the 1982-86 bull market and that the available evidence of abuses in the industry was limited. Also, the Chairman noted that past and contemplated productivity gains by the Commission's staff and improved coordination with state authorities are enabling current regulation to deal with the industry's expansion. Accordingly, he cautioned against a hasty extension of Federal regulation in this field.

*Racketeer Influenced and Corrupt Organizations Act*—In May 1986, the Commission submitted to the Subcommittee on Justice of the House Committee on the Judiciary a legislative proposal to amend the private civil liability provisions of the Racketeer Influenced and Corrupt Organizations Act (RICO). The proposal, developed by the Office of the General Counsel, implemented recommendations made by the Chairman in his earlier testimony before the Subcommittee. Generally, the proposal (1) provides discretion to the courts to award costs and attorney's fees to prevailing defendants; (2) limits civil RICO claims based on mail, wire or securities fraud to cases with earmarks of organized crime or cases in which the defendant has a history of criminal misconduct similar to that which caused the plaintiff's injury; and (3) imposes a uniform statute of limitations on private civil RICO claims.

*Foreign Corrupt Practices Act of 1977*—On June 10, 1986, Commissioner Fleischman testified on behalf of the Commission in support of amendments to the accounting provisions of the Foreign Corrupt Practices Act of 1977 ("FCPA") before a joint hearing of the Subcommittee on Securities and the Subcommittee on International Finance and Monetary Policy of the Senate Banking, Housing and Urban Affairs Committee. The amendments generally would codify the Commission's Policy Statement on the FCPA. The Commission deferred to the Department of Justice and Commerce with regard to amendments to the antibribery provisions of the FCPA.

*Bank Accounting and Financial Reporting*—On April 24, 1986, Chairman Shad testified concerning the Commission's responsibilities regarding bank financial reporting. In that testimony, the Chairman reiterated the recommendation of Vice President Bush's Task Group on Regulation of Financial Services, that regulation of the securities registration and reporting requirements be consolidated within the Commission. That could be accomplished by requiring all banks and thrifts publicly issuing securities (but not deposit instruments) to the investing public to comply with the registration requirements of the Securities Act. It also would involve repealing Section 12(i) of the Exchange Act to transfer administration and enforcement of the reporting requirements to the Commission.

*Financial Reporting and the Role of the Independent Auditor*—On June 23, 1986, Chairman Shad testified concerning financial reporting and the role of the independent auditor. Specifically he discussed recent private sector regulatory and legislative initiatives, including a bill currently pending in Congress entitled the Financial Fraud Detection and Disclosure Act of 1986. The Chairman indicated that the Commission fully supports any cost-effective measures that would improve the current regulatory system.

*Regulation of the Government Securities Markets*—Following passage by the House of Representatives of legislation that would establish a regulatory system for the government securities markets, the Senate continued to consider the appropriate regulatory structure for those markets. In April 1986, the Commission joined with the Department of the Treasury and the Board of Governors of the Federal Reserve System in sending to the Chairman of the Committee on Banking, Housing, and Urban Affairs a letter that endorsed responsible regulation of the government securities markets. The agencies also indicated that Treasury would be appropriate as rule-maker for those markets. Commission staff members provided drafting and other technical assistance to Committee staff members. On September 3, 1986, the Senate Committee reported out a bill that conformed with the agencies' views.

## Corporate Reorganizations

The Commission acts in a statutory advisor's role in reorganization cases under Chapter 11 of the Bankruptcy Code to ensure that interests of public investors are adequately protected. In these cases, administered in Federal court, a debtor generally is allowed to continue business operations under court protection while it negotiates a plan to rehabilitate the business and to pay the company's debts. Reorganization plans often provide for the issuance to creditors and shareholders of new securities in exchange for part or all of their claims or interests in the debtor under an exemption from registration under the Securities Act provided by the Bankruptcy Code.

In its capacity as special advisor, the Commission may raise or present its views on any issue in a Chapter 11 case, but it may not initiate an appeal. Although Chapter 11 relief is available to businesses of all sizes, the Commission generally limits its participation to cases involving debtors that have publicly traded securities registered under the Exchange Act. In fiscal year 1986, the Commission presented its views on a variety of issues.

*Committees*—Official committees are empowered to consult with a debtor in possession in the administration of a case and to participate in the formulation of a plan. With court approval, official committees are permitted to employ, as a cost of administration, one or more attorneys, accountants, or other agents to assist the committee in performing its duties. In addition to a committee to represent creditors holding unsecured claims, the Code also allows the court to appoint additional committees for stockholders and others where necessary to assure adequate representation of their interests in a case. During fiscal year 1986, the Commission moved or supported motions for the appointment of committees to represent investors in five Chapter 11 cases.<sup>199</sup>

In a case having practical significance for the representation of equity security holders by official committees, *In re Evans Products Company*,<sup>200</sup> the Commission participated in an appeal to the district court, urging that the Bankruptcy Code permits regular reimbursement of actual, necessary expenses of members who serve on official committees based on the same

standard applicable to other official participants in the case: that the activities that led to the incurring of the expenses were in furtherance of the members' statutory duties under the Bankruptcy Code. The bankruptcy court had ruled that there was no statutory basis for authorizing expenses of official committee members and that, even if these were authorized, committee members have the same burden as unofficial participants in the case of demonstrating that their activities made "a substantial contribution" to the case. The district court agreed with the Commission that there was a statutory basis for authorizing official committee member expenses, but applied the "substantial contribution" test as proposed by the bankruptcy court. The potential harshness of the test was mitigated, however, by the district court's additional holding that expenses incurred by members of an official committee in furtherance of its authorized business are "presumed" to be expenses that benefit the estate.<sup>201</sup>

In *In re Psych Systems, Inc.*,<sup>202</sup> the Commission responded to objections filed by creditors concerning the proper standard to be applied to review of fee applications of counsel for an official equity securities holders' committee where the estate proves to be insolvent. The Commission urged that actual necessary professional services, as provided for in Section 330(a) of the Bankruptcy Code, authorizes compensation to official committee counsel for services reasonably related to the performance of duties within the scope of the official responsibilities of the committee, without regard to whether those services produce a measurable benefit to the estate or to the committee's constituents. The matter is pending.

**Estate Administration**—In reorganization cases, the Commission acts to protect the interests of public investors by participating on selected issues, arising in the administration of the debtor's estate, that have a significant impact upon the rights of public investors generally.

In *In re Johns-Manville Corp.*,<sup>203</sup> the bankruptcy court, in an action affirmed by the district court, had enjoined the equity security holders' committee and Manville shareholders from pursuing a Delaware state court action to compel the debtors to hold an annual shareholders' meeting. The equity committee had stated that it sought a shareholder meeting because of a dispute with management over how the reorganization was being conducted, but the bankruptcy court found and the district court agreed that a shareholder meeting would jeopardize the reorganization. In support of an appeal to the United States Court of Appeals for the Second Circuit, the Commission filed a brief urging reversal of the lower court decisions.

The Commission stated that under the Bankruptcy Code, where ordinarily management remains in possession of the debtor, the shareholders generally retain their state corporate law rights to elect directors during the pendency of the reorganization case. The Commission argued that, during the plan negotiation phase of a reorganization case—prior to the filing of a plan impairing shareholder interests and the approval of a related disclosure statement—there should be a strong presumption in favor of the exercise of the shareholders' corporate franchise to influence the course of the reorganization. In this case, the Commission asserted that the deb-

tor had not overcome the presumption favoring shareholder self-governance. The Commission pointed out that, in its view, there was no substantial evidentiary foundation for the bankruptcy court's acceptance of the debtor's contention that the shareholders' meeting would subvert the reorganization. The court of appeals reversed the district court, generally adopting the Commission's positions.

*In re Standard Metals*<sup>204</sup> raised the issue of whether a debtor that had taken no steps to effect notice to potential creditors not listed on its schedules filed with the court, may invoke the procedures of the Bankruptcy Code to cut off the right of such creditors to participate in the reorganization. The bankruptcy court had concluded that, since the claim based on violations of the Federal securities laws by the debtor was unknown to the debtor prior to establishment of the claims bar date, notice of the bar date was not required. The district court affirmed. In support of an appeal to the United States Court of Appeals for the Tenth Circuit, the Commission argued that the Bankruptcy Code and rules imposed a duty on the debtor to give at least publication notice to unscheduled creditors and that due process requires an appropriate form of notice before claims may be barred and discharged in a reorganization case. The appeal is pending.

In two cases this year,<sup>205</sup> the Commission reiterated its position that a creditor may file a class proof of claim on behalf of other similarly situated creditors. In its briefs, the Commission has urged that neither the Bankruptcy Code nor the Bankruptcy rules should be read to preclude the filing of class proofs of claims. In the Commission's view, the broadened claim concept adopted in the Bankruptcy Code, and the prospect that many individuals in a bankruptcy setting may have similarly situated claims, are inconsistent with a restrictive interpretation of a proof of claim requirement. Both appeals are pending.

In *In re Amarex, Inc.*,<sup>206</sup> the Commission, in support of an appeal to the district court, urged that the automatic subordination provision in Section 510(b) of the Bankruptcy Code—for rescission of damage claims arising out of the purchase or sale of securities—should not be read to subordinate every claim by security owners against a debtor merely because the claim would not have existed “but for” the claimant’s purchase of the debtor’s securities. The Commission argued that investor claims are not subject to subordination unless the illegality on which they are based occurs in a securities transaction. The Commission pointed out that it is not uncommon for security owners to have distinct and legitimate claims other than securities fraud type claims and that the automatic subordination provision was not intended to affect those claims. The appeal is pending.

In *In re Roblin Industries, Inc.*,<sup>207</sup> the bankruptcy court, as urged by the Commission, denied a motion by the debtor to approve a stipulation acknowledging the validity of certain bank security interests as a condition for obtaining post-petition financing from the banks. The Commission had argued that the debtor had agreed to enter into the stipulation without undertaking any examination of the banks’ claims and that the record before the bankruptcy court, therefore, was insufficient for the court to make an

informed judgment as to the propriety of the stipulation. Following the decision, the debtor withdrew an application to approve another portion of the stipulation that proposed to waive claims and defenses against the banks.

*Plans of Reorganization/Disclosure Statements*—A disclosure statement is a combination proxy and offering statement used in connection with the acceptance of a plan of reorganization that often includes the exchange of new securities for claims and interests of creditors and shareholders in the debtor. The Bankruptcy Code provides that adequate disclosure is to be made without regard to whether or not the information provided would otherwise comply with the disclosure requirements of the Federal securities laws. But, in recognition of the Commission's special expertise on disclosure questions, the Bankruptcy Code recognizes the Commission's right to be heard, distinct from its special advisory role, on the adequacy of disclosure, and the Bankruptcy rules require service on the Commission of all disclosure statements.

During fiscal year 1986, the Commission received approximately 4,400 disclosure statements filed in Chapter 11 cases involving both privately-held and publicly-held corporations. The staff reviewed 207 disclosure statements, including those disclosure statements filed in cases involving a publicly-held company.

The Commission staff reviews disclosure statements to determine whether the plan proposed involves the issuance of securities consistent with the exemption from registration in the Bankruptcy Code or otherwise in compliance with the Federal securities laws. The Commission also reviews disclosure statements to determine whether there is adequate disclosure concerning the proposed plan. Generally, the Commission seeks to resolve questions concerning bankruptcy disclosure through staff comments to the plan proponent. If those cannot be resolved through this process, the Commission may object to the disclosure statement in the bankruptcy court.

During fiscal year 1986 the Commission commented on disclosure statements in 102 cases, and objected to disclosure statements in five cases. In addition to specific disclosure concerns, the Commission also acts to assure that public investors are given an adequate opportunity to be heard on disclosure-related questions and, from time to time, the Commission objects to confirmation of plans where there is a significant legal question presented.

The Commission pressed significant objections this year in two cases,<sup>208</sup> to provisions of the debtors' plan and disclosure statement that provided, upon confirmation of the plan, for the release and discharge of certain non-debtor individuals—officers, directors and employees of the debtors. The Commission argued that such a plan provision is contrary to the provision of the Bankruptcy Code that generally provides that discharges of a debtor do not affect the liability of any other entity on such debt. The Commission also argued that the proposed release of non-debtor individual liability, without fair consideration paid for such release, was contrary to sound public policy. Both debtors agreed to delete the plan provisions following a hearing on the Commission's objections.

. In *In re Continental Airlines Corp.*,<sup>209</sup> the debtors' plan provided that unsecured creditors would receive deferred payments from the debtors and a guarantee of those payments by the non-debtor parent of the debtors. The guarantee was subject to certain terms and conditions that were not disclosed because of the "potential prejudice" that the debtors claimed would result from such disclosures. The Commission argued that, absent a substantial showing of the need for confidentiality, the debtors should disclose the terms and conditions of the guarantee as well as financial information with respect to the guarantor's ability to perform the guarantee. Following a hearing on the Commission's objections, the debtor agreed to disclose the terms of the guarantee.

In *In re Dakota Minerals*,<sup>210</sup> the debtor failed to notify equity security holders of the time fixed for filing objections to, and the hearing to consider approval of its disclosure statement. Instead, the debtor served notice on a recently authorized and nonfunctioning equity security holders' committee formed one day before the debtor filed its plan and disclosure statement. The bankruptcy court agreed with the Commission's objections that restricting notice in this manner was not appropriate. The court held that, under the Bankruptcy rules, service on the equity security holders' committee was not a sufficient substitute for notice to equity security holders.

In *In re Standard Metals Corp.*,<sup>211</sup> the plan and disclosure statement provided for the sale of substantially all of the debtor's assets and classified stockholders as "unimpaired," thus not permitting them to vote on the plan. The Commission filed an objection to confirmation of the plan on the ground that the proposed sale altered shareholders rights since under state law such a sale would require approval of a majority of shareholders. Accordingly, the Commission argued that the interests of shareholders were impaired, entitling them to vote on the proposed plan of reorganization. The debtor agreed to amend the plan to classify shareholders as impaired. The court denied confirmation on other grounds.

*Compliance with the Registration Requirements of the Securities Act*—Section 1145 of the Bankruptcy Code contains a limited exemption from registration under the Securities Act for the distribution of securities by a debtor, or an affiliate or successor to the debtor, pursuant to a plan of reorganization and in exchange for claims against or securities of the debtor. The issuance of securities pursuant to a plan is deemed to be a "public offering," which means that there is no restriction on resale of such securities unless the seller is an "underwriter" as specifically defined in Section 1145(b). In one case litigated this year, *In re Avanti Motor Corp.*,<sup>212</sup> the debtor's disclosure statement indicated that the debtor intended to rely upon Section 1145 of the Code for a proposed public offering of securities intended to fund the plan of reorganization. The Commission objected to the debtor's disclosure statement because the recipients of securities under the proposed public offering are members of the general public who do not have claims against or interests in the debtor. The debtor agreed to comply with the Federal securities laws if it determined to go ahead with the public offering.

**Stockbroker Liquidation Proceedings**—The commission monitors stock-broker liquidation proceedings conducted under the Bankruptcy Code rather than under the provisions of the Securities Investor Protection Act, for significant legal issues that have an impact on customers of those stock-brokers. In one case this year, *In re Korbin Securities*,<sup>213</sup> the bankruptcy court, as urged by the Commission, denied a trustee's motion for turnover of all of the cash and securities contained in some 4,000 to 6,000 securities accounts maintained by the debtor's clearing broker and "introduced" by Korbin. The Commission had urged that, under the regulatory scheme covering the relationship between introducing and clearing broker-dealers, an introducing broker ordinarily has no interest in the cash or securities held by its clients in accounts maintained by the clearing broker-dealer. The Commission noted, however, that if the introducing broker-dealer engaged in unauthorized transactions in the client accounts, the ordinary relationship is severed and turnover may be appropriate with respect to the cash and securities in those particular accounts.

---

## Economic Research and Analysis

---

The Economic and Statistical Research Program provides the Commission and the operating divisions with the objective perspective and the technical support required to understand and evaluate the economic aspects of SEC regulation. This program is carried out by the Office of the Chief Economist (OCE) and the Directorate of Economic and Policy Analysis (DEPA).

The economic staff provides the Commission with economic advice and research studies on rule proposals, established policy and the capital markets. The staff assists the Commission in making decisions affecting the efficiency and structure of our nation's securities industry and markets. In addition, the program encompasses statistical monitoring of major program initiatives impacting the securities industry and markets and publication of the SEC's Monthly Statistical Review.

Changes in the market place have increased the number and complexity of economic issues coming before the Commission. The trend toward increased internationalization of the securities markets, the rapid growth in both new issues and secondary market trading, the application of new technology within the industry and the continued expansion of new financial products have greatly complicated the analysis of the impact of SEC regulation. New and more complex market structures and trading systems are also increasing the need for economic analysis. Significant changes in the operations of the options markets have occurred as a result of the introduction of new automated execution systems on a pilot basis and because competing market centers are now permitted to trade options on the same underlying NASDAQ security in a competitive framework.

A number of international developments will impact the Commission and require in-depth economic and policy analysis. The securities markets play a much larger role in international finance than was the case just a few years ago. In 1985 alone U.S. issuers raised a record \$40 billion through international bond issues and foreign issuers tapped the U.S. bond market for \$4.7 billion. U.S. and Canadian securities markets have developed electronic trading linkages and London participates in the first transatlantic exchange of quotations in selected stocks. U.S. clearing agencies have begun to develop links with clearing agencies from around the world. The global character of our markets is also reflected in the rapid growth of U.S. and foreign investors' transactions in each other's stock markets and the fourfold increase since 1983 in the number of U.S. mutual funds investing on a global basis.

During fiscal 1986, the economic staff reviewed 101 rules and rule proposals. Rule reviews emphasized the economic costs and benefits of alternative approaches to regulation. In addition, advice was given to the operating divisions on requirements of the Regulatory Flexibility Act (RFA),

particularly focused on reducing regulatory burdens on small business entities. In fiscal 1986 the economic staff reviewed 25 RFA analyses and 16 RFA certifications.

Staff economists prepared two studies of the effects of multiple trading on the bid-ask spreads for options in order to assess the impact of competition in the marketplace for these securities and analyzed rule proposals and amendments related to the exemption from the short sale rule of OTC National Market System Securities traded on exchanges on the basis of unlisted trading privileges. Other analyses examined proposals to amend rules concerning reserve requirements of broker-dealers, the capital requirements on positions held by broker-dealers in equity securities and proposed changes to dealer mark-up disclosure requirements. As part of an on-going review of broker-dealer financial responsibility rules, the staff analyzed information concerning broker-dealer liquidations by the Securities Investor Protection Corporation between 1979 and 1984.

During fiscal year 1986 the economic staff published two empirical studies in the takeover area: "The Economics of Poison Pills" and "Noninvestment Grade Debt As A Source Of Tender Offer Financing." Also completed was a study of the rules affecting shareholder resale of restricted securities to determine if more cost-effective rules could be developed to encourage capital formation while maintaining necessary protection to investors. Additional research was done in policy areas related to corporate registrants and the staff expanded on its cost/benefit analysis of the proposed quarterly reporting requirement of sales and net profits by business segments of corporate issuers operating in multiple lines of business.

Two research projects were completed in the area of investment management regulation. One dealt with the relationship between mutual funds performance and sales of fund shares and the effect of sales loads on this relationship. The other dealt with the growth in the practice of using fund assets (12b-1 Plans) to promote the distribution of new fund shares.

Other issues analyzed during fiscal 1986 were the differential voting rights on equity shares and related listing requirements, recent developments in the takeover debate and the regulation of hostile tender offers.

Additional studies and analyses included an examination of factors affecting stock price runups prior to announcement of tender offers. The impact of SEC's decision to enforce the ceiling test for evaluating reserves of full-cost oil and gas companies was also studied.

---

---

# **Management and Program Support**

---

## **Key 1986 Management and Program Developments**

In carrying out its mission, the Commission made special efforts to solicit a wide range of viewpoints on issues affecting investors and the securities industry. The Chairman and Commissioners hosted roundtable discussions and other forums with industry and investor representatives on issues relating to the effect of rumors upon securities prices, program trading, internationalization of the securities markets, the role and responsibilities of independent auditors, and regulation of investment advisers and financial planners. The Commission's Executive Staff coordinated program activities, including concept releases, rule proposals, legislation, and new initiatives.

### **Information Systems Management**

Under the management of the Office of Information Systems Management (ISM), a total of 314 microcomputers were in use during 1986 throughout the agency to facilitate the Commission's substantive and administrative workload. The growth in the number of microcomputers during the year brought about an increase in services provided by the User Support Information Center, which presented over 200 training courses with a combined enrollment exceeding 1,200 students. In addition, the center responded to over 1,300 requests for technical assistance from microcomputer users.

ISM established a communications link between Edgar and the agency's mainframe computer, permitting access to workload related databases via the Edgar workstations. ISM designed and implemented five computer systems that enhanced the effectiveness of Commission personnel. Each system is briefly described below.

An electronic funds transfer subsystem allows the electronic transfer of paychecks from Treasury to individual employee accounts. A multi-agency payroll/personnel system permits smaller federal agencies to use the SEC system to process their payroll and personnel requirements. The performance and management recognition system monitors the scheduling of personnel evaluations. A system was also developed to track delinquent disclosure statements made by institutional investment managers (13-F filings). Finally, an automated semi-annual report form (N-SAR) which electronically captures specific information used to monitor investment fund activity was established in the Division of Investment Management.

### **Financial Management**

Funding in 1986 was initially provided to the SEC through an annual appropriation of \$111,100,000. This amount was later reduced 4.3% to

\$106,323,000 by Gramm-Rudman-Hollings legislation. The net reduction of \$4,777,000 resulted in a loss of 60 staff years, a 3% decline from 1,994 to 1,934 staff years.

For the fourth consecutive year, and only the fifth year in its 52-year history, the SEC collected fees in excess of its annual appropriation. At the end of fiscal year 1986, a record collection of \$215 million in fees was deposited into the General Fund of the United States Treasury. This represents twice the amount of the agency's 1986 funding and exceeds the previous record amount collected in 1985 by \$56 million. Fees are generated from four primary sources: securities registered under the Securities Act of 1933 (57% of the total), transactions on securities exchanges (21%), tender offers and merger filings (19%), and miscellaneous filings (3%).

In 1986, the SEC continued its support of the Administration's Reform 88 initiative, aimed at improving overall agency management and productivity. The Comptroller's staff expanded its use of microcomputers to expedite the preparation of management reports required by the Office of Management and Budget and other oversight agencies. The staff also revised its accounting manual, incorporating new automation changes into the SEC accounting system. The use of Diners Club cards for official travel was instituted, thereby reducing the draw of government money from interest bearing accounts, while allowing the traveller more flexibility in paying necessary business expenses.

The Comptroller enhanced the agency's financial accounting system by providing a single entry update capability for posting entries to the general ledger from subsidiary ledger postings. This change eliminates the need for separate entries of common data. In addition, an automated inventory system was designed and implemented.

The SEC payroll system entered its second year as a host system for other smaller federal agencies. Work is now underway to modify the payroll system to accommodate the new Federal Employee Retirement System options which become effective for all post-1984 employees on January 1, 1987.

The Commission is prohibited from accepting reimbursement from regulated entities. The 1983 Securities Exchange Act amendments, however, gave the Commission the authority to accept payment and reimbursement from other organizations to defray the cost of travel and subsistence expenses incurred by Commissioners and staff participating in meetings and conferences related to the functions or activities of the SEC. During 1986, Commissioners participated in 39 meetings and conferences. To pay the cost of attendance, private entities reimbursed the SEC \$21,170 while the government's portion amounted to \$2,405. SEC staff participated in 345 meetings and conferences. The SEC was reimbursed \$101,089; the government's portion of these costs was \$16,662.

## **Facilities Management**

The Office of Administrative Services (OAS) handled numerous details related to the closing of the Washington Regional Office, including the relo-

cation of personnel and equipment to the new Philadelphia Regional Office and to the SEC headquarters. OAS restructured the Public Reference Room to provide additional seating for the public as well as for personnel of the agency's dissemination contractor. OAS facilitated GSA delegation of authority to enable the Commission to manage property leases for SEC Offices in Washington, Los Angeles, Denver, Miami, and Houston.

## **Personnel Management**

The Office of Personnel continued to take steps to promote the efficient utilization of the agency's human resources. The recruitment, development, and retention of superior candidates and experienced staff remain a high Commission priority.

During fiscal 1986, the office encouraged programs and projects designed to enhance the quality of work life for Commission staff. For example, the orientation session for new employees was completely revised. A professionally-produced videotape now provides all new staff with a brief history of the SEC, an overview of agency offices and functions, and welcoming remarks by key officials.

The staff aggressively used recently acquired authority from OPM to hire accountants and securities compliance examiners. The new procedures have improved the quality and timeliness of staffing critical positions by shortening the hiring process by five weeks on average.

Training programs emphasized skills development in written communications, microcomputer applications, and litigation techniques and support. During the past year, approximately 500 headquarters and 300 regional office staff attended formal training in their disciplines.

The Office of Personnel prepared new or revised policy guidelines for within-grade quality increases, employee grievances, discipline and performance management. In addition, an automated retirement computation program was obtained, permitting immediate, on-site preparation of individual figures on annuities and benefits.

The Office of Personnel completed an extensive review and evaluation of the Personnel Security and Suitability system. The system contains records of information gathered during employee background investigations conducted by the Office of Personnel Management. This information assists the Commission in making determinations about the suitability of applicants for employment with the SEC and of current employees for sensitive positions. As a result, additional controls were implemented to ensure that all existing positions are properly designated as to their sensitivity. The affected staff is fully aware of its obligations to safeguard confidential information, as a result of a special training program conducted during the year.

## **Public Affairs**

The Office of Public Affairs communicates information on Commission activities to those interested in or affected by Commission actions, includ-

ing regulated entities, the press, employees of the Commission and the general public.

The office directs publication of the SEC Annual Report that provides information on Commission activities to Congress, the securities bar and other interested parties, and, through the Depository Library System, to selected colleges and universities throughout the country. Public Affairs publishes a regular newsletter and prepares a daily summary of news clips for Commission employees. Speeches presented by Commissioners and senior staff and testimony are retained and disseminated in response to requests from the public. During the year, the staff responded to approximately 63,500 requests for information and coordinated programs for more than 310 foreign visitors. Also during the year, the staff updated and revised such publications as the "SEC Publications Guide," "Investigate Before You Invest," and "Q&A for Small Business."

Public Affairs staff prepares the SEC News Digest, which provides information on virtually all SEC actions—rule changes, enforcement actions against individuals or corporate entities, acquisition reports, releases, decisions on requests for exemptions, upcoming Commission meetings, and other events of interest. Information on Commission activity is also disseminated through notices of administrative actions, litigation releases, and other materials. The News Digest is available in the Public Reference Room.

Press releases issued prior to Commission meetings and press briefings conducted after these meetings provide insight into proposed and adopted changes in policies and regulation. The office also issues press releases on upcoming events, on-going programs, and special projects. In all, 75 news releases were issued during the year. When appropriate, actions are brought to the attention of the national and regional press. Special projects, such as roundtable discussions on emerging issues in the financial markets, are also publicized.

## Consumer Affairs

During fiscal year 1986, the Commission staff responded to more than 36,000 complaints and inquiries. Of these, nearly 50% involved investor disputes with registered broker-dealers, 17% concerned issuers of securities, and 6% pertained to banks. The remainder regarded transfer agents and investment advisers, or were general inquiries.

Specialists in Consumer Affairs review and respond to all complaint letters. If the investor's concern can best be answered by the investment firm itself, the matter is referred there for review and resolution. Staff contacted firms in 27% of the cases on behalf of the investor. Consumer Affairs refers to the appropriate SEC division those matters which appear to violate federal securities laws.

Consumer Affairs received 1,535 Freedom of Information Act (FOIA) requests and 1,960 confidential treatment requests during the year. Confidential treatment requests were typically made in connection with proprietary

corporate information and were carefully evaluated to prevent the indiscriminate and unwarranted release of information exempt from the FOIA. In addition, the staff answered 1,335 congressional inquiries.

Finally, over 20,000 people visited the Commission's Public Reference Rooms. To assist these visitors, the staff wrote a booklet entitled "Welcome to the SEC's Public Reference Room," which explains the operation of the room and identifies the types of materials available for public review.

## **Equal Employment Opportunity**

The Commission continued its program of Equal Employment Opportunity instruction for managers and supervisors. Fifty staff members attended training at headquarters dealing with equal employment opportunity law, affirmative action, sexual harassment, EEO discrimination complaint processing, and methods for improving employment opportunities for minorities and women. Additionally, the Commission's first EEO conference in over five years was held in Rosslyn, Virginia, for EEO collateral duty personnel (i.e., EEO Counselors, Federal Women Program Coordinators and Hispanic Employment Program Coordinators). Twenty-nine employees attended this meeting, which was intended to enhance participants' knowledge and skills in EEO program management.

During the year, the employment of Black women increased by 1.0% and Hispanics by 0.3%. Employment for all other minority groups and for women of all races remained constant.

The contributions and achievements of minority groups and women were recognized again this year with programs for Women's Week, Afro-American (Black) History Month, Asian-Pacific American Heritage Week, and Hispanic Heritage Week.

A special program at the New York Stock Exchange was held in April to celebrate the tenth anniversary of the SEC-Securities Industry Committee on Equal Employment Opportunity. The Committee, chaired by the commission's EEO manager, continued its support of a scholarship program for minority students; \$25,000 in scholarships was awarded during 1986. Scholarship funds were contributed by brokerage firms, exchanges, securities associations, broker dealers, and investment advisers who are members of the Committee.

---

# Commissioners and Principal Staff Officers

(As of September 30, 1986)

---

## Commissioners

	Term Expires
<b>John Shad, Chairman</b>	1986
<b>Charles C. Cox</b>	1988
<b>Aulana L. Peters</b>	1989
<b>Joseph A. Grundfest</b>	1990
<b>Edward H. Fleischman</b>	1987

**Secretary: Jonathan G. Katz**

*Executive Assistant to the Chairman: Joseph I. Goldstein*

## Principal Staff Officers

**George G. Kundahl, Executive Director**

**Kenneth A. Fogash, Deputy Executive Director**

**Linda C. Quinn, Director, Division of Corporation Finance**

**William C. Wood, Associate Director**

**Mary E. T. Beach, Associate Director**

**Elisse B. Walter, Associate Director**

**Ernestine M. R. Zipoy, Associate Director**

**Amy L. Goodman, Associate Director, Edgar**

**Gary G. Lynch, Director, Division of Enforcement**

**John G. Sturc, Associate Director**

**William R. McLucas, Associate Director**

**Phillip B. Parker, Chief Counsel**

**Thomas C. Newkirk, Chief Litigation Counsel**

**Michael D. Mann, Office of International Legal Assistance**

**Richard G. Ketchum, Director, Division of Market Regulation**

**Richard P. Wessel, Associate Director**

**Mark D. Fitterman, Associate Director**

**Brandon C. Becker, Associate Director**

**Kathryn B. McGrath, Director, Division of Investment Management**

**Gerald Osherooff, Associate Director**

**Mary Joan Hoene, Associate Director**

**William C. Weeden, Office of Public Utility Regulation**

**Daniel L. Goelzer, General Counsel**

**Paul Gonson, Solicitor**

**Vacant, Associate General Counsel**

**Jacob H. Stillman, Associate General Counsel**

**Linda D. Fienberg, Associate General Counsel**

**Mary M. McCue**, Director, Office of Public Affairs

Chiles T. A. Larson, Deputy Director

**A. Clarence Sampson**, Chief Accountant

Edmund Coulson, Deputy Chief Accountant

**Jeffry L. Davis**, Director, Directorate of Economic and Policy Analysis

Terry M. Chuppe, Associate Director

Charles W. Bryson, Associate Director

**Gregg A. Jarrell**, Chief Economist

**William S. Stern**, Director, Office of Opinions and Review

Herbert V. Efron, Associate Director

R. Moshe Simon, Associate Director

**Warren E. Blair**, Chief Administrative Law Judge

**Lawrence H. Haynes**, Comptroller

Henry I. Hoffman, Assistant Comptroller

**Richard J. Kanyan**, Director, Office of Administrative Services

**James C. Foster**, Director, Office of Personnel

William E. Ford, II, Assistant Director

**Wilson Butler**, Director, Office of Applications and Reports Services

Mary J. Kenney, Deputy Director

**Cecilia A. Charles**, Acting Director, Office of Consumer Affairs and Information Services

**Gregory Jones, Sr.**, Director, Office of Information Systems Management

Richard T. Redfearn, Deputy Director

**Cecile Z. Srodes**, Director of Legislative Affairs

**James A. Clarkson, III**, Director of Regional Office Operations

**Ernest G. Miller**, Manager, Equal Employment Opportunity

---

# **Biographies of Commissioners**

---

## **John Shad**

John Shad was appointed the 22nd Chairman of the SEC by President Reagan and sworn-in by Vice President Bush on May 6, 1981. To accept the appointment, he resigned as the vice chairman of an investment banking and brokerage firm and from the boards of seven New York Stock Exchange listed corporations, and placed his holdings in a blind trust.

He has served on the boards of 17 publicly-owned corporations; taught at the New York University Graduate Business School; and is the author of articles on securities regulations, corporation finance, mergers and acquisitions.

He is a graduate of the University of Southern California, the Harvard Business School and the New York University Law School and a member of Beta Gamma Sigma and Phi Kappa Phi. He was born in Utah in 1923, worked his way through college and served in the Pacific and China as a naval officer during World War II. He began his career as a securities analyst and became an investment banker.

He is a member of the advisory boards of the SEC and Financial Reporting Institute at the University of Southern California, the Securities Regulation Institute and the National Center on Financial Services at the University of California and the Associates of the Harvard Business School. Awards include Investment Banker of the Year (1972), National Association of Investment Clubs distinguished service, National Conference of Christians and Jews brotherhood, Harvard Business School and University of Southern California alumni achievement, SEC distinguished service.

## **Charles C. Cox**

Charles C. Cox was sworn in as the 62nd Member of the Commission on December 2, 1983. His term expires in June 1988.

Mr. Cox joined the Commission on September 1, 1982, as Chief Economist. He organized the Office of the Chief Economist to analyze the economic effects of proposed rules and legislation, evaluate established Commission policy, and study various capital market topics.

Previously, Mr. Cox was a professor of management at Texas A&M University from 1980 to 1982, and a professor of economics at Ohio State University from 1972 to 1980. He served as a National Fellow of the Hoover Institution at Stanford University from 1977 to 1978.

During his academic career, Mr. Cox focused his research on the economics of public regulation of economic activity. He has published various articles on this topic in scholarly journals. Mr. Cox is a member of the American Economic Association.

Mr. Cox was born in Missoula, Montana, on May 8, 1945. He received his undergraduate education at the University of Washington where he was elected to Phi Beta Kappa in 1966, and earned a B.A. degree, *magna cum laude*, with distinction in economics in 1967. He received A.M. and Ph.D. degrees in economics from the University of Chicago in 1970 and 1975, respectively.

### Aulana L. Peters

Aulana L. Peters was sworn in as the 64th Member of the Commission on June 11, 1984. Her term expires in June 1989.

Until her appointment, Mrs. Peters was a partner with the Los Angeles law firm of Gibson, Dunn & Crutcher, which she joined as an associate in 1973. As a member of that firm's Litigation Department, she specialized in business and commercial litigation with emphasis on the securities and unfair competition areas, particularly class action suits. About one-third of her law practice involved cases of alleged violations of the Securities Act of 1933 and the Securities Exchange Act of 1934, representing both defendants and plaintiffs. She was also involved in tender offer/proxy contest litigation.

She has frequently served on legal panels and has lectured for the California Continuing Education of the Bar and others. Mrs. Peters is a member of the Los Angeles County and American Bar Associations.

From 1963 to 1967, she lived in Milan and then in Paris, where she held various positions, the last of which was as an Administrative Assistant within the Secretariat of the Organization for Economic Cooperation and Development. She has also lived in San Salvador, Central America, and The Cameroons (West Africa).

Mrs. Peters, who was born on November 30, 1941, is the first black appointed to the Commission. She earned a J.D. with honors from the University of Southern California Law Center in 1973 and a B.A. in philosophy from the College of New Rochelle in 1963.

### Joseph A. Grundfest

Joseph A. Grundfest was sworn in as the 65th Commissioner of the Securities and Exchange Commission on October 28, 1985. His term expires in June 1990.

Mr. Grundfest came to the Commission from the Council of Economic Advisers in the Executive Office of the President, where he was counsel and senior economist for legal and regulatory matters. While at the Council, he played an active role in the formulation of Administration policy regarding regulation of securities markets, financial institutions, international trade, and the reformation of the antitrust laws. Mr. Grundfest is both an attorney and economist. He has practiced law with Wilmer, Cutler & Pickering and has served as an economist with The Rand Corporation, the Brookings Institution, and Peat, Marwick & Mitchell.

Mr. Grundfest is author or co-author of numerous publications dealing with topics such as contests for corporate control, the legal and economic regulation of markets subject to kickback schemes, the regulation of markets for broadcast stations and television advertising, and the role of citizen participation in administrative proceedings. During his academic career, Mr. Grundfest served as a Brookings Institution Fellow, a Stanford University Fellow, and a California State Fellow for the Study of Law and Economics.

Mr. Grundfest was born in New York City on September 8, 1951. He received his undergraduate education at Yale University where he earned a B.A. degree in economics in 1973. During an undergraduate year abroad, Mr. Grundfest completed, with First Class Distinction, the M.Sc. Program in Mathematical Economics and Econometrics at the London School of Economics. Between 1974 and 1978, he obtained his J.D. degree from Stanford University and completed all requirements, other than the dissertation, for a doctorate in economics.

## **Edward H. Fleischman**

Edward H. Fleischman was sworn in as the 66th Member of the Securities and Exchange Commission on January 6, 1986. His term expires in June 1987.

He formerly practiced law with Gaston, Snow, Beekman & Bogue (formerly Beekman & Bogue), where he specialized in securities and corporate law and related areas.

During his career, Mr. Fleischman has been elected a member of the American Law Institute and the American College of Investment Counsel, and served as an Adjunct Professor of Law teaching securities regulation at the New York University Law School. He has been a lecturer at seminars dealing with securities and futures law and practice sponsored by such groups as the Practising Law Institute, the American Bar Association, the American College of Investment Counsel, the American Law Institute/American Bar Association, Law and Business, and Law Journal Seminars/Press as well as at the University of California Securities Registration Institute and the Southwestern Legal Foundation Symposium on Securities Regulation. He was co-author of a series of articles relating to Commission Rule 144.

Mr. Fleischman was born in Cambridge, Massachusetts, on June 25, 1932. A member of the U.S. Army from 1952 to 1955, he served with the 173rd Military Intelligence Platoon in Germany from 1954-1955. Mr. Fleischman received his undergraduate education at Harvard College and graduated with a B.A. degree *cum laude* in history, writing his thesis on an event in nineteenth-century Russia. He was a Stone Scholar at Columbia Law School, where he received his LL.B. degree in 1959.

Mr. Fleischman was admitted to the New York Bar in 1959 and to the bar of the U.S. Supreme Court in 1980. He serves on the Committee on Federal Regulation of Securities where he has chaired the Ad Hoc Subcom-

mittee on Rule 144 and the Subcommittee on Broker-Dealer Matters, and was the co-draftsperson of the Committee letter on utilization and dissemination of "inside" information. He is also a member of the Committee on Counsel Responsibility and Liability as well as the Committee on Developments in Business Financing where he co-drafted the Committee paper on resale of institutional privately placed debt and chaired the Subcommittee on Simplified Indentures in addition to the Annual Review of Developments. Other bar activities include membership on the Committee on Futures Regulation, the Committee on Developments in Investment Services, and the Administrative Law Committee on Securities, Commodities and Exchanges where he was vice chair for Commodities before taking the chair for three years.

---

# **Regional and Branch Offices and Administrators**

---

REGION 1	Ira L. Sorkin NEW YORK REGIONAL OFFICE 26 Federal Plaza, Room 1028 New York NY 10278 212/264-1636 Region: New York and New Jersey
REGION 2	Douglas Scarff BOSTON REGIONAL OFFICE 150 Causeway Street Boston MA 02114 617/223-2721 Region: Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut
REGION 3	Michael K. Wolensky ATLANTA REGIONAL OFFICE 1375 Peachtree Street, NE, Suite 788 Atlanta GA 30367 404/347-4768 Region: Tennessee, Virgin Islands, Puerto Rico, North Carolina, South Carolina, Georgia, Alabama, Mississippi, Florida, and Louisiana east of the Atchafalaya River
	Charles C. Harper MIAMI BRANCH OFFICE Dupont Plaza Center 300 Biscayne Boulevard Way, Suite 500 Miami FL 33131 305/350-5765
REGION 4	William D. Goldsberry CHICAGO REGIONAL OFFICE Everett McKinley Dirksen Building 219 South Dearborn Street, Room 1204 Chicago IL 60604 312/353-7390 Region: Michigan, Ohio, Kentucky, Wisconsin, Indiana, Iowa, Illinois, Minnesota, and Missouri

**Mark A. Loush**  
**DETROIT BRANCH OFFICE**  
231 West Lafayette  
438 Federal Building and U.S. Courthouse  
Detroit MI 48226  
313/226-6070

- REGION 5**
- T. Christopher Browne**  
**FORT WORTH REGIONAL OFFICE**  
411 West Seventh Street, 8th Floor  
Fort Worth TX 76102  
817/334-3821  
Region: Oklahoma, Arkansas, Texas, Louisiana  
west of the Atchafalaya River, and Kansas
- Vacant**  
**HOUSTON BRANCH OFFICE**  
7500 San Felipe Street, Suite 550  
Houston TX 77063  
713/266-3671
- REGION 6**
- Robert H. Davenport**  
**DENVER REGIONAL OFFICE**  
410 17th Street, Suite 700  
Denver CO 80202  
303/844-2071  
Region: North Dakota, South Dakota,  
Wyoming, Nebraska, Colorado,  
New Mexico, and Utah
- G. Gail Weggeland**  
**SALT LAKE BRANCH OFFICE**  
U.S. Post Office and Courthouse  
350 South Main Street, Room 505  
Salt Lake City UT 84101  
801/524-5796
- REGION 7**
- Irving M. Einhorn**  
**LOS ANGELES REGIONAL OFFICE**  
5757 Wilshire Boulevard, Suite 500 East  
Los Angeles CA 90036-3648  
213/468-3098  
Region: Nevada, Arizona, California, Hawaii, and Guam
- Bobby C. Lawyer**  
**SAN FRANCISCO BRANCH OFFICE**  
450 Golden Gate Avenue, Box 36042  
San Francisco CA 94102  
415/556-5264

**REGION 8**      Jack H. Bookey  
                  SEATTLE REGIONAL OFFICE  
                  3040 Jackson Federal Building  
                  915 Second Avenue  
                  Seattle WA 98174  
                  206/442-7990  
                  Region: Montana, Idaho, Washington, Oregon,  
                  and Alaska

**REGION 9**      James C. Kennedy  
                  PHILADELPHIA REGIONAL OFFICE  
                  William J. Green, Jr. Federal Building  
                  600 Arch Street, Room 2204  
                  Philadelphia PA 19106  
                  215/597-3100  
                  Region: Pennsylvania, Delaware, Maryland,  
                  Virginia, West Virginia, and  
                  District of Columbia

---

---

## FOOTNOTES

---

<sup>1</sup>Corporate Reporting and Accounting cases include: *In the Matter of Michael R. Maury*, Accounting and Auditing Enforcement Release No. 93 (March 26, 1986), 35 SEC Docket 580; *In the Matter of Ray M. Vanlandingham, et al.*, Accounting and Auditing Enforcement Release No. 102 (June 20, 1986), 35 SEC Docket 1666; *In the Matter of James D. Francis*, Accounting and Auditing Enforcement Release No. 103 (June 20, 1986), 35 SEC Docket 1678; *In the Matter of American Express Company*, Accounting and Auditing Enforcement Release No. 101 (June 17, 1986), 35 SEC Docket 1562; *In the Matter of Stewart Parness*, Securities Exchange Act Release No. 23507 (August 6, 1986), 36 SEC Docket 395; *In the Matter of Michael S. Hope, C.P.A., et al.*, Accounting and Auditing Enforcement Release No. 109A (August 6, 1986), 36 SEC Docket 663; *In the Matter of Lary C. Snodgrass, C.P.A.*, Accounting and Auditing Enforcement Release No. 83 (December 26, 1985), 34 SEC Docket 1383; *In the Matter of Seidman & Seidman*, Accounting and Auditing Enforcement Release No. 78 (October 10, 1985), 34 SEC Docket 356; *In the Matter of Frantz Warrick Strack & Associates, P.C., et al.*, Accounting and Auditing Enforcement Release No. 86 (February 10, 1986), 35 SEC Docket 34; *In the Matter of Arthur Rogovin, et al.*, Accounting and Auditing Enforcement Release No. 87 (February 27, 1986), 35 SEC Docket 154; *In the Matter of S.P. Cooper & Co., et al.*, Accounting and Auditing Enforcement Release No. 91 (March 17, 1986), 35 SEC Docket 480; *In the Matter of Ronald P. Harrington*, Accounting and Auditing Enforcement Release No. 92 (March 25, 1986), 35 SEC Docket 630; *In the Matter of Carl E. Wright, et al.*, Accounting and Auditing Enforcement Release No. 97 (April 23, 1986), 35 SEC Docket 898; *In the Matter of Robert E. Nilssen, et al.*, Accounting and Auditing Enforcement Release No. 111 (September 11, 1986), 36 SEC Docket 878; *In the Matter of William Gelfond, C.P.A.*, Accounting and Auditing Enforcement Release No. 106 (July 22, 1986), 36 SEC Docket 219; *In the Matter of Albert Jacobs, C.P.A.*, Accounting and Auditing Enforcement Release No. 114 (September 24, 1986), 36 SEC Docket 1100; *In the Matter of Thomas C. Runge*, Securities Exchange Act Release No. 23066 (March 26, 1986), 35 SEC Docket 575; *SEC v. Savin Corp.* Accounting and Auditing Enforcement Release No. 80 (November 12, 1985), 34 SEC Docket 920; *SEC v. E.F. Hutton Group, Inc.*, Litigation Release No. 10915 (October 29, 1985), 34 SEC Docket 712; *SEC v. Computer Business Supplies, Inc., et al.*, Litigation Release No. 10986 (January 22, 1986), 34 SEC Docket 1944; *SEC v. Academy Insurance Group, Inc.*, Accounting and Auditing Enforcement Release No. 89 (February 10, 1986), 35 SEC Docket 82; *SEC v. Arthur Rogovin, et al.*, Litigation Release No. 11018 (March 6, 1986), 35 SEC Docket 281; *SEC v. Inter-Regional Financial Group, Inc., et al.*, Accounting and Auditing Enforcement Release No. 90 (March 13, 1986), 35 SEC Docket 445; *SEC v. Everitt A. Carter, et al.*, Accounting and Auditing Enforcement Release No. 94 (March 27, 1986), 35 SEC Docket 627; *SEC v. Vidalia Sweets Brands, Inc., et al.*, Accounting and Auditing Enforcement Release No. 98 (April 23, 1986), 35 SEC Docket 959; *SEC v. Daniel C. Maxwell, et al.*, Accounting and Auditing Enforcement Release No. 95 (April 14, 1986), 35 SEC Docket 867; *SEC v. Nordic Ltd. Inc., et al.*, Litigation Release No. 11064 (April 15, 1986), 36

SEC Docket 872; SEC *v. Ronald R. Walker, et al.*, Accounting and Auditing Enforcement Release No. 96 (April 22, 1986), 35 SEC Docket 956; SEC *v. Time Energy Systems, Inc., et al.*, Accounting and Auditing Enforcement Release No. 99 (May 20, 1986), 35 SEC Docket 1292; SEC *v. Charter Co., et al.*, Accounting and Auditing Enforcement Release No. 104 (June 24, 1986), 35 SEC Docket 1748; SEC *v. National Business Communications Corp., et al.*, Accounting and Auditing Enforcement Release No. 113 (September 19, 1986), 35 SEC Docket 1152; SEC *v. John Dias*, Accounting and Auditing Enforcement Release No. 100 (June 10, 1986), 35 SEC Docket 1527; SEC *v. Automatix Inc.*, Accounting and Auditing Enforcement Release No. 100 (June 10, 1986), 35 SEC Docket 1527; SEC *v. GemCraft, Inc.*, Accounting and Auditing Enforcement Release No. 107 (July 31, 1986), 36 SEC Docket 363; SEC *v. Charles W. Anshen, et al.*, Litigation Release No. 11224 (September 22, 1986), 36 SEC Docket 1154; SEC *v. SRO Entertainment, Inc.*, Accounting and Auditing Enforcement Release No. 110 (August 7, 1986), 36 SEC Docket 452; SEC *v. William Weksel, et al.*, Litigation Release No. 11183 (August 6, 1986), 36 SEC Docket 445; SEC *v. Thomas F. Clark, et al.*, Litigation Release No. 11264 (October 17, 1986), 36 SEC Docket 1525; SEC *v. Spectrum Digital Corp.*, Litigation Release No. 10976 (January 9, 1986), 34 SEC Docket 1741; SEC *v. Ashland Oil, Inc., et al.*, Litigation Release No. 11150 (July 8, 1986), 36 SEC Docket 120; and two private proceedings.

<sup>2</sup>Insider Trading cases include: *In the Matter of Dennis B. Levine*, Securities Exchange Act Release No. 23300 (June 5, 1986), 35 SEC Docket 1426; *In the Matter of Billy Bob Harris*, Securities Exchange Act Release No. 23243 (May 15, 1986), 35 SEC Docket 1186; *In the Matter of Fred Aizen*, Securities Exchange Act Release No. 23519 (August 7, 1986), 36 SEC Docket 421; *In the Matter of Marcel Katz*, Securities Exchange Act Release No. 23520 (August 7, 1986), 36 SEC Docket 423; *In the Matter of Ira B. Sokolow*, Securities Exchange Act Release No. 23386 (July 1, 1986), 36 SEC Docket 10; *In the Matter of Robert M. Wilkis*, Securities Exchange Act Release No. 23385 (July 1, 1986), 36 SEC Docket 9; SEC *v. Dwight C. Moorehead*, Litigation Release No. 10948 (December 5, 1985), 34 SEC Docket 1207; SEC *v. Ronald V. Aprahamian*, Litigation Release No. 10961 (December 19, 1985), 34 SEC Docket 1363; SEC *v. Emera Bailey, et al.*, Litigation Release No. 10896 (October 2, 1985), 34 SEC Docket 347; SEC *v. Ronald Hengen, et al.*, Litigation Release No. 10981 (January 14, 1986), 34 SEC Docket 1854; SEC *v. Joseph G. Cremonese*, Litigation Release No. 10984 (January 17, 1986), 34 SEC Docket 1942; SEC *v. Charles S. Offer*, Litigation Release No. 11008 (February 24, 1986), 35 SEC Docket 202; SEC *v. John J. Borer, Jr.*, Litigation Release No. 11009 (February 25, 1986), 35 SEC Docket 203; SEC *v. Morgan F. Moore*, Litigation Release No. 11013 (March 3, 1986), 35 SEC Docket 277; SEC *v. Frank M. Rummonds*, Litigation Release No. 11033 (March 24, 1986), 35 SEC Docket 613; SEC *v. Jack R. Morris, et al.*, Litigation Release No. 11050 (April 3, 1986), 35 SEC Docket 741; SEC *v. Dennis Levine, et al.*, Litigation Release No. 11095 (May 12, 1986), 35 SEC Docket 1212; SEC *v. The First Boston Corp.*, Litigation Release No. 11092 (May 5, 1986), 35 SEC Docket 1157; SEC *v. Andrew L. Evans*, Litigation Release No. 11076 (April 24, 1986), 35 SEC Docket 1073; SEC *v. John S. Newton*, Litigation Release No. 11101 (May 15, 1986), 35 SEC Docket 1216; SEC *v. Carlyle W. Higgins, et al.*, Litigation Release No. 11056 (April 14, 1986), 35 SEC Docket 866; and SEC *v. Richard J. Bastein*, Litigation Release No. 11136 (June 15, 1986), 35 SEC Docket 1743; SEC *v. Robert A. Wahl*, Litigation Release No. 11203 (August 20, 1986), 36 SEC Docket 590;

*SEC v. Thomas M. Hartnett*, Litigation Release No. 11210 (September 8, 1986), 36 SEC Docket 966; *SEC v. Anthony M. Franco*, Litigation Release No. 11206 (August 26, 1986), 36 SEC Docket 660; *SEC v. Harvey Katz, et al.*, Litigation Release No. 11185 (August 7, 1986), 36 SEC Docket 448; *SEC v. Martin M. Lewis*, Litigation Release No. 11180 (August 4, 1986), 36 SEC Docket 443; *SEC v. David J. Henderson, et al.*, Litigation Release No. 11149 (July 7, 1986), 36 SEC Docket 118; *SEC v. Ira B. Sokolow*, Litigation Release No. 11146 (July 1, 1986), 36 SEC Docket 72; and *SEC v. Robert M. Wilkis, et al.*, Litigation Release No. 11145 (July 1, 1986), 36 SEC Docket 70.

<sup>3</sup>Regulated Entities and Associated Persons cases include: *In the Matter of James N. Cooke*, Securities Exchange Act Release No. 22764 (January 3, 1986), 34 SEC Docket 1618; *In the Matter of Norman Laverne Vance*, Securities Exchange Act Release No. 22816 (January 21, 1986), 34 SEC Docket 1894; *In the Matter of Westlake Securities, Inc., et al.*, Securities Exchange Act Release No. 23293 (June 2, 1986), 34 SEC Docket 1413; *In the Matter of Elwyn Willbert & Haig Inc., et al.*, Securities Exchange Act Release No. 23658 (September 30, 1986), 36 SEC Docket 1188; *In the Matter of Frank Manders*, Securities Exchange Act Release No. 23351 (June 20, 1986), 35 SEC Docket 1684; *SEC v. Comstock Financial Services, Inc., et al.*, Litigation Release No. 10964 (December 27, 1985), 34 SEC Docket 1597; *SEC v. Laidlaw Adams & Peck, Inc.*, Litigation Release No. 10970 (January 6, 1986), 34 SEC Docket 1735; *SEC v. Drexel Burnham Lambert, Inc.*, Litigation Release No. 10969 (January 6, 1986), 34 SEC Docket 1734; *SEC v. North Atlantic Airlines, Inc., et al.*, Litigation Release No. 10978 (January 14, 1986), 34 SEC Docket 1850; *SEC v. Uni-Petro Exploration Corp., et al.*, Litigation Release No. 11020 (March 7, 1986), 35 SEC Docket 438; *SEC v. Sigmundr Exploration Corp., et al.*, Litigation Release No. 11021 (March 7, 1986), 35 SEC Docket 440; *SEC v. Joseph D. Stewart*, Litigation Release No. 11081 (April 29, 1986), 35 SEC Docket 1070; *SEC v. Terry T. Cherry, et al.*, Litigation Release No. 11102 (May 15, 1986), 35 SEC Docket 1217; *SEC v. Douglass F. Durnham*, Litigation Release No. 11139 (June 25, 1986), 35 SEC Docket 1146; *SEC v. IRE Inc., et al.*, (no release); *SEC v. Western Gold, Inc., et al.*, Litigation Release No. 10934 (November 15, 1985), 34 SEC Docket 1034; *SEC v. Invest Management Service, et al.*, Litigation Release No. 10931 (November 12, 1985), 34 SEC Docket 923; *SEC v. Jerald Newman, et al.*, Litigation Release No. 11026 (March 13, 1986), 35 SEC Docket 449; *SEC v. Hollowell-Pettit, Inc., et al.*, Litigation Release No. 11247 (October 14, 1986), 36 SEC Docket 1420; *In the Matter of First Colorado Investments & Securities, Inc.*, Securities Exchange Act Release No. 22626 (November 14, 1985), 34 SEC Docket 890; *In the Matter of Kidder Peabody & Co., Inc., et al.*, Securities Exchange Act Release No. 22514 (October 8, 1985), 34 SEC Docket 411; *In the Matter of Michael Levinson & Co., Inc., et al.*, Securities Exchange Act Release No. 22675 (December 2, 1985), 34 SEC Docket 1111; *In the Matter of Costentino & DeFelice, Inc., et al.*, Securities Exchange Act Release No. 22749 (December 31, 1985), 34 SEC Docket 1449; *In the Matter of Stephen S. York, et al.*, Securities Exchange Act Release No. 23183 (April 29, 1986), 35 SEC Docket 974; *In the Matter of Mark D. Seigel, et al.*, Securities Exchange Act Release No. 23230 (May 14, 1986), 35 SEC Docket 1179; *In the Matter of Bartel Securities, Inc., et al.*, Securities Exchange Act Release No. 23132 (April 16, 1986), 35 SEC Docket 818; *In the Matter of I.M. Simon & Co., Inc., et al.*, Securities Exchange Act Release No. 23592 (September 5, 1986), 36 SEC Docket 813; *In the Matter of Leonard G. Bednar*, Securities Exchange Act Release No. 23581 (August 29, 1986), 36 SEC Docket

770; *In the Matter of Thomas R. Brimberry*, Securities Exchange Act Release No. 23580 (August 29, 1986), 36 SEC Docket 769; *In the Matter of James Massa*, Securities Exchange Act Release No. 23579 (August 29, 1986), 36 SEC Docket 769; *SEC v. Stephen S. York World Wide Investments, et al.*, Litigation Release No. 11010 (February 25, 1986), 35 SEC Docket 204; 34 SEC Docket 1037; *SEC v. Bartel Securities Inc., et al.*, Litigation Release No. 11000 (February 11, 1986), 35 SEC Docket 83; *SEC v. Joseph W. Elmendorf, et al.*, Litigation Release No. 11209 (September 5, 1986), 36 SEC Docket 965; *SEC v. K. A. Knapp & Co., Inc., et al.*, Litigation Release No. 11243 (October 3, 1986), 36 SEC Docket 1345; *In the Matter of James M. Studeman*, Securities Exchange Act Release No. 22676 (December 2, 1985), 34 SEC Docket 1112; *In the Matter of Rollin H. Needham, et al.*, Securities Exchange Act Release No. 22687 (December 5, 1985), 34 SEC Docket 1149; *In the Matter of John Kevin O'Neill*, Securities Exchange Act Release No. 22766 (January 3, 1986), 34 SEC Docket 1620; *In the Matter of Prudential-Bache Securities, Inc.*, Securities Exchange Act Release No. 22755 (January 2, 1986), 34 SEC Docket 1456; *In the Matter of Prudential-Bache Securities, Inc., et al.*, Securities Exchange Act Release No. 22755 (January 2, 1986), 34 SEC Docket 1456; *In the Matter of Richard Keith Saccullo*, Securities Exchange Act Release No. 22756 (January 2, 1986), 34 SEC Docket 1496; *In the Matter of David Lawrence Schamps*, Securities Exchange Act Release No. 22757 (January 2, 1986), 34 SEC Docket 1505; *In the Matter of Peter Scott Gewant*, Securities Exchange Act Release No. 22862 (February 4, 1986), 34 SEC Docket 2071; *In the Matter of Robert Anthony Scarmazzo*, Securities Exchange Act Release No. 22905 (February 13, 1986), 35 SEC Docket 58; *In the Matter of George A. McLendon*, Securities Exchange Act Release No. 23002 (March 12, 1986), 35 SEC Docket 369; *In the Matter of Sigmundr Securities Corp.*, Securities Exchange Act Release No. 23003 (March 12, 1986), 35 SEC Docket 374; *In the Matter of James Laiacona*, Securities Exchange Act Release No. 23047 (March 20, 1986), 35 SEC Docket 501; *In the Matter of Mary A. Schad, et al.*, Securities Exchange Act Release No. 23057 (March 24, 1986), 35 SEC Docket 551; *In the Matter of Donald T. Sheldon, et al.*, Securities Exchange Act Release No. 23058 (March 24, 1986), 35 SEC Docket 557; *In the Matter of Neel H. Howard, Jr.*, Securities Exchange Act Release No. 23079 (March 31, 1986), 35 SEC Docket 656; *In the Matter of Arlan I. Preblud*, Securities Exchange Act Release No. 23297 (June 4, 1986), 35 SEC Docket 1421; *In the Matter of Mark Parnass*, Accounting and Auditing Enforcement Release No. 108 (May 19, 1986), 35 SEC Docket 1227; *In the Matter of Andrew L. Evans*, Securities Exchange Act Release No. 23185 (April 29, 1986), 35 SEC Docket 977; *In the Matter of Landis Securities Corp., et al.*, Securities Exchange Act Release No. 23373 (June 26, 1986), 35 SEC Docket 1706; *In the Matter of Seco Securities, Inc., et al.*, Securities Exchange Act Release No. 23301 (June 5, 1986), 35 SEC Docket 1427; *In the Matter of Maurice Aresty*, Securities Exchange Act Release No. 23384 (June 30, 1986), 36 SEC Docket 8; *In the Matter of Michael Walter Swofford*, Securities Exchange Act Release No. 23521 (August 7, 1986), 36 SEC Docket 424; *In the Matter of Underhill Associates, Inc., et al.*, Securities Exchange Act Release No. 23655 (September 30, 1986), 36 SEC Docket 1183; *In the Matter of John J. Bojo, Jr.*, Securities Exchange Act Release No. 23659 (September 30, 1986), 36 SEC Docket 1193; *In the Matter of Michael C. Talley & Co., Inc., et al.*, Securities Exchange Act Release No. 23661 (September 30, 1986), 36 SEC Docket 1194; *In the Matter of Sutro & Co., Inc.*, Securities Exchange Act

Release No. 23663 (September 30, 1986), 36 SEC Docket 1199; *In the Matter of Philip Huber*, Securities Exchange Act Release No. 23542 (August 18, 1986), 36 SEC Docket 530; *In the Matter of Raymond O. Rose*, (no release); *In the Matter of Christopher J. Delahunty*, Investment Advisers Act Release No. 1037 (September 24, 1986), 36 SEC Docket 1150; *In the Matter of Butcher & Singer, Inc.*, Investment Company Act Release No. 15073 (April 24, 1986), 35 SEC Docket 941; *SEC v. James M. Studeman*, Litigation Release No. 10954 (December 11, 1985), 34 SEC Docket 1276; *SEC v. Beacon Financial Group*, Litigation Release No. 10927 (November 6, 1985), 34 SEC Docket 823; *SEC v. James Marzano, et al.*, Litigation Release No. 10950 (December 5, 1985), 34 SEC Docket 1208; *SEC v. Rollin H. Needham, et al.*, Litigation Release No. 10949 (December 5, 1985), 34 SEC Docket 1207; *SEC v. First Jersey Securities, Inc., et al.*, Litigation Release No. 10919 (October 31, 1985), 34 SEC Docket 725; *SEC v. The Electronics Warehouse, Inc., et al.*, Litigation Release No. 11037 (March 24, 1986), 35 SEC Docket 624; *SEC v. Sam Kalil, Jr.*, Litigation Release No. 10967 (January 2, 1986), 34 SEC Docket 1601; *SEC v. Landis Securities Corp., et al.*, Litigation Release No. 11119 (not dated), 35 SEC Docket 1524; *SEC v. Cusack, Light & Co., Inc.*, Litigation Release No. 11162 (July 18, 1986), 36 SEC Docket 268; *SEC v. Marvin L. Warner, et al.*, Litigation Release No. 11220 (September 16, 1986), 36 SEC Docket 1053; *In the Matter of E.F. Hutton & Co., Inc.*, Securities Exchange Act Release No. 22579 (October 29, 1985), 34 SEC Docket 619; *In the Matter of Eugene Mulvihill*, Securities Exchange Act Release No. 23034 (March 7, 1986), 35 SEC Docket 437; *In the Matter of Eugene Joseph Chiaramonte, et al.*, Securities Exchange Act Release No. 23049 (March 21, 1986), 35 SEC Docket 538; *In the Matter of First Affiliated Securities, Inc.*, Securities Exchange Act Release No. 23335 (June 18, 1986), 35 SEC Docket 1580; *In the Matter of Barry Asman*, Securities Exchange Act Release No. 23089 (April 1, 1986), 35 SEC Docket 693; *SEC v. Barry Asman, et al.*, Litigation Release No. 11035 (March 24, 1986), 35 SEC Docket 621; *In the Matter of David L. Williams*, Securities Exchange Act Release No. 23551 (August 25, 1986), 36 SEC Docket 614; *In the Matter of H.I. Glass & Co.*, Investment Advisers Act Release No. 1003 (December 17, 1985), 34 SEC Docket 1351; *In the Matter of Vector Capital Management, Inc.*, Investment Advisers Act Release No. 990 (October 11, 1985), 34 SEC Docket 499; *In the Matter of Norman Behar*, Investment Advisers Act Release No. 997 (November 20, 1985), 34 SEC Docket 1031; *In the Matter of E.F. Hutton & Co., Inc.*, Investment Advisers Act Release No. 993 (October 29, 1985), 34 SEC Docket 597; *In the Matter of Gary A. Wautier*, Investment Advisers Act Release No. 1019 (April 8, 1986), 35 SEC Docket 789; *In the Matter of F. B. Investment Services, Inc., et al.*, Investment Advisers Act Release No. 1022 (May 1, 1986), 35 SEC Docket 1063; *In the Matter of The Spangler Group, Inc., et al.*, Investment Advisers Act Release No. 1023 (June 18, 1986), 35 SEC Docket 1639; *In the Matter of Irwin Zuckerman*, Investment Advisers Act Release No. 1024 (June 18, 1986), 35 SEC Docket 1642; *In the Matter of Project Fund Management Results, Inc., et al.*, Investment Advisers Act Release No. 1027 (July 3, 1986), 36 SEC Docket 66; *In the Matter of Richard M. Silverstein, et al.*, Investment Advisers Act Release No. 1020 (April 24, 1986), 35 SEC Docket 944; *In the Matter of TLS Financial Services, Inc., et al.*, Investment Advisers Act Release No. 1031 (August 18, 1986), 36 SEC Docket 529; *In the Matter of Robert Donald Jackson*, Investment Advisers Act Release No. 1029 (July 15, 1986), 36 SEC Docket 200; *In the Matter of Shearson Lehman Brothers, Inc.*, Investment Advisers Act Release No. 1038 (September 24, 1986), 36 SEC

Docket 1075; *In the Matter of GLC Advisors Ltd.*, Investment Advisers Act Release No. 1036 (September 22, 1986), 36 SEC Docket 1147; *In the Matter of John G. Rinaldo*, Investment Advisers Act Release No. 1041 (September 16, 1986), 36 SEC Docket 1269; *In the Matter of Sunlin L.S. Wong*, Investment Advisers Act Release No. 1042 (September 30, 1986), 36 SEC Docket 1270; *In the Matter of Marlin F. Schmidt*, Investment Advisers Act Release No. 1043 (September 30, 1986), 36 SEC Docket 1204; *In the Matter of American Monetary Corp., et al.*, Investment Advisers Act Release No. 1040 (September 30, 1986), 36 SEC Docket 1264; *In the Matter of Investors Portfolio Management, Inc.*, Investment Advisers Act Release No. 1045 (October 2, 1986), 36 SEC Docket 1273; *In the Matter of John Ciura, et al.*, Investment Advisers Act Release No. 1028 (July 14, 1986), 36 SEC Docket 198; *SEC v. David L. Williams, et al.*, Litigation Release No. 10900 (October 4, 1985), 34 SEC Docket 444; *SEC v. Farrish E. Betton*, Litigation Release No. 11077 (April 24, 1986), 35 SEC Docket 964; *SEC v. Armstrong Group, Inc., et al.*, Litigation Release No. 11060 (April 15, 1986), 35 SEC Docket 869; *SEC v. The Spangler Group, Inc., et al.*, Litigation Release No. 11055 (April 14, 1986), 35 SEC Docket 864; *SEC v. Silverstein Financial Services, Inc., et al.*, Litigation Release No. 11079 (April 24, 1986), 35 SEC Docket 967; *SEC v. Raymond Sciarappa*, Litigation Release No. 11110 (May 29, 1986), 35 SEC Docket 1401; *SEC v. John Adams Trust Corp., et al.*, Litigation Release No. 11227 (September 25, 1986), 36 SEC Docket 1157; *SEC v. TLS Financial Services, Inc., et al.*, Litigation Release No. 11208 (August 26, 1986), 36 SEC Docket 662; *SEC v. American Monetary Corp., et al.*, Litigation Release No. 11233 (September 30, 1986), 36 SEC Docket 1280; *SEC v. Herbert M. Kirschner*, Litigation Release No. 11099 (May 13, 1986), 35 SEC Docket 1215; *SEC v. James Travis Cornutt, et al.*, Litigation Release No. 11157 (July 11, 1986), 36 SEC Docket 202; *In the Matter of United States Steel Corp.*, Securities Exchange Act Release No. 22700 (December 11, 1985), 34 SEC Docket 1225; *In the Matter of Brian H. McMahon*, Securities Exchange Act Release No. 23176 (April 22, 1986), 35 SEC Docket 916; *In the Matter of G. Duncan Fraser, Jr.*, Securities Exchange Act Release No. 23184 (April 29, 1986), 35 SEC Docket 975; and *SEC v. Kenneth Smith*, Litigation Release No. 10979 (January 14, 1986), 34 SEC Docket 1852.

\*Market Manipulation cases include: *In the Matter of Martin Rothman*, Securities Exchange Act Release No. 23654 (September 30, 1986), 36 SEC Docket 1177; *In the Matter of Joseph A. Lugo*, Securities Exchange Act Release No. 23653 (September 30, 1986), 36 SEC Docket 1177; *In the Matter of Robert G. Leigh*, Securities Exchange Act Release No. 23660 (September 30, 1986), 36 SEC Docket 1193; *SEC v. Douglas E. Patty, et al.*, Litigation Release No. 11022 (March 10, 1986), 35 SEC Docket 442; *SEC v. Harry Edward Thomas, et al.*, Accounting and Auditing Enforcement Release No. 105 (June 25, 1986), 35 SEC Docket 1745; *SEC v. Worldwide Ventures Corp., et al.*, Litigation Release No. 11123 (June 11, 1986), 35 SEC Docket 1530; *SEC v. Capt. Crab, Inc., et al.*, Litigation Release No. 11131 (June 18, 1986), 35 SEC Docket 1652; *SEC v. Dynapac Inc., et al.*, Litigation Release No. 11262 (October 15, 1986), 36 SEC Docket 1441; *SEC v. Golden Bear Resources, Ltd., et al.*, Litigation Release No. 11228 (September 26, 1986), 36 SEC Docket 1274; *SEC v. DataForce International, Inc., et al.*, Litigation Release No. 11242 (October 3, 1986), 36 SEC Docket 1344; *SEC v. Michael J. Hannan*, (no release); *SEC v. K. William Busacker*, Litigation Release No. 11258 (October 15, 1986), 36 SEC Docket 1437; *SEC v. Patrick W. M. Imeson, et al.*, Litigation Release No. 11259 (October 15, 1986), 36 SEC Docket 1438; and *SEC v. Michael C. Talley & Co.*,

*Inc., et al.*, Litigation Release No. 11265 (October 17, 1986), 36 SEC Docket 1526.

<sup>5</sup>Securities Offering Violation cases include: *In the Matter of John Henry Weber*, Securities Exchange Act Release No. 23656 (September 30, 1986), 36 SEC Docket 1184; *In the Matter of James Newman*, Securities Exchange Act Release No. 23662 (September 30, 1986), 36 SEC Docket 1197; *In the Matter of Ellis E. Meister, et al.*, Securities Exchange Act Release No. 23657 (September 30, 1986), 36 SEC Docket 1185; *In the Matter of M-Zero Corp.*, Securities Act Release No. 6628 (February 25, 1986), 35 SEC Docket 130; *In the Matter of Theron D. Nelsen Community Fund*, Securities Act Release No. 6629 (March 10, 1986), 35 SEC Docket 287; *In the Matter of Close Outs Plus, Inc.*, Securities Act Release No. 6643 (May 12, 1986), 35 SEC Docket 1165; *In the Matter of Swanson Barrell Enterprises, Inc.*, Securities Act Release No. 6657 (September 17, 1986), 36 SEC Docket 977; *In the Matter of 107, Inc.*, Securities Act Release No. 6657 (September 17, 1986), 36 SEC Docket 977; *In the Matter of L.H. Beaslin Enterprises, Inc.*, Securities Act Release No. 6657 (September 17, 1986), 36 SEC Docket 977; *In the Matter of Pompeii, Inc.*, Securities Act Release No. 6657 (September 17, 1986), 36 SEC Docket 977; *In the Matter of New Order Technology, Inc.*, Securities Act Release No. 6657 (September 17, 1986), 36 SEC Docket 977; *In the Matter of Peter Gun, Inc.*, Securities Act Release No. 6657 (September 17, 1986), 36 SEC Docket 977; *In the Matter of 101, Inc.*, Securities Act Release No. 6657 (September 17, 1986), 36 SEC Docket 977; *In the Matter of 102, Inc.*, Securities Act Release No. 6657 (September 17, 1986), 36 SEC Docket 977; *In the Matter of 103, Inc.*, Securities Act Release No. 6657 (September 17, 1986), 36 SEC Docket 977; *In the Matter of 104, Inc.*, Securities Act Release No. 6657 (September 17, 1986), 36 SEC Docket 977; *In the Matter of 105, Inc.*, Securities Act Release No. 6657 (September 17, 1986), 36 SEC Docket 977; *In the Matter of 106, Technology, Inc.*, Securities Act Release No. 6657 (September 17, 1986), 36 SEC Docket 977; *In the Matter of Santana International, Inc.*, Securities Act Release No. 6649 (May 29, 1986), 35 SEC Docket 1307; *In the Matter of Tanzeer Management Corp.*, Securities Act Release No. 6648 (May 29, 1986), 35 SEC Docket 1306; *In the Matter of Silkaro Capital Corp.*, Securities Act Release No. 6647 (May 29, 1986), 35 SEC Docket 1305; *In the Matter of Kearn Thomas J. Enterprises Inc.*, Securities Act Release No. 6636 (April 4, 1986), 35 SEC Docket 745; *In the Matter of Ramras Inc.*, Securities Act Release No. 6637 (April 4, 1986), 35 SEC Docket 746; *In the Matter of Brian V. Hanson Enterprises Inc.*, Securities Act Release No. 6638 (April 4, 1986), 35 SEC Docket 747; *In the Matter of Tobin F. Cowley Inc.*, Securities Act Release No. 6635 (April 4, 1986), 35 SEC Docket 744; *In the Matter of Abbate, Inc.*, Securities Act Release No. 6658 (September 17, 1986), 36 SEC Docket 978; *In the Matter of Kevin D. Oakes Enterprises, Inc.*, Securities Act Release No. 6659 (September 17, 1986), 36 SEC Docket 979; *In the Matter of Thomas W. Tierney*, Securities Exchange Act Release No. 23169 (April 23, 1986), 35 SEC Docket 903; *In the Matter of Robert D. Schulman*, Securities Exchange Act Release No. 23668 (September 30, 1986), 36 SEC Docket 1207; *SEC v. Hampstead Energy International, Inc., et al.*, Litigation Release No. 10922 (November 1, 1985), 34 SEC Docket 818; *SEC v. Grady Sanders, et al.*, Litigation Release No. 10957 (December 9, 1985), 34 SEC Docket 1279; *SEC v. Fluid Lift International, Inc., et al.*, Litigation Release No. 10935 (November 15, 1985), 34 SEC Docket 1035; *SEC v. Doering & Associates, Inc., et al.*, Litigation Release No. 10956 (December 9, 1985), 34 SEC Docket 1278; *SEC v. North American Industries*,

*Inc., et al.*, Litigation Release No. 10940 (November 20, 1985), 34 SEC Docket 1040; SEC v. *The National Baptist Convention*, Litigation Release No. 10977 (January 9, 1986), 34 SEC Docket 1743; SEC v. *Worldmasters Corp., et al.*, Litigation Release No. 10988 (January 27, 1986), 34 SEC Docket 2039; SEC v. *The Inteleplex Corp., et al.*, Litigation Release No. 10993 (February 4, 1986), 34 SEC Docket 2101; SEC v. *Jack E. White, et al.*, Litigation Release No. 11001 (February 11, 1986), 35 SEC Docket 84; SEC v. *James Newman*, Litigation Release No. 11025 (March 13, 1986), 35 SEC Docket 448; SEC v. *Meadow Fresh Farms, Inc., et al.*, Litigation Release No. 11047 (April 2, 1986), 35 SEC Docket 737; EC v. *Hollis B. Reed*, Litigation Release No. 11063 (April 15, 1986), 35 SEC Docket 871; SEC v. *Tomahawk Industries, Inc., et al.*, Litigation Release No. 11114 (June 4, 1986), 35 SEC Docket 1456; SEC v. *Nutri-Health Centers, Inc., et al.*, Litigation Release No. 11096 (May 12, 1986), 35 SEC Docket 1213; SEC v. *Alvin R. Broerman, et al.*, Litigation Release No. 11126 (June 11, 1986), 35 SEC Docket 1534; SEC v. *Francis R. Richardson, et al.*, Litigation Release No. 11109 (May 28, 1986), 35 SEC Docket 1400; SEC v. *Laser Arms Corp., et al.*, Litigation Release No. 11085 (April 30, 1986), 35 SEC Docket 1074; SEC v. *Ray L. Waid, et al.*, Litigation Release No. 11108 (May 28, 1986), 35 SEC Docket 1399; SEC v. *Otis C. Johnson*, Litigation Release No. 11105 (May 19, 1986), 35 SEC Docket 1291; SEC v. *Olav Jore, et al.*, Litigation Release No. 11133 (June 19, 1986), 35 SEC Docket 1655; SEC v. *American Financial Planners, et al.*, Litigation Release No. 11171 (July 24, 1986), 36 SEC Docket 280; SEC v. *Mid-America Energy, et al.*, Litigation Release No. 11164 (July 22, 1986), 36 SEC Docket 270; SEC v. *Robert J. Fish, et al.*, Litigation Release No. 11151 (July 8, 1986), 36 SEC Docket 123; SEC v. *Airwave Communications Corp. of America*, Litigation Release No. 11155 (July 11, 1986), 36 SEC Docket 201; SEC v. *John G. Kenning, et al.*, Litigation Release No. 11200 (August 20, 1986), 36 SEC Docket 587; SEC v. *Doc. G.L. Anderson, et al.*, (no release); SEC v. *Jason Smith Petroleum Corp., et al.*, Litigation Release No. 11160 (July 15, 1986), 36 SEC Docket 205; SEC v. *Edward Ralph Spinger, et al.*, Litigation Release No. 11163 (July 22, 1986), 36 SEC Docket 269; SEC v. *W. Carl Zimmerman, et al.*, Litigation Release No. 11219 (September 15, 1986), 36 SEC Docket 1052; SEC v. *Eye Contact Advertising of North America Inc., et al.*, Litigation Release No. 11207 (August 26, 1986), 36 SEC Docket 661; SEC v. *Dover Development Corp., et al.*, Litigation Release No. 11190 (August 7, 1986), 36 SEC Docket 453; SEC v. *Tom W. Smith, et al.*, Litigation Release No. 11211 (September 9, 1986), 36 SEC Docket 967; SEC v. *Richard Amex Higgins, et al.*, Litigation Release No. 11244 (October 3, 1986), 36 SEC Docket 1346; SEC v. *Milton Marks, et al.*, (no release); SEC v. *Cumberland Investment Corp., et al.*, (no release); SEC v. *Hunterdon Pharmaceuticals Inc., et al.*, Litigation Release No. 11256 (October 14, 1986), 36 SEC Docket 1435; SEC v. *William R. Hedlund, et al.*, (no release); SEC v. *U.S. Financial Consultant, Inc.*, (no release); SEC v. *Vernon G. Ash, et al.*, Litigation Release No. 11261 (October 15, 1986), 36 SEC Docket 1440; and SEC v. *Duck Book Communications Ltd., et al.*, Litigation Release No. 11266 (October 20, 1986), 36 SEC Docket 1527.

\*Changes in Corporate Control cases include: *In the Matter of Citizens Trust Co., et al.*, Accounting and Auditing Enforcement Release No. 84 (January 15, 1986), 34 SEC Docket 1822; *In the Matter of Centrust Savings Bank*, Securities Exchange Act Release No. 23076 (March 31, 1986), 35 SEC Docket 641; *In the Matter of The BF Goodrich Co.*, Securities Exchange Act Release No. 22792 (January 15, 1986), 34 SEC Docket 1806; *In the Matter of Revlon, Inc.*,

Securities Exchange Act Release No. 23320 (June 16, 1986), 35 SEC Docket 1541; *SEC v. L. Glenn Naff*, Litigation Release No. 11212 (September 10, 1986), 36 SEC Docket 968; and *SEC v. First City Financial Corp., et al.*, Litigation Release No. 11195 (August 14, 1986), 36 SEC Docket 519.

<sup>7</sup>Related Party Transactions cases include: *SEC v. Gaensel Gold Mines Inc., et al.*, Litigation Release No. 11058 (April 14, 1986), 35 SEC Docket 868; *SEC v. Ralph L. Vaerst, et al.*, Accounting and Auditing Enforcement Release No. 112 (September 11, 1986), 36 SEC Docket 970; and *SEC v. James R. Anderson, et al.*, Litigation Release No. 11260 (October 15, 1986), 36 SEC Docket 1439.

<sup>8</sup>Civil and Criminal Contempt cases include: *SEC v. Cumberland Investment Corp., et al.*, Litigation Release No. 10973 (January 8, 1986), 34 SEC Docket 1738; *SEC v. Elbee International, Inc., et al.*, Litigation Release No. 10936 (November 19, 1985), 34 SEC Docket 1036; *SEC v. Thomas W. Reid*, Litigation Release No. 10959 (December 11, 1985), 34 SEC Docket 1281; *SEC v. David Ken Yoshinaga*, Litigation Release No. 11006 (February 24, 1986), 35 SEC Docket 201; *SEC v. Charolette & Edward Garrity*, Litigation Release No. 11049 (April 3, 1986), 35 SEC Docket 740; *SEC v. Larry M. Cheney*, (no release); *SEC v. Telecom Management International*, (no release); *SEC v. Vernon Hulme*, Litigation Release No. 11154 (July 9, 1986), 36 SEC Docket 126; *SEC v. Richard W. Suter*, Litigation Release No. 11218 (September 15, 1986), 36 SEC Docket 1050; *SEC v. Arthur B. Jacoby, et al.*, Litigation Release No. 10947 (December 4, 1985), 34 SEC Docket 1206; *U.S. ex rel. SEC v. Donald C. Decker*, Litigation Release No. 10989 (January 27, 1986), 34 SEC Docket 2040; *SEC v. William L. Campbell, Jr.*, Litigation Release No. 10983 (January 15, 1986), 34 SEC Docket 1858; *SEC v. Vernon Hulme*, (no release); and *U.S. ex rel. SEC v. Richard Hirschfeld*, Litigation Release No. 11159 (July 14, 1986), 36 SEC Docket 204.

<sup>9</sup>Delinquent Filing cases include: *SEC v. William Ziegler, III*, Litigation Release No. 11191 (August 11, 1986), 36 SEC Docket 515; *SEC v. Michael Industries, Inc.*, Litigation Release No. 11191 (August 11, 1986), 36 SEC Docket 515; *SEC v. Henry L. Lee, Jr.*, Litigation Release No. 11191 (August 11, 1986), 36 SEC Docket 515; *SEC v. Besicorp Group, Inc.*, Litigation Release No. 10945 (December 3, 1985), 34 SEC Docket 1205; *SEC v. Electro-Plastics, Inc.*, Litigation Release No. 10942 (November 27, 1985), 34 SEC Docket 1098; *SEC v. Twenty First Century Distribution Corp.*, Litigation Release No. 10930 (November 12, 1985), 34 SEC Docket 922; *SEC v. Sonoma International*, Litigation Release No. 10997 (February 6, 1986), 34 SEC Docket 2106; *SEC v. Capital Facilities Corp.*, Litigation Release No. 11041 (March 27, 1986), 35 SEC Docket 629; *SEC v. Hydratron Systems Inc.*, Litigation Release No. 11046 (April 1, 1986), 35 SEC Docket 737; *SEC v. American Sports Advisors, Inc.*, Litigation Release No. 11051 (April 4, 1986), 35 SEC Docket 792; *SEC v. Futuresat Industries, Inc.*, Litigation Release No. 11059 (April 15, 1986), 35 SEC Docket 868; *SEC v. Toledo Technology, Inc.*, Litigation Release No. 11080 (April 25, 1986), 35 SEC Docket 1069; *SEC v. Michael E. Maes, et al.*, Litigation Release No. 11137 (June 25, 1986), 35 SEC Docket 1744; *SEC v. Energy Reserve, Inc.*, Litigation Release No. 11130 (June 17, 1986), 35 SEC Docket 1651; *SEC v. Hybrilronics, Inc.*, Litigation Release No. 11132 (June 19, 1986), 35 SEC Docket 1654; *SEC v. Uniwest Financial Corp.*, Litigation Release No. 11196 (August 14, 1986), 36 SEC Docket 521; *SEC v. PMI Holdings Corp.*, Litigation Release No. 11152 (July 9, 1986), 36 SEC Docket 124; and *SEC v. Harwyn Industries, Inc.*, Litigation Release No. 11238 (October 3, 1986), 36 SEC Docket 1340.

<sup>10</sup>Cases alleging misconduct by accounting firms or their partners or employees include: *In the Matter of Albert Jacobs, C.P.A.*, Accounting and Auditing Enforcement Release No. 114 (September 24, 1986), 36 SEC Docket 1100; *In the Matter of Robert E. Nilssen, et al.*, Accounting and Auditing Enforcement Release No. 111 (September 11, 1986), 36 SEC Docket 878; *In the Matter of William Gelfond, C.P.A.*, Accounting and Auditing Enforcement Release No. 106 (July 22, 1986), 36 SEC Docket 219; *In the Matter of Carl E. Wright, et al.*, Accounting and Auditing Enforcement Release No. 97 (April 23, 1986), 35 SEC Docket 898; *SEC v. Harry Edward Thomas, et al.*, Accounting and Auditing Enforcement Release No. 105 (June 25, 1986), 35 SEC Docket 1745; *In the Matter of Ronald P. Harrington, Accounting and Auditing Enforcement Release No. 92* (March 25, 1986), 35 SEC Docket 630; *In the Matter of S.P. Cooper & Co., et al.*, Accounting and Auditing Enforcement Release No. 91 (March 17, 1986), 35 SEC Docket 480; *SEC v. Arthur Rogovin, et al.*, Litigation Release No. 11018 (March 6, 1986), 35 SEC Docket 281; *In the Matter of Arthur Rogovin, et al.*, Accounting and Auditing Enforcement Release No. 87 (February 27, 1986), 35 SEC Docket 154; *In the Matter of Frantz, Warrick, Strack & Associates, P.C., et al.*, Accounting and Auditing Enforcement Release No. 86 (February 10, 1986), 35 SEC Docket 34; *In the Matter of Lary C. Snodgrass, C.P.A.*, Accounting and Auditing Enforcement Release No. 83 (December 26, 1985), 34 SEC Docket 1383; *In the Matter of Seidman & Seidman*, Accounting and Auditing Enforcement Release No. 78 (October 10, 1985), 34 SEC Docket 356; and *In the Matter of Michael S. Hope, C.P.A., et al.*, Accounting and Auditing Enforcement Release No. 109A (August 6, 1986), 36 SEC Docket 663; and two private proceedings.

<sup>11</sup>*SEC v. Everitt A. Carter, et al.*, Accounting and Auditing Enforcement Release No. 94 (March 27, 1986), 35 SEC Docket 627.

<sup>12</sup>*SEC v. Oak Industries, Inc.*, , Litigation Release No. 10801 (June 25, 1985), 33 SEC Docket 740.

<sup>13</sup>*In the Matter of American Express Company*, Accounting and Auditing Enforcement Release No. 101 (June 17, 1986), 35 SEC Docket 1562.

<sup>14</sup>*SEC v. The Charter Company*, Litigation Release No. 11135 (June 24, 1986), 35 SEC Docket 1748.

<sup>15</sup>*SEC v. Richard J. Bastein*, Litigation Release No. 11136 (June 15, 1986), 35 SEC Docket 1743.

<sup>16</sup>*In the Matter of Seidman & Seidman*, Accounting and Auditing Enforcement Release No. 78 (October 10, 1985), 34 SEC Docket 356.

<sup>17</sup>*In addition to the cases listed in footnote two, there are four additional cases, which include allegations of insider trading violations. These cases are: SEC v. William Weksel, et al.*, Litigation Release No. 11183 (August 6, 1986), 36 SEC Docket 445; *SEC v. Ronald R. Walker, et al.*, Accounting and Auditing Enforcement Release No. 96 (April 22, 1986), 36 SEC Docket 956; *SEC v. Harry Edward Thomas, et al.*, Accounting and Auditing Enforcement Release No. 105 (June 25, 1986), 35 SEC Docket 1745; and *SEC v. Douglas E. Patty, et al.*, Litigation Release No. 11022 (March 10, 1986), 35 SEC Docket 442.

<sup>18</sup>*SEC v. Dennis Levine, et al.*, Litigation Release No. 11095 (May 12, 1986), 35 SEC Docket 1212.

<sup>19</sup>*SEC v. Ira B. Sokolow*, Litigation Release No. 11146 (July 1, 1986), 36 SEC Docket 72; *SEC v. Robert M. Wilkis, et al.*, Litigation Release No. 11145 (July 1, 1986), 36 SEC Docket 70; *SEC v. David S. Brown*, Litigation Release No. 11245 (October 9, 1986), 36 SEC Docket 1347; and *SEC v. Ilan K. Reich*, Litigation Release No. 11246 (October 9, 1986), 36 SEC Docket 1349.

<sup>20</sup>*SEC v. First Boston Corp.*, Litigation Release No. 11092 (May 5, 1986), 35 SEC Docket 1157.

<sup>21</sup>*SEC v. Harvey Katz, et al.*, Litigation Release No. 11185 (August 7, 1986), 36 SEC Docket 448.

<sup>22</sup>*SEC v. Banca Della Svizzera Italiana, et al.*, Litigation Release No. 11120 (June 9, 1986), 35 SEC Docket 1525. See also Litigation Release Nos. 9334 (April 3, 1981), 22 SEC Docket 749; and 9420 (August 18, 1981), 23 SEC Docket 628.

<sup>23</sup>*SEC v. Certain Unknown Purchasers of the Common Stock of, and Call Options for the Common Stock of, Santa Fe International Corp.*, Litigation Release No. 11012 (February 26, 1986), 35 SEC Docket 207. See also Litigation Release Nos. 9484 (October 26, 1981), 23 SEC Docket 1378; 9485 (October 26, 1981), 23 SEC Docket 1379; and 10295 (February 28, 1984), 29 SEC Docket 1528.

<sup>24</sup>*In the Matter of Kidder Peabody & Co., Inc.*, Securities Exchange Act Release No. 22514 (October 8, 1985), 34 SEC Docket 411.

<sup>25</sup>*In the Matter of Prudential-Bache Securities, Inc.*, Securities Exchange Act Release No. 22755 (January 2, 1986), 34 SEC Docket 1456.

<sup>26</sup>*In the Matter of Richard Keith Saccullo*, Securities Exchange Act Release No. 22756 (January 2, 1986), 34 SEC Docket 1496; *In the Matter of David Lawrence Schamps*, Securities Exchange Act Release No. 22757 (January 2, 1986), 34 SEC Docket 1505; and *In the Matter of Robert Anthony Scarmazzo*, Securities Exchange Act Release No. 22905 (February 13, 1986), 35 SEC Docket 58.

<sup>27</sup>*SEC v. E.F. Hutton Group, Inc.*, Litigation Release No. 10915 (October 29, 1985), 34 SEC Docket 712; *In the Matter of E.F. Hutton & Co., Inc.*, Securities Exchange Act Release No. 22579 (October 29, 1985), 34 SEC Docket 619; and *In the Matter of E.F. Hutton & Co., Inc.*, Investment Advisers Act Release No. 993 (October 29, 1986), 34 SEC Docket 597.

<sup>28</sup>*SEC v. The Spangler Group, Inc., et al.*, Litigation Release No. 11055 (April 14, 1986), 35 SEC Docket 864.

<sup>29</sup>*In the Matter of The Spangler Group, Inc., et al.*, Investment Advisers Act Release No. 1023 (June 18, 1986), 35 SEC Docket 1639.

<sup>30</sup>*SEC v. Doerring & Associates, Inc., et al.*, Litigation Release No. 10956 (December 9, 1985), 34 SEC Docket 1278.

<sup>31</sup>*SEC v. Worldwide Ventures Corp., et al.*, Litigation Release No. 11123 (June 11, 1986), 35 SEC Docket 1530.

<sup>32</sup>*In the Matter of Revlon, Inc.*, Securities Exchange Act Release No. 23320 (June 16, 1986), 35 SEC Docket 1541.

<sup>33</sup>*In the Matter of The BFGoodrich Co.*, Securities Exchange Act Release No. 22792 (January 15, 1986), 34 SEC Docket 1806.

<sup>34</sup>Securities Act Release No. 33-6651 (June 26, 1986) 35 SEC Docket 1658.

<sup>35</sup>Securities Act Release No. 33-6653 (July 11, 1986) 36 SEC Docket 131.

<sup>36</sup>Exchange Act Release No. 34-23486 (July 31, 1986) 36 SEC Docket 283.

<sup>37</sup>Exchange Act Release No. 34-22533 (October 15, 1985) 34 SEC Docket 457.

<sup>38</sup>Exchange Act Release No. 34-23276 (May 29, 1986) 35 SEC Docket 1318.

<sup>39</sup>Securities Act Release No. 33-6617 (January 9, 1986) 34 SEC Docket 1610.

<sup>40</sup>Securities Act Release No. 33-6672 (October 27, 1986) 36 SEC Docket 1536.

<sup>41</sup>Securities Act Release No. 33-6652 (July 8, 1986) 36 SEC Docket 79.

<sup>42</sup>Exchange Act Release No. 34-23407 (July 7, 1986) 36 SEC Docket 90.

<sup>43</sup>Securities Act Release No. 33-6650 (June 5, 1986) 35 SEC Docket 1464.

<sup>44</sup>Securities Act Release No. 33-6663 (October 2, 1986) 36 SEC Docket 1164.

<sup>45</sup>Staff Accounting Bulletin No. 60 (December 20, 1985), 34 SEC Docket 1441 (Financial Guarantees).

<sup>46</sup>Staff Accounting Bulletin No. 42A (December 31, 1985), 34 SEC Docket 1602 (Amortization of Goodwill by Financial Institutions Upon Becoming SEC Registrants).

<sup>47</sup>Staff Accounting Bulletin No. 61 (May 6, 1986), 35 SEC Docket 1161 (Loan Losses).

<sup>48</sup>Staff Accounting Bulletin No. 62 (July 7, 1986), 36 SEC Docket 127 (Discounting by Property-Casualty Insurance Companies).

<sup>49</sup>Staff Accounting Bulletin No. 63 (September 11, 1986), 36 SEC Docket 1059 (Research and Development Arrangements).

<sup>50</sup>Staff Accounting Bulletin No. 64 (October 2, 1986), 36 SEC Docket 1285.

<sup>51</sup>Financial Reporting Release No. 22 (November 21, 1985), 34 SEC Docket 926.

<sup>52</sup>Financial Reporting Release No. 25 (May 12, 1986), 35 SEC Docket 1088.

<sup>53</sup>Financial Reporting Release No. 24 (January 22, 1986), 34 SEC Docket 1867.

<sup>54</sup>Financial Reporting Release No. 23 (December 12, 1985), 34 SEC Docket 1214.

<sup>55</sup>Statement of Financial Accounting Standards No. 87, *Employers' Accounting for Pensions*; Statement of Financial Accounting Standards No. 88 *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*.

<sup>56</sup>Proposed Statement of Finalcial Accounting Standards: *Statement of Cash Flows*.

<sup>57</sup>Proposed Statement of Financial Accounting Standards: *Accounting for Income Taxes*.

<sup>58</sup>Financial Reporting Release No. 26 (October 23, 1986) 36 SEC Docket 1460.

<sup>59</sup>Proposed Statement of Financial Accounting Standards: *Financial Reporting and Changing Prices*.

<sup>60</sup>FASB Technical Bulletin No. 85-3, *Accounting for Operating Leases with Scheduled Rent Increases*.

<sup>61</sup>FASB Technical Bulletin No. 85-4, *Accounting for Purchases of Life Insurance*.

<sup>62</sup>FASB Technical Bulletin No. 85-5, *Issues Relating to Accounting for Business Combinations*.

<sup>63</sup>FASB Technical Bulletin No. 85-6, *Accounting for a Purchase of Treasury Shares at a Price Significantly in Excess of the Current Market Price of the Shares and the Income Statement Classification of Costs Incurred in Defending against a Takeover Attempt*.

<sup>64</sup>Statement on Auditing Standards No. 50, *Reports on the Application of Accounting Principles*.

<sup>65</sup>*Challenges and Opportunity for the Accounting Profession: Strengthening the Public Confidence*; The Price Waterhouse Proposals (1985).

<sup>66</sup>*The Future Relevance, Reliability and Credibility of Financial Information*; Recommendations to the AICPA Board of Directors (April 1986).

<sup>67</sup>Public Oversight Board, Annual Report 1985-1986, page 28.

<sup>68</sup>*Restructuring Professional Standards to Achieve Professional Excellence in a Changing Environment*, Report of Special Committee on Standards of Professional Conduct for Certified Public Accountants (April 16, 1986).

<sup>69</sup>Public Oversight Board, Annual Report 1985-1986, page 15.

<sup>70</sup>Securities Exchange Act Release No. 33-6651 (June 26, 1986) 35 SEC Docket 1658.

<sup>71</sup>Securities Exchange Act Release Nos. 22975 (March 6, 1986), 35 SEC Docket 229 and 23229 (May 13, 1986), 35 SEC Docket 1177.

<sup>72</sup>Securities Exchange Act Release No. 23365 (June 23, 1986), 35 SEC Docket 1690.

<sup>73</sup>Letters from Richard G. Ketchum, Director, Division of Market Regulation, to Eric D. Roiter, Debevoise & Plimpton, Counsel for Security Pacific National Bank, and to Daniel T. Brooks, Cadwalader, Wickersham & Taft, Counsel for Instinet Corporation, August 8, 1986.

<sup>74</sup>Securities Exchange Act Release No. 22481 (September 30, 1985) 34 SEC Docket 2.

<sup>75</sup>See New York Stock Exchange Rule 412, approved by the Commission in Securities Exchange Act Release No. 22663 (November 26, 1985), 34 SEC Docket 6. See also Securities Exchange Act Release No. 22941 (February 24, 1986), 35 SEC Docket 143, and Securities Exchange Act Release No. 22948 (February 25, 1986), 35 SEC Docket 147, approving similar rules of the National Association of Securities Dealers, Inc., and the Municipal Securities Rulemaking Board.

<sup>76</sup>Securities Exchange Act Release No. 22967 (March 5, 1986), 35 SEC Docket 224.

<sup>77</sup>Securities Exchange Act Release No. 22928 (February 20, 1986), 35 SEC Docket 103.

<sup>78</sup>See Division of Market Regulation, Summary of Comments on Concept Release: Request for Comments on Issues Concerning Internationalization of the World Securities Markets (Release No. 34-21958; File No. S7-16-85) (January 27, 1986).

<sup>79</sup>See Securities Exchange Act Release No. 23158 (April 21, 1986), 35 SEC Docket 885.

<sup>80</sup>See Securities Exchange Act Release No. 23075 (March 28, 1986), 35 SEC Docket 636.

<sup>81</sup>See Letter from Jonathan Kallman, Assistant Director, Division of Market Regulation, to Michael Wise, Associate Counsel, Midwest Clearing Corporation/Midwest Securities Trust Company (March 21, 1986); Letter from Jonathan Kallman, Assistant Director, Division of Market Regulation, to Michael Wise, Associate Counsel, Midwest Clearing Corporation/Midwest Securities Trust Company (June 25, 1986).

<sup>82</sup>See Memorandum of the United States Securities and Exchange Commission and the Securities Bureau of the Japanese Ministry of Finance on the Sharing of Information (May 23, 1986).

<sup>83</sup>Securities Exchange Act Release No. 23550 (August 22, 1986), 36 SEC Docket 610 (Options Clearing Corporation).

<sup>84</sup>Securities Exchange Act Release No. 23568 (August 28, 1986) 36 SEC Docket 622 (Midwest Securities Trust Company).

<sup>85</sup>Securities Exchange Act Release No. 23514 (August 8, 1986) 36 SEC Docket 415 (International Securities Clearing Corporation).

<sup>86</sup>Release No. 23115, April 10, 1986.

<sup>87</sup>Release No. 34-23423, June 11, 1986.

<sup>88</sup>Release No. 34-23422, June 11, 1986.

<sup>89</sup>Release No. 23544, August 20, 1986.

<sup>90</sup>*Id.*

<sup>91</sup>Release No. 23102, April 4, 1986 (NYSE's BETA Index); Release No. 34-23573, August 28, 1986 (Amex's Institutional Index).

<sup>92</sup>SR-Phlx-85-10, February 3, 1986.

<sup>93</sup>SR-CBOE-84-31, Release No. 22471, September 26, 1986.

<sup>94</sup>Release No. 24-22469, September 26, 1986.

<sup>95</sup>Letter to Kenneth Leibler, Amex, et al., October 16, 1985.

<sup>96</sup>Hans R. Stoll & Robert E. Whaley, *Expiration Day Effects of Index Options and Futures*, March 15, 1986.

<sup>97</sup>Letter to John D. Dingell, Chairman, Committee on Energy and Commerce, House of Representatives, Washington, D.C. 20515.

<sup>98</sup>Roundtable on Index Arbitrage, July 9, 1986.

<sup>99</sup>Letter to John Phelan, NYSE, September 11, 1986.

<sup>100</sup>Securities Exchange Act Release No. 34-23421 (July 11, 1986), 36 SEC Docket 131.

<sup>101</sup>Securities Exchange Act Release No. 34-23611 (September 11, 1986), 36 SEC Docket 847.

<sup>102</sup>Securities Exchange Act Release No. 22510 (October 22, 1985) 34 SEC Docket 378.

<sup>103</sup>Securities Exchange Act Release No. 34-23602 (September 4, 1986) 36 SEC Docket 829.

<sup>104</sup>Hold in custody repurchase agreements are repurchase agreements in which the broker-dealer agrees to retain custody of securities subject to the agreement.

<sup>105</sup>SEC Release No. 34-22532 (October 15, 1985) 34 SEC Docket 453.

<sup>106</sup>Letter to Robert B. Gilmore, Phlx, February 14, 1986.

<sup>107</sup>Letter to David Marcus, NYSE, February 27, 1986.

<sup>108</sup>Adopted New Forms For The Registration and Monitoring of Transfer Agents, on March 27, 1986.

<sup>109</sup>Securities Exchange Act Release No. 22205 (July 1, 1985), 33 SEC Docket 941.

<sup>110</sup>Securities Exchange Act Release No. 22979 (March 7, 1986), 35 SEC Docket 311. March 25 Volume.

<sup>111</sup>Securities Exchange Act Release No. 23170 (April 23, 1986), 35 SEC 875.

<sup>112</sup>See Securities Exchange Act Release No. 22671 (November 29, 1985), 34 SEC Docket 1103.

<sup>113</sup>Securities Exchange Act Release No. 22882 (February 10, 1986), 35 SEC Docket 19.

<sup>114</sup>Securities Exchange Act Release No. 22883 (February 10, 1986), 35 SEC Docket 25.

<sup>115</sup>Securities Exchange Act Release No. 23677 (October 2, 1986), 36 SEC Docket 1220.

<sup>116</sup>Securities Exchange Act Release No. 22959 (February 28, 1986), 35 SEC Docket 214.

<sup>117</sup>Securities Exchange Act Release No. 22889 (February 11, 1986), 35 SEC Docket 43; Securities Exchange Act Release No. 22908 (February 14, 1986), 35 SEC Docket 90; Securities Exchange Act Release No. 23131 (April 15, 1986), 35 SEC Docket 815; Securities Exchange Act Release No. 23316 (June 11, 1986), 35 SEC Docket 1483.

<sup>118</sup>Securities Exchange Act Release No. 22663 (November 26, 1985), 34 SEC Docket 1052.

<sup>119</sup>Securities Exchange Act Release No. 22697 (December 10, 1985), 34 SEC Docket 1222.

<sup>120</sup>Securities Exchange Act Release No. 34-23277 (May 28, 1986) 35 SEC Docket 1331.

<sup>121</sup>SR-NASD-85-29, Securities Exchange Act Release No. 22941 (February 24, 1986); 35 SEC Docket 143.

<sup>122</sup>SR-NASD-86-12, Securities Exchange Act Release No. 23325 (June 16, 1986); 35 SEC Docket 1556.

<sup>123</sup>SR-NASD-86-14, Securities Exchange Act Release No. 23482 (July 30, 1986); 36 SEC Docket 310.

<sup>124</sup>Letter to William O. Guffey, Metropolitan Mortgage & Securities Co., Inc. from John Wheeler, Secretary, SEC April 10, 1986.

<sup>125</sup>Securities Exchange Act Release No. 23601 (September 5, 1986), 36 SEC Docket 827 (Options Clearing Corporation).

<sup>126</sup>Securities Exchange Act Release No. 23244 (May 16, 1986) 35 Docket 1221 (Options Clearing Corporation).

<sup>127</sup>Securities Exchange Act Release No. 23167 (April 22, 1986), 35 SEC Docket 891 (Options Clearing Corporation).

<sup>128</sup>Securities Exchange Act Release No. 23575 (August 29, 1986,) 36 SEC Docket 765 (Pacific Clearing Corporation); Securities Exchange Act Release No. 23574 (August 29, 1986), 36 SEC Docket 764 (Pacific Securities Depository Trust Company); Securities Exchange Act Release No. 23342 (June 18, 1986), 35 SEC Docket 1593 (Depository Trust Company); Securities Exchange Act Release No. 23400 (July 7, 1986), 36 SEC Docket 84 (Securities Clearing Corporation of Philadelphia).

<sup>129</sup>Securities Exchange Act Release No. 23187 (April 29, 1986), 35 SEC Docket 979 (Pacific Securities Depository Trust Company) and Securities Exchange Act Release No. 23576 (August 29, 1986), 36 SEC Docket 766 (Philadelphia Depository Trust Company).

<sup>130</sup>Securities Exchange Act Release No. 23106 (April 8, 1986), 35 SEC Docket 752 (Depository Trust Company).

<sup>131</sup>Securities Exchange Act Release No. 23151 (April 21, 1986), 35 SEC Docket 878 (National Securities Clearing Corporation).

<sup>132</sup>20 SEC Docket 415 (July 1, 1980), 45 FR ( ).

<sup>133</sup>The Market Surveillance Committee (MSC) was recently established by the NASD as a responsee to the growth and visibility of the NASDAQ market, and the resulting need for an effective mechanism to deal with NASDAQ disciplinary matters. Of national jurisdiction, it reviews investigations and disciplines members for all market-related trading violations such as insider trading, market manipulation, and marking-the-close, as well as market maker technical violations, including excess spreads, erroneous trade reporting and failure to report volume. The MSC meets four times a year, and its subcommittees (Investigations, which reviews all Market Surveillance investigations, and Compliance, which reviews all NASDAQ market maker violations) meets eight times a year.

<sup>134</sup>The staff also completed the processing of 6 applications that had been pending at the end of the 1985 final year.

<sup>135</sup>See Securities Exchange Act Release No. 20221 (September 23, 1983),

<sup>136</sup>Securities Act Release No. 6611 (November 14, 1985), 34 SEC Docket 828.

<sup>137</sup>Investment Company Act Release No. 15315 (September 17, 1986) 36 SEC Docket 980

<sup>138</sup>Securities Exchange Act Release No. 23694 (October 8, 1986), 34 SEC Docket 1302.

<sup>139</sup>Investment Company Act Release No. 14924 (January 29, 1986), 34 SEC Docket 2027.

<sup>140</sup>Investment Company Act Release No. 14983 (March 12, 1986), 35 SEC Docket 423.

<sup>141</sup>Investment Company Act Release No. 15314 (September 17, 1986), 36 SEC Docket 1034.

<sup>142</sup>Investment Company Act Release No. 15155 (June 19, 1986) 35 SEC Docket 1631.

<sup>143</sup>Investment Advisers Act Release No. 996 (November 14, 1985), 34 SEC Docket 913.

<sup>144</sup>Investment Advisers Act Release No. 1034 (September 9, 1986), 36 SEC Docket 960.

<sup>145</sup>Investment Advisers Act Release No. 1035 (September 19, 1986), 36 SEC Docket 1143.

<sup>146</sup>Securities Act Release No. 6645 (May 29, 1986), 35 SEC Docket 1296.

<sup>147</sup>Investment Company Act Release No. 14756 (October 15, 1985), 34 SEC Docket 490.

<sup>148</sup>Holding Company Act Release No. 24044 (March 6, 1986), 35 SEC Docket 262.

<sup>149</sup>Holding Company Act Release No. 23917 (November 22, 1985), 34 SEC Docket 1061.

<sup>150</sup>Holding Company Act Release No. 24073 (April 29, 1986), 35 SEC Docket 1002.

<sup>151</sup>Holding Company Act Release No. 23934 (December 4, 1985), 34 SEC Docket 1173; Holding Company Act Release No. 23935 (December 23, 1985), 34 SEC Docket 1403; Holding Company Act Release No. 23955 (December 19, 1985), 34 SEC Docket 1323; Holding Company Act Release No. 23959 (December 23, 1985), 34 SEC Docket 1401; Holding Company Act Release No. 23967 (December 30, 1985), 34 SEC Docket 1443; Holding Company Act Release No. 23968 (December 30, 1985), 34 SEC Docket 1527; Holding Company Act Release No. 23969 (December 30, 1985), 34 SEC Docket 1534; Holding Company Act Release No. 24072 (April 28, 1986), 35 SEC Docket 998.

<sup>152</sup>Holding Company Act Release 23971 (December 30, 1985), 34 SEC Docket 1542.

<sup>153</sup>Holding Company Act Release 24067 (April 22, 1986), 35 SEC Docket 1540.

<sup>154</sup>Holding Company Act Release 24157 (July 31, 1986) 36 SEC Docket 324.

<sup>155</sup>*SEC v. Drysdale Securities Corp.*, 785 F.2d 38 (2d Cir. 1986), cert. denied *sub nom. Essner v. SEC*, ... U.S. ..., 106 S. Ct. 2894 (1986).

<sup>156</sup>*SEC v. The American Board of Trade*, 798 F.2d 45 (2d Cir. 1986).

<sup>157</sup>*SEC v. The American Board of Trade*, 751 F.2d 529 (2d Cir. 1984).

<sup>158</sup>*SEC v. Rogers*, 790 F.2d 1450 (9th Cir. 1986).

<sup>159</sup>*SEC v. Belmont Reid & Company*, 794 F.2d 1388 (9th Cir. 1986).

<sup>160</sup>Petitions to review Commission orders arising from proceedings instituted pursuant to Commission Rule 2(e) are discussed separately under the heading "Commission Action Under Rule 2(e)."

<sup>161</sup>*Lowell H. Listrom & Co. v. SEC*, No. 86-1130 (8th Cir.).

<sup>162</sup>*Exchange Service v. SEC*, 797 F.2d 188 (4th Cir. August 7, 1986).

<sup>163</sup>*Earl v. SEC*, 798 F.2d 472 (9th 1986).

- <sup>164</sup>*Randall v. Loftsgaarden*, ... U.S. ..., 106 S. Ct. 3143 (1986).
- <sup>165</sup>*Salcer v. Envicon Equities Corp.*, 744 F.2d 935 (2d Cir. 1984), *vacated*, ... U.S. ..., 106 S. Ct. 3324 (1986).
- <sup>166</sup>*Freschi v. Grand Coal Venture*, 767 F.2d 1041 (2d Cir. 1985), *vacated*, ... U.S. ..., 106 S. Ct. 3325 (1986).
- <sup>167</sup>*Feldman v. Pioneer Petroleum Corp.*, No. 85-1432 (10th Cir.).
- <sup>168</sup>*Point Landing v. Omni Capital International*, No. 84-3445 (5th Cir. July 25, 1986).
- <sup>169</sup>*Long Island Lighting Co. v. Barbash*, 779 F.2d 793 (2d Cir. 1985).
- <sup>170</sup>*Beaumont v. American Can Company*, No. 85-9063 (2d Cir. July 24, 1986).
- <sup>171</sup>*Rembold v. Pacific First Federal Savings Bank*, 798 F.2d 1307 (9th Cir.).
- <sup>172</sup>*Craft v. Florida Federal Savings & Loan Association*, 786 F.2d 1546 (11th Cir. 1986). The Eleventh Circuit's decision in that case, however, did not address that issue.
- <sup>173</sup>*Brawer v. Options Clearing Corp.*, No. 86-7416 (2d Cir.).
- <sup>174</sup>*Merrill Lynch, Pierce, Fenner & Smith v. Bobker*, 636 F.Supp. 444 (S.D.N.Y. 1986).
- <sup>175</sup>*Manufacturers Hanover Trust Co. v. Drysdale Securities Corp.*, 801 F.2d 13 (2d Cir.).
- <sup>176</sup>*SIPC v. Vigman*, No. 85-5786 (9th Cir.).
- <sup>177</sup>*Levinson v. Basic, Inc.*, 786 F.2d 741 (6th Cir. 1986).
- <sup>178</sup>*United States v. Carpenter*, 791 F.2d 1024 (2d Cir. 1986).
- <sup>179</sup>*Anheuser-Busch v. Thayer*, CA3-85-0794-R (N.D. Tex.).
- <sup>180</sup>*Radol v. Thomas*, 772 F.2d 244 (6th Cir. 1985), *cert. denied*, ... U.S. ..., 106 S. Ct. 3272 (1986).
- <sup>181</sup>*Starkman v. Marathon Oil Co.*, 772 F.2d 231 (6th Cir. 1985), *cert. denied*, ... U.S. ..., 106 S. Ct. 1195 (1986).
- <sup>182</sup>*Moran v. Household International*, 500 A.2d 1346 (S. Ct. Del. 1985).
- <sup>183</sup>*Hanson Trust PLC v. SCM Corp.*, 774 F.2d 47 (2d Cir. 1985).
- <sup>184</sup>*Davy v. SEC*, 792 F.2d 1418 (9th Cir. 1986).
- <sup>185</sup>*Touche Ross v. SEC*, 609 F.2d 570 (2d Cir. 1979).
- <sup>186</sup>*In the Matter of Michael S. Hope, C.P.A.*, Accounting and Auditing Enforcement Rel. No. 109A, August 6, 1986. The proceeding is continuing against other respondents.
- <sup>187</sup>*In the Matter of John E. Harrington and Gregory B. Arnott*, Accounting and Auditing Enforcement Rel. No. 81, December 5, 1985.
- <sup>188</sup>*In the Matter of Gary L. Jackson*, Accounting and Auditing Enforcement Release No. 85 (January 21, 1986), 35 SEC Docket 1947.
- <sup>189</sup>*In the Matter of Richard Hirschfeld*, Admin. Proc. File No. 3-6544, Rel. No. 34-22796, SEC Docket 1817.
- <sup>190</sup>*SEC v. Champion Sports Management*, 599 F. Supp. 527 (S.D.N.Y. 1984), aff'd 84-6358 (2d Cir. 1985).
- <sup>191</sup>*Mermelstein v. SEC*, No. 85-3164 (D.D.C., March 7, 1985).
- <sup>192</sup>*SafeCard Services v. SEC*, No. 84-3073 (D.D.C., April 21, 1986).
- <sup>193</sup>In *Cumberland v. SEC*, No. CA85-0388B (D.R.I. Feb. 19, 1986), the court affirmed the Commission's claim of withholding based on ongoing enforcement activity. In the fourth suit, the FOIA plaintiff dismissed its complaint upon the Commission's filing of a motion to dismiss.
- <sup>194</sup>*American Bankers Association v. SEC*, No. 85-2482 (D.D.C. 1985), *appeal pending*, No. 85-6055 (D.C. Cir.).
- <sup>195</sup>*Sprecher v. von Stein*, 772 F.2d 16 (2d Cir. 1985).
- <sup>196</sup>*Prevatte v. SEC*, 791 F.2d 934 (6th Cir. 1986).

<sup>197</sup>SEC v. WACO Financial, 751 F.2d 831 (6th Cir. 1985), *cert. denied*, ---U.S.--- 106 S.Ct. 65 (1985).

<sup>198</sup>*Awkard v. Shad*, SEC No. 85-5023 (D.C. Cir. April 11, 1986); *Rochelleau v. MSPB*, No. 86-713 (Fed. Cir. July 1986); *Lubbers v. SEC*, Doc. No. SF 315 H85 10677 (MSPB August 13, 1985), *pending appeal*, No. 86-1188, affirmed (Fed. Cir. December 11, 1986).

<sup>199</sup>*In re Beker Industries Corp.*, Nos. 85 Bkcy. 11705-10 (Bankr. S.D.N.Y.) (granted); *In re W. J. Sloane & Co.*, Nos. 85 Bkcy. 11452-11467 (Bankr. S.D.N.Y.) (denied); *In re Amfesco Industries*, Nos. 185-51931-252 etc. (Bankr. E.D.N.Y.) (granted); *In re Texscan Corp.*, No. 85-3618 PHX (GBN) (Bankr. D. Az.) (granted); *In re Johns-Manville Corp., et al.* Nos. 82B 11656 through 11676 (Bankr. S.D.N.Y.) (denied). In *In re Wheeling-Pittsburgh Steel Corp.*, No. 85-793 (Bankr. W.D. Pa), the Commission's motion, filed in fiscal year 1985, is still pending. *In re The Charter Co.*, Nos. 84-289-BK-J-GP through 84-332-BK-J-GA (M.D. Fla.), a matter reported in the last annual report, is still pending. In this appeal, the Commission had urged that indenture trustees are eligible to sit as voting members of an official creditors' committee. See 1985 Annual Report at 54.

<sup>200</sup>No. 85-00512-519-BKC-TCB (Bankr. S.D. Fla.)

<sup>201</sup>*In re Evans Products Company, et al.*, No. 85-3525-CIV-HOEVELER (S.D. Fla., June 30, 1986).

<sup>202</sup>No. 84-BX-1609 (Bankr. D. Md.).

<sup>203</sup>*In re Johns-Manville Corp.*, 52 B.R. 879 (Bankr. S.D.N.Y. 1985), *aff'd*, 60 B.R. 842 (S.D.N.Y. 1986), *appeal pending*, No. 86-5031 (2d Cir.).

<sup>204</sup>*In re Standard Metals*, No. 84 B00945, (Bankr. D. Colo.), *appeal pending*, No. 85-2783 (10th Cir.).

<sup>205</sup>*In re Standard Metals*, No. 84 B00945, (Bankr. D. Colo.), *appeal pending*, No. 85-2783 (10th Cir.); *In re American Reserve Corporation*, 80 B 4786 (Bankr. N.D. Ill.), *appeal pending*, No. 86 C 0219 (N.D. Ill.).

<sup>206</sup>*In re Amarex*, No. Bk-82-02335(A) (Bankr. W.D. Okla.), *appeal pending*, No. 86-1250 (W.D. Okla.)

<sup>207</sup>No. 85-111661 (Bankr. W.D.N.Y.)

<sup>208</sup>*In re Continental Airlines Corporation*, No. 83-04019-H2-5 (Bankr. S.D.Tex.); *In re Donald Walker*, No. 485-40501 *et seq.* (Bankr. N.D. Tex.).

<sup>209</sup>No. 83-04019-H2-5 (Bankr. S.D. Tex.)

<sup>210</sup>No. 85-00073-B (Bankr. D Wy.)

<sup>211</sup>No. 84-B-009456 (Bankr. D. Colo.)

<sup>212</sup>No. 85 B 30642 (Bankr. N.D. Ind.)

<sup>213</sup>No. 85-03889TT (Bankr. D. N.J.)

# Appendix

---

# APPENDIX

---

## THE SECURITIES INDUSTRY

### Revenues, Expenses, and Selected Balance Sheet Items

Broker-dealers that are self-regulated through their membership in a registered securities exchange or the National Association of Securities Dealers produced revenues of \$50.2 billion in 1985, 27 percent above the 1984 level.<sup>1</sup> Almost 61 percent of this increase in revenues stemmed from the growth of revenues from the principal securities activities (brokerage, principal transactions and underwriting). The "all other revenues," which include interest income from securities purchased under agreements to resell and fees from handling private placements, mergers and acquisitions, accounted for 33 percent of revenues in 1985.

Securities commission income increased \$1.8 billion or 19 percent, while mutual fund sales rose 88 percent. Trading gains on firms' securities accounts increased \$2.9 billion, or 30 percent, and represented 25 percent of total revenues in 1985. Profits from underwriting increased \$1.7 billion, and rose as a percent of total revenues to ten percent in 1985.

Pre-tax income increased 133 percent from the preceding year to \$6.6 billion, as expenses grew by \$6.8 billion (18 percent) to \$43.6 billion in 1985.

Assets rose by \$142.0 billion to \$456.2 billion and liabilities grew \$136.2 billion to \$431.7 billion. Ownership equity increased \$5.9 billion during 1985 to \$24.5 billion at year's end.

<sup>1</sup>Due to changes in FOCUS reporting requirements, consolidated information for 1981 is not available. In order to provide consistent information, new financial data was developed for prior years.

and Table 1 now presents unconsolidated data for all years. This data will not be comparable to the Table 1 published in the SEC Annual Report for 1981 and prior years.

**Table 1**  
**UNCONSOLIDATED FINANCIAL INFORMATION FOR BROKER-DEALERS**  
**1981-1985**  
(Millions of Dollars)

	1981	1982	1983	1984r	1985p
<b>Revenues</b>					
1 Securities Commissions . . . . .	\$ 6,589	\$ 7,370	\$ 10,493	\$ 9,294	\$ 11,091
2 Gain (Loss) in Trading . . . . .	5,401	7,668	8,690	9,644	12,583
3. Gain (Loss) in Investments . . . . .	635	867	1,178	1,126	2,010
4 Profit (Loss) from Underwriting and Selling Groups . . . . .	1,860	2,688	4,097	3,253	4,991
5. Revenue from Sale of Investment Company Securities . . . . .	342	629	1,494	1,453	2,735
6 All Other Revenues . . . . .	9,545	9,579	11,191	14,903	16,808
7. Total Revenues . . . . .	<b>\$ 24,372</b>	<b>\$ 28,801</b>	<b>\$ 37,143</b>	<b>\$ 38,673</b>	<b>\$ 50,218</b>
<b>Expenses</b>					
8. All Employee Compensation and Benefits (Except Registered Representatives' Compensation) . . . . .	\$ 3,951	\$ 4,714	\$ 6,442	\$ 6,777	\$ 8,182
9 Commissions and Clearance - Paid to Other Brokers . . . . .	1,104	1,299	1,818	1,912	2,370
10 Interest Expense . . . . .	6,506	6,452	6,914	10,701	11,603
11. Regulatory Fees and Expenses . . . . .	121	149	202	227	346
12 Compensation to Partners and Voting Stockholder Officers . . . . .	1,056	1,179	1,555	1,509	1,788
13. All Other Expenses (Including Registered Representatives' Compensation) . . . . .	8,845	10,935	14,979	15,695	19,292
14 Total Expenses . . . . .	<b>\$ 21,583</b>	<b>\$ 24,728</b>	<b>\$ 31,910</b>	<b>\$ 36,821</b>	<b>43,581</b>
15. Pre-Tax Income . . . . .	<b>\$ 2,789</b>	<b>\$ 4,073</b>	<b>\$ 5,233</b>	<b>\$ 2,852</b>	<b>\$ 6,637</b>
<b>Assets, Liabilities and Capital</b>					
16. Total Assets . . . . .	\$155,063	\$201,275	\$252,270	\$314,121	\$456,155
17 Liabilities					
a. Total Liabilities (Excluding Subordinated Debt) . . . . .	142,885	188,028	232,551	290,681	425,016
b Subordinated Debt . . . . .	1,869	2,306	3,083	4,805	6,634
c. Total Liabilities (17a + 17b) . . . . .	144,734	188,334	235,634	295,486	431,650
18 Ownership Equity .. . . . .	10,329	12,941	16,636	18,655	24,505
19. Total Liabilities and Ownership Equity....	<b>\$155,063</b>	<b>\$201,275</b>	<b>\$252,270</b>	<b>\$314,121</b>	<b>\$456,155</b>
Number of Firms	5,714	6,165	7,429	8,298	8,763

Figures may not sum due to rounding.

p = preliminary

r = revised

Note. Includes only those broker-dealers self-regulated through their membership in the National Association of Securities Dealers or a registered securities exchange.

Source: FOCUS Report

Table 2

**UNCONSOLIDATED ANNUAL REVENUES AND EXPENSES FOR BROKER-DEALERS  
DOING A PUBLIC BUSINESS<sup>1</sup>  
1981-1985**  
(Millions of Dollars)

		1981	1982	1983	1984r	1985p
<b>Revenues</b>						
1 Securities Commission . . . . .	...	\$ 6,163	\$ 7,129	\$ 9,829	\$ 8,824	\$10,397
2 Realized and Unrealized Gains or Losses in Trading and Investment Accounts . . . . .		5,481	8,138	9,106	9,935	13,654
3 Commodities Revenues . . . . .	699	731	951	799	1,147	
4 Profits or Losses From Underwriting and Selling Groups . . . . .	1,797	2,673	3,990	3,207	4,920	
5 Revenues From Sale of Investment Company Securities . . . . .	338	625	1,474	1,400	2,657	
6 Margin Interest . . . . .	2,884	2,060	2,150	2,924	2,711	
7 All Other Revenues . . . . .	5,320	6,536	7,405	10,705	12,311	
<b>8 Total Revenues . . . . .</b>		<b>\$22,682</b>	<b>\$27,892</b>	<b>\$34,905</b>	<b>\$37,794</b>	<b>\$47,797</b>
<b>Expenses</b>						
9 Salaries and Other Employment Costs for General Partners and Voting Stockholder Officers . . . . .		\$ 944	\$ 1,095	\$ 1,389	\$ 1,382	\$ 1,645
10 All Other Employee Compensation and Benefits (Except Registered Representatives' Compensation) ± . . . . .		3,749	4,592	6,166	6,527	7,819
11 Commissions and Clearance Paid to Others . . . . .		972	1,231	1,615	1,777	2,166
12 Interest Expense . . . . .		6,016	6,389	6,513	10,331	11,335
13 Regulatory Fees and Expenses . . . . .		103	137	170	204	319
14 All Other Expenses <sup>2</sup> . . . . .		8,389	10,722	14,390	15,168	18,567
<b>15 Total Expenses . . . . .</b>		<b>\$20,173</b>	<b>\$24,166</b>	<b>\$30,243</b>	<b>\$35,389</b>	<b>\$41,551</b>
<b>Pre-Tax Income</b>						
<b>16 Pre-Tax Income . . . . .</b>		<b>\$ 2,510</b>	<b>\$3,726</b>	<b>\$ 4,662</b>	<b>\$ 2,405</b>	<b>\$ 5,946</b>
<b>Number of Firms</b>						
		2,836	3,256	3,648	4,722	5,352

Figures may not sum due to rounding

p = preliminary

r = revised

<sup>1</sup>Includes Broker-Dealers with four quarters of data only.

<sup>2</sup>Registered representatives' compensation is included in "All Other Expenses" because it is not reported separately on Part IIA of the FOCUS Report.

Source: FOCUS Report

Table 3  
**UNCONSOLIDATED BALANCE SHEET FOR BROKER-DEALERS**  
**DOING A PUBLIC BUSINESS**  
**YEAR-END, 1981-1985**  
(Millions of Dollars)

		1981	1982	1983	1984r	1985p
<b>Assets</b>						
1 Cash		\$ 2,671	\$ 4,636	\$ 3,755	\$ 4,169	\$ 6,362
2 Receivables from Other Broker-Dealers:						
a Securities Failed to Deliver	...	6,257	5,899	5,860	7,161	19,005
b Securities Borrowed		9,228	15,936	17,992	20,761	36,242
c Other	....	1,906	2,700	3,544	3,095	11,916
3 Receivables from Customers	..	21,076	24,762	31,947	30,198	47,270
4 Long Positions in Securities and Commodities		41,714	71,408	80,498	110,181	156,563
5 Securities Owned - not Readily Marketable	....	104	155	208	495	286
6 Securities Borrowed under Subordinated Agreements and Partners' Individual and Capital Securities Accounts		90	90	98	66	51
7 Securities Purchased under Agreements to Resell	....	45,222	53,733	78,362	107,434	143,066
8 Secured Capital Demand Notes		309	306	303	399	409
9 Exchange Memberships	..	216	286	306	325	365
10 Other Assets	....	6,771	9,716	12,121	14,709	21,591
11 Total Assets	....	<b>\$132,587</b>	<b>\$189,985</b>	<b>\$234,994</b>	<b>\$298,993</b>	<b>\$443,126</b>
<b>Liabilities and Equity Capital</b>						
12 Bank Loans Payable						
a Secured by Customer Collateral		\$ 3,633	\$ 2,843	\$ 4,416	\$ 4,951	5,550
b Secured by Firm Collateral	....	7,583	8,749	15,606	22,835	38,432
13 Securities Sold under Repurchase Agreements		55,679	77,330	93,270	135,075	167,604
14 Payable to Other Broker-Dealers and Clearing Organizations						
a Securities Failed to Receive		3,298	6,766	4,769	7,058	18,820
b Securities Loaned	..	8,273	14,029	15,432	15,844	29,212
c Other	....	1,418	2,529	4,267	3,827	8,249
15 Payable to Customers	..	12,705	16,400	18,697	19,694	31,241
16 Short Positions in Securities and Commodities		18,698	30,960	40,521	45,773	81,779
17 Other Liabilities	....	11,001	16,211	20,181	21,818	33,211
18 Total Liabilities (Excluding Subordinated Debt)		122,288	175,817	217,159	276,875	414,098
19 Subordinated Debt	....	1,698	2,158	2,711	4,662	6,350
20 Total Liabilities	....	<b>\$177,975</b>	<b>\$216,904</b>	<b>\$219,870</b>	<b>\$281,537</b>	<b>\$420,448</b>
21 Equity Capital	....	\$ 12,010	\$ 14,788	\$ 15,124	\$ 17,456	22,678
22 Total Liabilities and Equity Capital		<b>\$132,587</b>	<b>\$189,985</b>	<b>\$234,994</b>	<b>\$298,993</b>	<b>\$443,126</b>
Number of Firms		2,836	3,256	3,648	4,722	5,352

Figures may not sum due to rounding

p = preliminary

r = revised

Source: FOCUS Report

## **Securities Industry Dollar In 1985 For Carrying and Clearing Firms**

Data for *carrying and clearing* firms only are presented here to allow for more detail, as reporting requirements for *introducing* and carrying and clearing firms differ and data aggregation of these two types of firms necessarily results in loss of detail. Carrying and clearing firms are those firms which clear securities transactions or maintain possession or control of customers' cash or securities. This group produced 87 percent of the securities industry's total revenues.

Securities commissions and trading gains accounted for 20 cents and 26 cents, respectively, of each revenue dollar in 1985. Together these two items accounted for 46 cents of each revenue dollar generated in 1985 the same as in 1984. In terms of dollars, they accounted for \$20.2 billion of the \$43.7 billion of total revenues earned by carrying and clearing firms. Margin interest income accounted for six cents of each revenue dollar in 1985 compared with nine cents in 1984.

Total expenses consumed 88 cents of each revenue dollar earned in 1985, six cents less than the 1984 level of 94 cents. This improved the industry's pre-tax profit margin from six cents per revenue dollar in 1984 to 12 cents in 1985.

Interest expense, again the single largest expense item, declined in 1985 by ten percent to absorb 26 cents of each

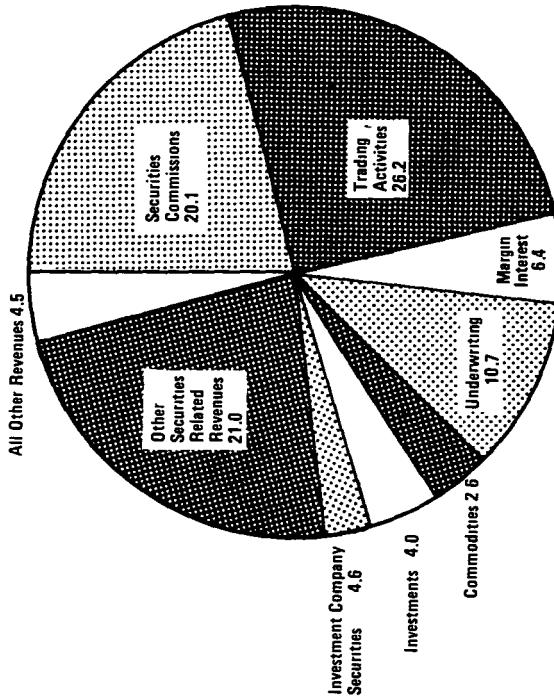
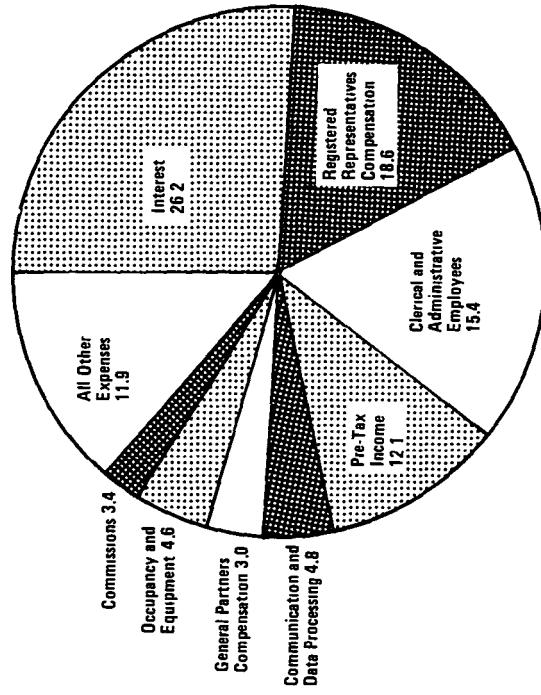
revenue dollar, which compares to 30 cents in 1984. In dollars, interest expense increased to \$11.4 billion, \$1.0 billion more than the year before. Employee-related expenses (registered representatives' compensation and clerical and administrative employees' expenses) consumed 34 cents of the revenue dollar in 1985, with no change from 1984. Registered representatives' compensation was 32 percent more than the 1984 level and absorbed 19 cents of each revenue dollar in 1985 compared to 18 cents in the previous year. In dollar terms, employee-related expenses accounted for \$14.9 billion of the \$38.4 billion of total expenses. Other expense categories consumed about the same proportion of the industry revenue dollar in 1985 as they did in 1984.

Total assets of broker-dealers carrying and clearing customer accounts rose by \$133.5 billion to \$437.4 billion in 1985. About 56 percent of this increase in assets can be attributed to two items: resale agreements rose \$33.3 billion, and long positions increased \$42.0 billion.

Total liabilities, including subordinated debt, increased \$128.3 billion or 45 percent to \$416.5 billion with increases in repurchase agreements of \$26.4 billion and short positions in securities of \$30.3 billion. Owners' equity rose 33 percent from \$15.8 billion in 1984 to \$21.0 billion, and total capital increased 33 percent to \$27.0 billion from \$20.2 billion in 1984.

# Securities Industry Dollar In 1985 For Carrying/Clearing Firms

Table 4

SOURCES OF REVENUEEXPENSES AND PRE-TAX INCOME

*Figures may not add due to rounding*

*NOTE: Includes information for firms that carry customer accounts or clear securities transactions*

*SOURCE: X 17A 5 FOCUS REPORTS*

**Table 5**  
**UNCONSOLIDATED REVENUES AND EXPENSES FOR**  
**CARRYING/CLEARING BROKER-DEALERS**  
(Millions of Dollars)

	1984r		1985p		- 1984-1985
	Dollars	Percent of Total Revenues	Dollars	Percent of Total Revenues	Percent Change
<b>Revenues</b>					
1. Securities Commissions . . . . .	\$ 7,322	21.2%	\$ 8,758	20.1%	19.6 %
2. Gain (Loss) in Trading . . . . .	8,630	25.0	11,425	26.2	32.4
3. Gain (Loss) in Investments . . . . .	1,010	2.9	1,729	4.0	71.2
4. Profit (Loss) from Underwriting and Selling Groups..... . . . . .	3,021	8.8	4,671	10.7	54.6
5. Revenue from Sale of Investment Company Securities . . . . .	1,016	2.9	2,016	4.6	98.4
6. Margin Interest Income . . . . .	2,973	8.6	2,796	6.4	( 6.0)
7. Commodities Revenue . . . . .	811	2.4	1,141	2.6	40.7
8. Other Revenue Related to Securities Business . . . . .	7,704	22.3	9,186	21.0	19.2
9. Revenue from All Other Sources . . . . .	2,035	5.9	1,967	4.5	( 3.3)
<b>10. Total Revenues</b>	<b>\$34,522</b>	<b>100.0%</b>	<b>\$43,689</b>	<b>100.0%</b>	<b>26.6 %</b>
<b>Expenses</b>					
11. Registered Representatives' Compensation . . . . .	\$ 6,179	17.9%	\$ 8,131	18.6%	31.6 %
12. Clerical and Administrative Employees' Expenses . . . . .	5,616	16.3	6,745	15.4	20.1
13. Commissions and Clearance Paid: to Others . . . . .	1,257	3.6	1,497	3.4	19.1
14. Interest Expense . . . . .	10,397	30.1	11,424	26.2	9.9
15. Communication and Data Processing .	2,383	6.9	2,623	6.0	10.1
16. Occupancy and Equipment . . . . .	1,651	4.8	2,016	4.6	22.1
17. Compensation to Partners and Voting Stockholder Officers . . . . .	1,090	3.2	1,296	3.0	18.9
18. All Other Expenses . . . . .	3,863	11.2	4,649	10.6	20.4
<b>19. Total Expenses . . . . .</b>	<b>\$32,436</b>	<b>94.0%</b>	<b>\$38,381</b>	<b>87.8%</b>	<b>18.3 %</b>
<b>Pre-Tax Income</b>					
<b>20. Pre-Tax Income . . . . .</b>	<b>\$ 2,086</b>	<b>6.0%</b>	<b>\$ 5,308</b>	<b>12.2%</b>	<b>154.5 %</b>
<b>Number of Firms</b>	<b>1,309</b>		<b>1,249</b>		<b>( 4.6)%</b>

Figures may not sum due to rounding

p = preliminary

r = revised

Note Includes information for firms that carry customer accounts or clear securities transactions.

Source: FOCUS Report

**Table 6**  
**UNCONSOLIDATED BALANCE SHEET FOR**  
**CARRYING/CLEARING BROKER-DEALERS**  
(Millions of Dollars)

	Year End 1984r	Percent of Total Assets	Year End 1985p	Percent of Total Assets	Percent Change 1984-1985
<b>Assets</b>					
1 Cash	\$ 3,913	1.3%	\$ 6,212	1.4%	58.8 %
2 Receivable From Other Broker-Dealers	33,742	11.1	69,177	15.8	105.0
a Securities Borrowed	21,107	6.9	38,916	8.9	84.4
b Other Receivables	12,635	4.2	30,261	6.9	139.5
3 Receivables From Customers	30,548	10.1	47,551	10.9	55.7
4 Resale Agreements	109,965	36.2	143,289	32.8	30.3
5 Long Positions in Securities and Spot Commodities	113,322	37.2	155,330	35.5	37.1
6. Other Assets	12,434	4.1	15,881	3.6	27.7
7. Total Assets	\$303,924	100.0%	\$437,440	100.0%	43.9 %
<b>Liabilities and Equity Capital</b>					
8 Bank Loans	\$ 28,038	9.2%	\$ 44,296	10.1%	58.0 %
a Secured by Customer Sec	4,877	1.6	5,559	1.3	14.0
b Secured by Proprietary Sec	23,161	7.6	38,737	8.8	67.3
9 Payable to Other Broker-Dealers	28,628	9.4	62,324	14.3	117.7
a Securities Loaned	16,058	5.3	31,086	7.1	93.6
b Other Payables	12,570	4.1	31,238	7.2	148.5
10. Payable to Customers	20,017	6.6	31,654	7.2	58.1
a Free Credit Balances	8,453	2.8	10,673	2.4	26.3
b Other Credit Balances	11,564	3.8	20,981	4.8	81.4
11 Repurchase Agreements	141,941	46.7	168,364	38.5	18.6
12 Short Positions in Securities	46,158	15.2	76,466	17.5	65.7
13 Subordinated Debt	4,480	1.5	6,056	1.4	35.2
14 Other Liabilities	18,900	6.2	27,330	6.2	44.6
15 Total Liabilities	288,162	94.8	416,490	95.2	44.5
16 Owners' Equity	15,762	5.2	20,950	4.8	32.9
17 Total Liabilities and Owners' Equity	\$303,924	100.0%	\$437,440	100.0%	43.9 %
Total Capital	\$ 20,242		\$ 27,006		33.4 %
Number of Firms	1,309		1,249		(5.0)%

Figures may not sum due to rounding

p = preliminary

r = revised

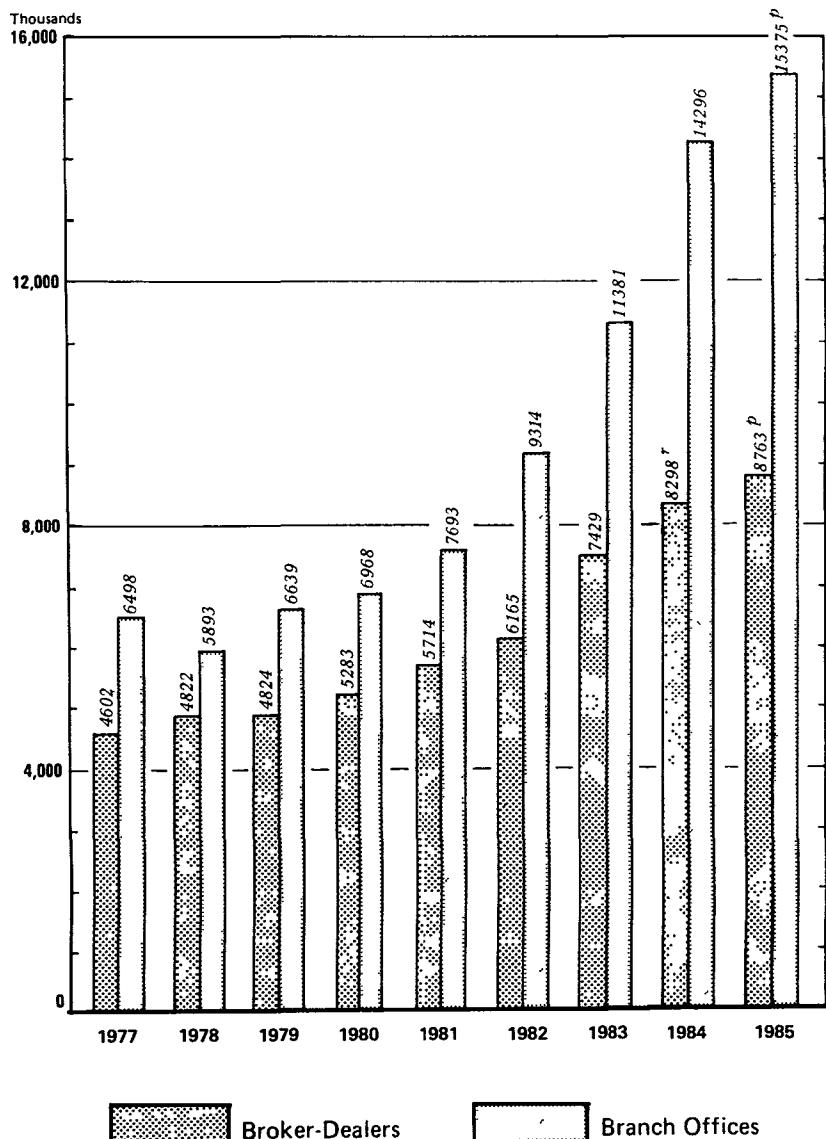
Source. FOCUS Report

### Broker-Dealers, Branch Offices, Employees

The number of broker-dealers filing FOCUS Reports rose six percent from 8,298 in 1984 to 8,763 in 1985. During the same period, the number of branch

offices increased eight percent from 14,296 to 15,375. The number of full-time personnel employed in the securities industry rose from 330,000 to 357,133 in 1985, an eight percent increase.

# Broker-Dealers and Branch Offices



SOURCE: FOCUS REPORT

Table 8  
**BROKERS AND DEALERS REGISTERED UNDER THE SECURITIES EXCHANGE ACT OF 1934**  
**EFFECTIVE REGISTRANTS AS OF SEPTEMBER 30, 1986**  
**(CLASSIFIED BY TYPE OF ORGANIZATION AND BY LOCATION OF PRINCIPAL OFFICE)**

		Number of Registrants			
		Total	Sole Proprietorships	Partnerships	Corporations <sup>1</sup>
Alabama . . . . .	.. . . . .	52	2	0	50
Alaska . . . . .	.. . . . .	4	0	0	4
Arizona . . . . .	.. . . . .	82	1	2	79
Arkansas . . . . .	.. . . . .	67	3	1	63
California . . . . .	.. . . . .	1,311	283	119	909
Colorado . . . . .	.. . . . .	236	6	4	226
Connecticut . . . . .	.. . . . .	166	20	11	135
Delaware . . . . .	.. . . . .	21	1	1	19
District of Columbia . . . . .	.. . . . .	49	5	2	42
Florida . . . . .	.. . . . .	464	18	15	431
Georgia . . . . .	.. . . . .	134	1	4	129
Hawaii . . . . .	.. . . . .	19	0	1	18
Idaho . . . . .	.. . . . .	10	0	0	10
Illinois . . . . .	.. . . . .	2,974	1,942	323	709
Indiana . . . . .	.. . . . .	81	7	2	72
Iowa . . . . .	.. . . . .	49	1	1	47
Kansas . . . . .	.. . . . .	41	2	2	37
Kentucky . . . . .	.. . . . .	31	3	0	28
Louisiana . . . . .	.. . . . .	83	5	4	74
Maine . . . . .	.. . . . .	16	1	2	13
Maryland . . . . .	.. . . . .	102	1	1	100
Massachusetts . . . . .	.. . . . .	256	28	10	218
Michigan . . . . .	.. . . . .	123	10	3	110
Minnesota . . . . .	.. . . . .	133	5	1	128
Mississippi . . . . .	.. . . . .	23	1	0	22
Missouri . . . . .	.. . . . .	119	6	3	110
Montana . . . . .	.. . . . .	6	1	0	5
Nebraska . . . . .	.. . . . .	28	1	1	26
Nevada . . . . .	.. . . . .	18	3	1	14
New Hampshire . . . . .	.. . . . .	8	1	0	7
New Jersey . . . . .	.. . . . .	395	76	44	275
New Mexico . . . . .	.. . . . .	22	0	0	22
New York . . . . .	.. . . . .	2,589	784	368	1,437
North Carolina . . . . .	.. . . . .	91	8	1	82
North Dakota . . . . .	.. . . . .	5	0	0	5
Ohio . . . . .	.. . . . .	163	6	7	150
Oklahoma . . . . .	.. . . . .	55	2	0	53
Oregon . . . . .	.. . . . .	55	1	1	53
Pennsylvania . . . . .	.. . . . .	459	23	74	362
Rhode Island . . . . .	.. . . . .	23	4	1	18
South Carolina . . . . .	.. . . . .	48	2	2	44
South Dakota . . . . .	.. . . . .	6	0	0	6
Tennessee . . . . .	.. . . . .	136	6	3	127
Texas . . . . .	.. . . . .	520	34	7	479
Utah . . . . .	.. . . . .	56	2	1	53
Vermont . . . . .	.. . . . .	7	1	1	5
Virginia . . . . .	.. . . . .	91	4	3	84
Washington . . . . .	.. . . . .	130	7	1	122
West Virginia . . . . .	.. . . . .	10	0	0	10
Wisconsin . . . . .	.. . . . .	96	6	2	88
Wyoming . . . . .	.. . . . .	2	0	0	2
Total . . . . .	.. . . . .	11,685	3,324	1,030	7,311
Foreign <sup>2</sup> . . . . .	.. . . . .	23	2	2	19
<b>GRAND TOTAL . . . . .</b>	<b>.. . . . .</b>	<b>11,688</b>	<b>3,326</b>	<b>1,032</b>	<b>7,330</b>

<sup>1</sup>Includes all forms of organization other than sole proprietorships and partnerships.

<sup>2</sup>Registrants whose principal offices are located in foreign countries or other jurisdictions not listed.

**Table 9**  
**APPLICATIONS AND REGISTRATIONS OF BROKERS, DEALERS,  
AND INVESTMENT ADVISERS**  
Fiscal Year 1986

BROKER-DEALER APPLICATIONS	
Applications pending at close of preceding year .....	200
Applications received during fiscal 1986 .....	2,420
Total applications for disposition .....	2,620
Disposition of Applications	
Accepted for filing .....	1,769
Returned .....	662
Withdrawn .....	2
Denied .....	0
Total applications disposed of .....	2,433
Applications pending as of September 30, 1986 .....	187
BROKER-DEALER REGISTRATIONS	
Effective registrations at close of preceding year .....	11,404
Registrations effective during fiscal 1986 .....	1,795
Total registrations .....	13,199
Registrations terminated during fiscal 1986	
Withdrawn .....	1,055
Revoked .....	4
Cancelled .....	452
Total registrations terminated .....	1,511
Total registrations at end of fiscal 1986 .....	11,688
INVESTMENT ADVISER APPLICATIONS	
Applications pending at close of preceding year .....	204
Applications received during fiscal 1986 .....	3,531
Total applications for disposition .....	3,735
Disposition of applications	
Accepted for filing .....	2,386
Returned .....	1,094
Withdrawn .....	4
Denied .....	1
Total applications disposed of .....	3,485
Applications pending as of September 30, 1986 .....	250
INVESTMENT ADVISER REGISTRATIONS	
Effective registrations at close of preceding year .....	10,908
Registrations effective during fiscal 1986 .....	2,440
Total registrations .....	13,348
Registrations terminated during fiscal 1986	
Withdrawn .....	1,615
Revoked .....	4
Cancelled .....	22
Total registrations terminated .....	1,641
Total registrations at end of fiscal 1986 .....	11,707

**Table 10**  
**APPLICATIONS AND REGISTRATIONS OF MUNICIPAL SECURITIES**  
**DEALERS AND TRANSFER AGENTS**  
Fiscal Year 1986

MUNICIPAL SECURITIES DEALERS APPLICATIONS		
Applications pending at close of preceding year	..	0
Applications received during fiscal 1986	..	24
Total applications for disposition	..	24
Disposition of Applications		
Accepted for filing	..	17
Returned	..	4
Withdrawn	..	0
Denied	..	0
Total applications disposed of	..	21
Applications pending as of September 30, 1986	..	3
MUNICIPAL SECURITIES DEALERS REGISTRATIONS		
Effective registrations at close of preceding year	..	411
Registrations effective during fiscal 1986	..	22
Total registrations	..	433
Registrations terminated during fiscal 1986		
Withdrawn	..	9
Revoked	..	0
Cancelled	..	0
Total registrations terminated	..	9
Total registrations at end of fiscal 1986	..	424
TRANSFER AGENTS APPLICATIONS		
Applications pending at close of preceding year	..	0
Applications received during fiscal 1986	..	100
Total applications for disposition	..	100
Disposition of applications		
Accepted for filing	..	87
Returned	..	8
Withdrawn	..	0
Denied	..	0
Total applications disposed of	..	95
Applications pending as of September 30, 1986	..	5
TRANSFER AGENTS REGISTRATIONS		
Effective registrations at close of preceding year	..	1,142
Registrations effective during fiscal 1985	..	88
Total registrations	..	1,230
Registrations terminated during fiscal 1986		
Withdrawn	..	59
Revoked	..	1
Cancelled	..	58
Total registrations terminated	..	118
Total registrations at end of fiscal 1986	..	1,112

## **Self-Regulatory Organizations: Revenues, Expenses, Pre-Tax Income and Balance Sheet Structure.**

In 1985 the total revenues of self-regulatory organizations ("SROs") rose approximately \$85.3 million to \$645.1 million, an increase of 15% over 1984 (the 1984 increase was 8% over 1983). The New York Stock Exchange ("NYSE"), National Association of Securities Dealers ("NASD") and American Stock Exchange ("Amex") accounted for 68% of the SROs' total revenues. Most SRO revenues came from listing, trading, and market data fees. The NYSE reported total revenues of \$257.7 million, of which 56% consisted of listing and trading fees. The Amex reported total revenues of \$84.5 million, of which 56% consisted of listing and trading fees. The Amex reported total revenues of \$84.5 million, of which 72% were derived from transaction and communications charges. The NASD reported total revenues of \$97.3 million. The Chicago Board Options Exchange ("CBOE") had the largest percentage increase in revenues over last year, 31%.

The total expenses of all SROs were \$564.1 million in 1985, an increase of \$64 million (13%) over 1984. The Midwest Stock Exchange ("MSE") had the largest percentage increase in total expenses, 37%. The Cincinnati Stock Exchange ("CSE") reduced its total expenses by 20%.

Aggregate pre-tax income of all SROs rose to \$73.8 million in 1985 from \$56.9 million in 1984, an increase of 30%. Pre-tax profit margins widened because aggregated total revenues increased 15% and aggregate total expenses increased only 13%. These wider margins can be partly attributed to rising trading volume and a corresponding increase in transaction fees. The NYSE had a pre-tax income of \$35.7 million, a 120% increase from 1984. The CBOE's pre-tax income increased of \$7.8 million, from \$1.4 million in 1984 to \$9.2 million in 1985, an increase of

4.57% (but this increase largely reflects CBOE's unusually low pre-tax income in 1984). The Amex's net income rose to \$9.6 million in 1985 from \$9.3 million in 1984, a 4% increase. The Phlx's net income rose to \$2.1 million in 1985 from \$2.0 million in 1985, a 4% increase. The Boston Stock Exchange's ("BSE's") pre-tax income rose to \$687 thousand in 1985 from \$588 thousand in 1984, a 17% increase. The Pacific Stock Exchange ("PSE") had a 1985 pre-tax income of \$1.1 million against a loss of \$759 thousand in 1984. Finally, the CSE had a pre-tax loss of \$37 thousand against a 1984 pre-tax loss of \$775 thousand, reducing its pre-tax loss, year to year, by 95%.

The total assets of all SROs were \$1,188 million in 1985, an increase of 44% from 1984. The NYSE's total assets increased by \$54.4 million or 30%, from 1984 to 1985. The total assets of the MSE and the Phlx also increased significantly but these increases were due largely to increased asset levels at certain subsidiaries.

The aggregate net worth of the SROs rose to \$400.9 million in 1985 from \$352.3 million in 1984, an increase of 14%. The largest percentage increase was at the BSE (39%), followed by the Phlx (21%), the Spokane Stock Exchange (19%), and the NASD (18%). The NYSE's net worth increased by 13% from \$144.6 million to \$162.8 million. The only decrease occurred at CSE, where net worth decreased by \$36 thousand, from \$111 thousand in 1984 to \$75 thousand in 1985, a 32% reduction.

Aggregate clearing agency service revenue increased by 20%, or \$38 million in 1985 due to comparable increases in securities trading volumes. Total depository service revenue increased \$23 million, due primarily to a \$15 million gain by the Depository Trust Company ("DTC") and a \$5 million gain by the Midwest Securities Trust Company ("MSTC"). Service revenue of clearing corporations increased by \$15 million, due largely to increases of more than \$6 million at both the Options

Clearing Corporation ("OCC") and the National Securities Clearing Corporation ("NSCC").

The depositories continued to expand the base for service revenues by increasing the number of shares on deposit and the face value of debt securities in custody. At the end of 1985 the total value of securities in the depository system reached \$2.3 trillion. DTC alone held over \$1.2 trillion and, in addition, had more than \$780 billion in FAST balance certificates at transfer agents. This movement of certificates into depositories was made possible by the further expansion of the number of depository eligible issues. The MSTC had 377,000 eligible securities issues at year end, while DTC had over 262,000. The major portion of this composite growth was in municipal bonds, which increased 84% to \$319 billion of face value, and represents half the value of all municipal bonds outstanding in the United States.

Total depository pre-tax income was ten times the previous year's result. DTC's excess of revenues over expenses of \$5 million represents 80% of the aggregate pre-tax income for all depositories. The DTC determined that the amount of shareholders' equity should be increased to mitigate business uncertainties. DTC, like all clearing agencies, adjusts refunds of fees and fee structures to provide funds to meet expenses and provide the amount of earnings which it wishes to retain.

The clearing corporations recorded an aggregate increase in pre-tax income of more than \$3 million. NSCC posted a pre-tax gain of almost \$3.3 million, up \$2.5 million over 1984. NSCC has stated that \$1 million of net income will be used for the purpose of providing capitalization for the new International Securities Clearing Corporation ("ISCC"), a wholly owned subsidiary. ISCC was established in November 1985 to provide services for U.S. institutions

through linkages with clearing agencies in other countries. The OCC also recorded a significant increase in pre-tax income, \$1.1 million, as compared to \$80 thousand in 1984. The OCC also realized \$333 thousand from the sale of stock to NASD, which became a participant. As a result, OCC shareholders equity increased more than \$1.3 million.

The Pacific Clearing Corporation ("PCC") incurred a pre-tax loss of over \$1.2 million after reporting a profit of \$678 thousand in 1984. The Pacific Securities Depository Trust Company ("PSDTC") reported a pre-tax gain of \$189 thousand in 1985 versus a pre-tax operating loss of \$46 thousand the previous year. In 1985, PSE, the parent company, transferred funds from equities trading to PCC and PSDTC in the amounts of \$665 thousand and \$272 thousand, respectively; these transfers are included in revenues. Further PSE support to its subsidiaries was provided by forgiving allocated administrative and financial services given by the parent to PCC and PSDTC in the amounts of \$756 thousand and \$931 thousand, respectively. The combined net worth of PCC and PSDTC declined by about one half to \$433 thousand.

The aggregate of all clearing corporation and depository net worth rose by \$8 million to a new high of almost \$33 million. In addition to net worth, participant clearing fund contributions provide protection to the clearing agencies in the event of a participant default. Should a participant default and his losses exceed his deposit, the entire participants' fund may be charged on a pro rata basis. No clearing agency has ever assessed non-failing participants' contributions. During 1985 the equity clearing funds increased by one-third to \$277 million, option clearing funds increased \$22 million and depository clearing funds remained at \$214 million.

Table 11

## CONSOLIDATED FINANCIAL INFORMATION OF SELF-REGULATORY ORGANIZATIONS

1982-1985

(Thousands of Dollars)

	Amex <sup>a</sup>	BSE <sup>b</sup>	CBOE <sup>c</sup>	CSE <sup>d</sup>	ISE <sup>e</sup>	MSE <sup>f</sup>	NASD <sup>g</sup>	NYSE <sup>h</sup>	PSE <sup>i</sup>	PhiX <sup>j</sup>	SSE <sup>k</sup>	TOTAL	
Total Revenues	\$58,525	\$ 7,926	\$25,797	\$ 330	\$21	\$28,344	\$54,675	\$168,984	\$32,928	\$15,506	\$30	\$403,868	
1982	....	....	46,124	444	26	39,778	75,101	216,804	37,206	19,258	43	516,311	
1983	....	....	54,812	987	23	45,505	91,478	223,301	38,645	21,161	58	559,754	
1984	....	....	8,011	1,239	23	57,081	97,343	257,708	41,903	24,100	61	645,069	
Total Expenses	84,503	9,221	71,889	1,239									
1982	....	....	50,584	8,714 <sup>f</sup>	387	16	33,500	460	207,073	51,345	31,800	30	371,006 <sup>f</sup>
1983	....	....	60,189	7,423	53,405	1,762	19	39,689	58,971	179,251	36	434,325	
1984	....	....	61,985	9,287	58	1,406	775	71,896	207,086	37,882	19,188	500,241	
1985	....	....	69,465	7,971	62,641	1,312	20	54,617	83,890	222,007	40,113	584,124	
Pre-Tax Income													
1982	....	....	7,941	(788) <sup>f</sup>	2,297	(57)	5	2,271	3,330	15,921	1,028	1,012	
1983	....	....	12,927	255	6,185	(16)	6	5,883	16,130	37,553	397	32,960 <sup>f</sup>	
1984	....	....	9,267	588	1,406	(775)	8	5,383	19,582	16,215	2,658	6	
1985	....	....	9,596	687	9,247	(37)	7	1,910	13,453	35,699	1,994	58,930	
Total Assets													
1982	....	....	58,990	17,255	39,083	605	30	95,730	52,818	190,948	170,645	14	663,028 <sup>f</sup>
1983	....	....	62,380	8,455	68,006	568	40	168,738	70,247	250,457	183,841	21	883,292
1984	....	....	66,329	8,317	88,152	694	51	136,994	93,363	212,639	114,740	40	827,538
1985	....	....	74,937	12,262	85,539	704	57	346,484	108,658	327,075	126,986	43	1,187,723
Total Liabilities													
1982	....	....	18,912	16,080	10,907	578	1	84,233	15,055	73,383	158,888	1	404,192
1983	....	....	16,839	7,136	36,688	305	1	153,733	15,354	115,579	171,121	2	574,255
1984	....	....	16,612	6,614	53,748	583	1	118,290	19,888	128,010	101,748	4	475,277
1985	....	....	18,927	9,920	56,060	630	2	326,161	22,154	164,286	113,003	4	788,859
Net Worth													
1982	....	....	39,178	1,176	28,176	27	29	11,497	37,763	117,585	11,757	14	258,836
1983	....	....	45,554	1,319	31,318	283	39	15,005	53,883	134,878	12,720	19	309,037
1984	....	....	50,207	1,702	34,434	111	49	18,704	73,475	144,629	12,982	36	352,289
1985	....	....	\$56,010	\$ 2,343	\$39,478	\$ 75	\$55	\$20,323	\$86,534	\$162,789	\$13,983	\$43	\$ 400,869

<sup>a</sup> = Less than \$500  
<sup>r</sup> = revised<sup>b</sup> Fiscal year ending December 31  
<sup>c</sup> Fiscal year ending September 30  
<sup>d</sup> Fiscal year ending June 30

Sources: SRO Annual Reports and Consolidated Financial Statements

**Table 12**  
**SELF-REGULATORY ORGANIZATIONS—CLEARING AGENCIES**  
**1985 REVENUES AND EXPENSES<sup>1</sup>**  
(Thousands of Dollars)

	Boston Stock Exchange Cleaving Corporation	Depository Company	Midwest Cleaving Corporation	National Securities Clearing Corporation	Options Clearing Corporation	Pacific Clearing Corporation	Pacific Securities Depository Trust Company	Philadelphia Depository Trust Company	Stock Clearing Corporation of Philadelphia	Total
Revenues										
Clearing services	\$ 3,764	\$ 7,651	\$ 23,203	\$ 50,293	\$ 25,676	\$ 6,018	\$ 7,654	\$ 6,011	\$ 1,716	\$ 95,119
Depository services	\$ 96,771	66,989	1,920	1,179	2,209	1,061	506	3,609	161	133,639
Interest	334	113	733	1,583		3,860	8	326	22	405
Other										78,353
Total revenues <sup>2</sup>	4,211	163,740	10,304	25,985	52,502	30,397	6,533	11,989	6,194	2,753
Expenses										314,188
Employee costs	640	89,625	3,753	9,044	4,376	13,432	2,909	5,282	2,467	1,213
Data processing and communications costs	1,273	19,013	1,219	2,221	28,291	5,970	3,073	3,432	2,972	1,041
Occupancy costs	298	21,001	1,090	3,468	1,253	2,679	620	408	282	161
Contracted services cost	366			4,722	9,678	7,216	1,178	2,278	311	14,767
All other expenses	317	28,101	3,299	6,212	4,653					54,786
Total expenses	2,894	158,740	9,361	25,885	49,252	29,297	7,780	11,400	6,012	2,616
Excess of revenues over expenses <sup>3</sup>	\$ 1,317	\$ 5,000	\$ 943	\$ 300	\$ 3,250	\$ 1,100	\$ 1(247)	\$ 189	\$ 182	\$ 137
Shareholders' Equity	\$ 1,502	\$ 12,683	\$ 2,715	\$ 3,034	\$ 5,400	\$ 4,628	\$ (30)	\$ 463	\$ 960	\$ 1,370
Clearing Fund										\$ 32,725
Depository		\$ 200,000			\$ 12,218					
Option Clearing			\$ 3,279		\$ 286,262	\$ 174,380	\$ 2,519			
Equity Clearing		\$ 634								

<sup>1</sup>Although efforts have been made to make the presentations comparable, any single revenue or expense category may not be completely comparable between any two clearing agencies because of (i) the varying classification methods employed by the clearing agencies in reporting operating results and (ii) the grouping methods employed by the Commission staff due to these varying classification methods.

<sup>2</sup>The Options Clearing Corporation had an increase of \$1,321,000 in shareholders' equity due to net income of over \$987,000 and proceeds from the sale of stock of over \$333,000.

<sup>3</sup>The Pacific Stock Exchange forgave PCC and PSDTC their allocated cost for administrative and financial services provided them by the PSE. Had these charges not been forgiven, PCC and PSDTC's expenses would have been greater by \$756,000 and \$831,000, respectively. The PSE transferred revenue from equities trading to PCC and PSDTC to more equitably reflect the revenues earned by each line of the business; this increased revenue by \$865,000 and \$272,000, respectively.

<sup>4</sup>Revenues are net of refunds which have the effect of reducing a clearing agency's base fee rates

<sup>5</sup>This is the result of operations and before the effect of income taxes, which may significantly impact a clearing agency's net income

**Table 13**  
**MUNICIPAL SECURITIES RULEMAKING BOARD**  
**STATEMENTS OF REVENUES AND EXPENSES AND**  
**CHANGE IN FUND BALANCE**  
for the years ended September 30, 1985 and 1984

	1985	1984
<i>Revenues.</i>		
Assessment fees .....	\$ 830,534	
Annual fees .....	220,125	
Initial fees .....	29,800	
Investment income .....	113,950	
Board manuals and other .....	<u>30,716</u>	
<i>Expenses:</i>		
Salaries and employee benefits .....	556,151	
Board and committee .....	377,914	
Operations .....	178,690	
Education and communication .....	228,057	
Professional services .....	61,603	
Depreciation and amortization .....	<u>23,292</u>	
Revenues over (under) expenses .....	(200,582)	
Fund balance, beginning year .....	<u>1,412,449</u>	
Fund balance, end of year .....	<u>\$1,211,867</u>	

## **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 such exemption is consistent with the public interest and the protection of investors.

For the year beginning October 1, 1985, 4 applications were pending, and an additional 18 applications were filed during the year. Of these 22 applications, 11 were granted and 1 was denied and 1 withdrawn. Nine applications were pending at the close of the year.

### **Exemptions 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, the 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 the exemptive provision. The most current list is as of July 31, 1985 and contains a total of 559 foreign issuers.

### **Rule 10b-6 Exemptions**

Exchange Act Rule 10b-6 is an anti-manipulative rule that prohibits trading in securities by persons interested in a distribution of such securities. During the fiscal year, the Commission granted 32 exemptions pursuant to paragraph (h) of Rule 10b-6 under circumstances indicating that the proposed transactions did not appear to constitute manipulative or deceptive devices or contrivances comprehended with in the purposes of the rule.

## **FINANCIAL INSTITUTIONS**

There were 2,583 companies registered under the Investment Company Act of 1940 as of September 30, 1985. New registrations totaled 299, with 47 registrations terminated during the fiscal year. This compares with 1984 fiscal year figures of 2,331 total registrations, 256 new registrations and 54 terminations.

**Table 14**  
**COMPANIES REGISTERED UNDER THE INVESTMENT COMPANY**  
**ACT OF 1940**  
**AS OF SEPTEMBER 30, 1986**

	Number of Registered Companies			Approximate Market Value of Assets of Active Companies (Millions)
	Active	Inactive <sup>a</sup>	Total	
Management open-end ("Mutual Funds")	2,110	69	2,179	620,000
Management closed-end . . . . .	220	59	279	20,000
Unit investment trust . . . . .	577	28	605	100,000
Face-amount certificate companies . . . . .	5	4	9	2,000
Total . . . . .	2,912	160	3,074	742,000

<sup>a</sup> Inactive refers to registered companies which as of September 30, 1986, 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 only until such time as the Commission issues an order under Section 8(f) terminating their registration.

<sup>b</sup> Assets of investment companies were calculated using various published sources as well as staff estimates.

**Table 15**  
**COMPANIES REGISTERED UNDER THE INVESTMENT COMPANY**  
**ACT OF 1940**  
**(Since 1941)**

Fiscal year ended September 30	Registered at beginning of year	Registered during year	Registration terminated during year	Registered at end of year	Approximate market value of assets of active companies (millions)
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	5,800
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	64	1,471	93,921
1979	1,471	83	47	1,507	108,572
1980	1,507	136	52	1,591	155,981
1981	1,591	172	80	1,683	193,362
1982	1,683	305	45	1,944	281,644
1983	1,944	287	50	2,181	330,458
1984	2,181	256	54	2,331	250,321
1985	2,331	299	47	2,583	525,000
1986	2,583	422	44	3,074	742,000

\* Began Fiscal Year Ending September 30, 1977

**Table 16**  
**NEW INVESTMENT COMPANY REGISTRATIONS**

	1986
Management open-end	332
Management closed-end	
SBIC's	0
All others .....	48
Sub-total .....	48
Unit investment trust	42
Face amount certificates .....	0
Total Registered .....	422

**Table 17**  
**INVESTMENT COMPANY REGISTRATIONS TERMINATED**

	1986
Management open-end	40
Management closed-end	
SBIC's .....	0
All others .....	3
Sub-total .....	3
Unit investment trust	1
Face amount certificates .....	0
Total terminated .....	44

## **SECURITIES ON EXCHANGES**

### **Market Value and Share Volume**

The market value of stocks, options, warrants and rights on registered exchanges totaled \$1.3 trillion in 1985. Of this total, \$1.2 trillion, or 92 percent, represented the market value of transactions in stocks, rights and warrants and \$108.3 billion or eight percent in equity (including exercises) and non-equity options transactions. The value of equity/option transactions on the New York Stock Exchange was \$1.0 trillion, up 26 percent from the previous year. The market value of such transactions rose 20 percent to \$38.3 billion on the American Stock Exchange and increased 15 percent to \$246.2 billion on all other exchanges. The volume of trad-

ing in stocks on all registered exchanges totaled 37.0 billion shares in 1985, a 21 percent increase over the previous year, with 82 percent of the total accounted for by trading on the New York Stock Exchange.

Contract volume traded on options exchanges was 241.7 million contracts in 1985, 16% higher than in 1984. The market value of such contracts decreased slightly to \$108.3 billion. The volume of contracts (excluding exercises) executed on the Chicago Board Options Exchange increased 21 percent to 148.8 million; option trading on the American Stock Exchange went up 21 percent; Philadelphia Stock Exchange contract volume rose three percent; and Pacific Stock Exchange contract volume went up 12 percent.

**Table 18A**  
**MARKET VALUE OF EQUITY/OPTIONS SALES ON U.S. SECURITIES EXCHANGES<sup>1</sup>**  
 (Thousands of Dollars)

	Total Market Value	Stocks <sup>2</sup>	Warrants	Rights	Equity Options		Non-Equity Options <sup>3,4</sup>
					Traded	Exercised <sup>4</sup>	
All Registered Exchanges For Past Six Years							
Calendar Year: 1980r	\$ 542,524,247	\$ 475,932,882	\$ 560,895	\$ 6,911	\$45,873,145	\$20,150,414	\$ N.A.
1981r	567,089,795	490,688,158	327,295	1,686	41,423,216	34,649,440	N.A.
1982r	693,850,963	602,669,878	423,236	1,152	53,659,796	37,046,803	50,098
1983r	1,082,241,196	957,139,047	1,162,124	2,997	59,598,740 <sup>5</sup>	59,714,431	4,623,857
1984r	1,059,716,263	950,654,453	430,292	9,754	33,822,259	55,640,028	19,159,477
1985	\$1,307,945,003	\$1,199,419,614	\$ 744,715	\$25,162	\$29,543,951	\$49,182,980	\$29,028,581
Breakdown of 1985 Data by Registered Exchanges <sup>7</sup>							
<i>All Registered Exchanges</i>							
American Stock Exchange	\$ 38,278,265	\$ 26,332,151	\$ 373,755	\$ 4,225	\$ 8,335,406	\$ N.A.	\$ 2,967,329
Boston Stock Exchange	14,419,101	14,419,101	0	0	0	0	0
Cincinnati Stock Exchange	2,114,026	2,114,026	0	0	0	0	0
Midwest Stock Exchange	79,068,763	79,068,763	0	0	0	0	0
New York Stock Exchange	1,023,862,547	1,022,826,705	313,630	18,242	43,306	N.A.	660,664
Pacific Stock Exchange	39,907,189	36,752,467	27,895	2,568	3,094,525	N.A.	20,918
Philadelphia Stock Exchange	23,168,370	17,894,497	29,435	127	2,403,771	N.A.	2,750,639
Intermountain Stock Exchange	295	295	0	0	0	0	0
Spokane Stock Exchange	11,609	11,609	0	0	0	0	0
Chicago Board Options <sup>3</sup>	\$ 38,430,547	\$ 0	\$ 0	\$ 0	\$ 15,661,943	\$ N.A.	\$ 22,629,031

Note: For footnotes see Table 18B This table has been changed to more meaningfully reflect current changes in the market

**Table 18B**  
**VOLUME OF EQUITY/OPTIONS SALES ON U.S. SECURITIES EXCHANGES<sup>1</sup>**  
(Data in Thousands)

	Stocks <sup>2</sup> (Shares)	Warrants (Units)	Rights (Units)	Equity Options		Non-Equity Options <sup>3</sup> (Contracts)
				Traded (Contracts)	Exercised <sup>4</sup> (Contracts)	
All Registered Exchanges For Past Six Years						
Calendar Year	1980r	15,488,367	61,529	37,090	96,938	4,924
	1981r	15,910,050	46,553	12,583	109,404	7,431
	1982r	22,414,379	56,051	21,505	137,263	8,302
	1983r	30,146,355	157,942	11,737	134,286 <sup>5</sup>	13,630
	1984r	30,456,438	77,452	13,924	118,925	11,919
	1985	37,046,010	108,111	33,547	118,551	8,875
Breakdown of 1985 Data by Registered Exchanges <sup>7</sup>						
<i>All Registered Exchanges</i>						
*American Stock Exchange	2,114,652	31,189	4,821	36,103	2,428	12,458
*Boston Stock Exchange	471,896	0	0	0	0	0
*Cincinnati Stock Exchange	55,549	0	0	0	0	0
Midwest Stock Exchange	2,274,140	0	0	0	0	0
*New York Stock Exchange	30,221,840	65,598	27,786	162	2	4,259
Pacific Stock Exchange	1,351,521	10,157	890	12,701	932	95
*Philadelphia Stock Exchange	544,270	1,167	50	12,062	947	6,066
Intermountain Stock Exchange	660	0	0	0	0	0
Spokane Stock Exchange	11,482	0	0	0	0	0
*Chicago Board Options <sup>3</sup>	0	0	0	57,523	4,566	91,312

Figures may not sum due to rounding

r = revised

N.A. = Not Available

<sup>1</sup>Data of those exchanges marked with an asterisk cover transactions cleared during the calendar month; clearance usually occurs within five days of the execution of a trade. Data of other exchanges cover transactions effected on trade dates falling within the reporting month.

<sup>2</sup>Data on the value and volume of equity security sales are reported in connection with fees paid under Section 31 of the Securities Exchange Act of 1934 as amended by the Securities Acts Amendments of 1975. They cover odd-lot as well as round-lot transactions.

<sup>3</sup>Includes voting trust certificates, certificates of deposit for stocks, and American Depository Receipts for stocks but excludes rights and warrants.

<sup>4</sup>Data for June 1, 2, and 3, 1983 are not included.

<sup>5</sup>Exercised Contracts do not include January and February 1985 data.

<sup>6</sup>Includes all exchange trades of call and put options in stock indices, interest rates and foreign currencies.

<sup>7</sup>Trading in non-equity options began in October 22, 1982.

<sup>8</sup>Total market value for individual exchanges does not include data for equity options exercised.

Source SEC Form R-31 and Options Clearing Corporation Statistical Report

**Table 18C**  
**MARKET VALUE OF EQUITY/OPTIONS SALES ON U.S. SECURITIES EXCHANGES<sup>1</sup>**  
 (Thousands of Dollars)

	Total Market Value (Dollars)	Stocks <sup>2</sup>	Warrants	Rights	Equity Options		Non-Equity Options <sup>3,4</sup>
					Traded	Exercised <sup>4</sup>	
All Registered Exchanges For Past Six Years							
Calendar Year: 1979	323,633,977	299,749,679	721,947	3,884	23,158,467	\$ N.A.	\$ N.A.
1980r	542,524,247	475,932,882	560,895	6,911	45,873,145	20,150,414	N.A.
1981r	567,089,795	490,688,158	327,295	1,688	41,423,216	34,649,440	N.A.
1982r	693,850,963	602,669,878	423,236	1,152	53,659,796	37,046,803	50,098
1983r	1,082,241,196	957,139,047	1,162,124	2,997	59,598,740 <sup>5</sup>	59,714,431	4,623,857
1984r	1,059,716,233	950,654,453	430,292	9,754	33,822,259	55,639,998	19,159,477
Breakdown of 1984 Data by Registered Exchanges <sup>6</sup>							
<i>All Registered Exchanges</i>							
*American Stock Exchange	31,945,405	21,349,189	115,957	981	8,889,218	N.A.	1,590,060
*Boston Stock Exchange	8,087,854	8,087,854	0	0	0	0	0
*Cincinnati Stock Exchange	1,834,703	1,834,703	0	0	0	0	0
Midwest Stock Exchange	62,291,419	62,291,419	0	0	0	0	0
*New York Stock Exchange*	815,111,074	814,162,015	300,395	8,678	0	N.A.	639,986
Pacific Stock Exchange	30,755,102	27,864,301	13,569	95	2,819,324	N.A.	57,813
Philadelphia Stock Exchange	19,156,166	15,052,087	371	0	3,468,972	N.A.	634,736
Intermountain Stock Exchange	659	659	0	0	0	0	0
Spokane Stock Exchange	12,226	12,226	0	0	0	0	0
*Chicago Board Options <sup>3</sup>	34,881,827	0	0	0	18,644,745	N.A.	16,236,882

Note For footnotes see Table 18D. This table has been changed to more meaningfully reflect current changes in the market

**Table 18D**  
**VOLUME OF EQUITY/OPTIONS SALES ON U.S. SECURITIES EXCHANGES<sup>1</sup>**  
(Data In Thousands)

	Stocks <sup>2</sup> (Shares)	Warrants (Units)	Rights (Units)	Equity Options		Non-Equity Options <sup>4</sup> (Contracts)
				Traded (Contracts)	Exercised (Contracts)	
All Registered Exchanges For Past Six Years						
Calendar Year 1979	10,849,823	72,595	30,006	69,489	N.A.	N.A.
1980r	15,488,367	61,529	37,090	96,938	4,924	N.A.
1981r	15,910,050	46,553	12,583	109,404	7,431	N.A.
1982r	22,414,379	56,051	21,505	137,263	8,302	41
1983r	30,146,335	157,942	11,737	134,286 <sup>3</sup>	13,630	14,399
1984r	30,456,438	77,452	13,924	118,925	11,919	77,512
Breakdown of 1984 Data by Registered Exchanges						
<i>All Registered Exchanges</i>						
*American Stock Exchange	1,583,971	20,204	2,237	33,079	N.A.	7,028
*Boston Stock Exchange	258,738	0	0	0	0	0
*Cincinnati Stock Exchange	55,000	0	0	0	0	0
Midwest Stock Exchange	1,843,171	0	0	0	0	0
*New York Stock Exchange	25,150,155	53,041	11,627	0	N.A.	4,094
Pacific Stock Exchange	1,006,126	3,984	60	11,188	N.A.	175
*Philadelphia Stock Exchange	545,599	223	0	15,984	N.A.	1,617
Intermountain Stock Exchange	1,101	0	0	0	0	0
Spokane Stock Exchange	12,577	0	0	0	0	0
*Chicago Board Options <sup>5</sup>	0	0	0	58,674	N.A.	64,598

Figures may not sum due to rounding.

r = revised

N.A. = Not Available

<sup>1</sup>Data of those exchanges marked with an asterisk cover transactions cleared during the calendar month; clearance usually occurs within five days of the execution of a trade. Data of other exchanges cover transactions effected on trade dates falling within the reporting month.

<sup>2</sup>Data on the value and volume of equity security sales are reported in connection with fees paid under Section 31 of the Securities Exchange Act of 1934 as amended by the Securities Acts Amendments of 1975. They cover odd-lot as well as round-lot transactions.

<sup>3</sup>Includes voting trust certificates, certificates of deposit for stocks, and American Depository Receipts for stocks but excludes rights and warrants.

<sup>4</sup>Data for June 1, 2, and 3, 1983 are not included.

<sup>5</sup>Includes all exchange trades of call and put options in stock indices, interest rates and foreign currencies.

<sup>6</sup>Trading in non-equity options began in October 22, 1982.

<sup>7</sup>Total market value for individual exchanges does not include data for equity options exercised.

Source SEC Form R-31 and Options Clearing Corporation Statistical Report.

## **NASDAQ (Volume and Market Value)**

NASDAQ share volume and market value information for over-the-counter trading has been reported on a daily basis since November 1, 1971. At the end of 1985 there were 4,784 issues in the NASDAQ system. Volume for 1985 was 20.7 billion shares, up 36 percent from the 15.2 billion shares traded in the previous year. It was the highest volume in NASDAQ's 15-year history. This trading volume encompasses the number of shares bought and sold by market-makers plus their net inventory changes. The market value of shares traded in the NASDAQ system was \$233.5 billion at the end of 1985, the highest ever.

## **Share and Dollar Volume by Exchange**

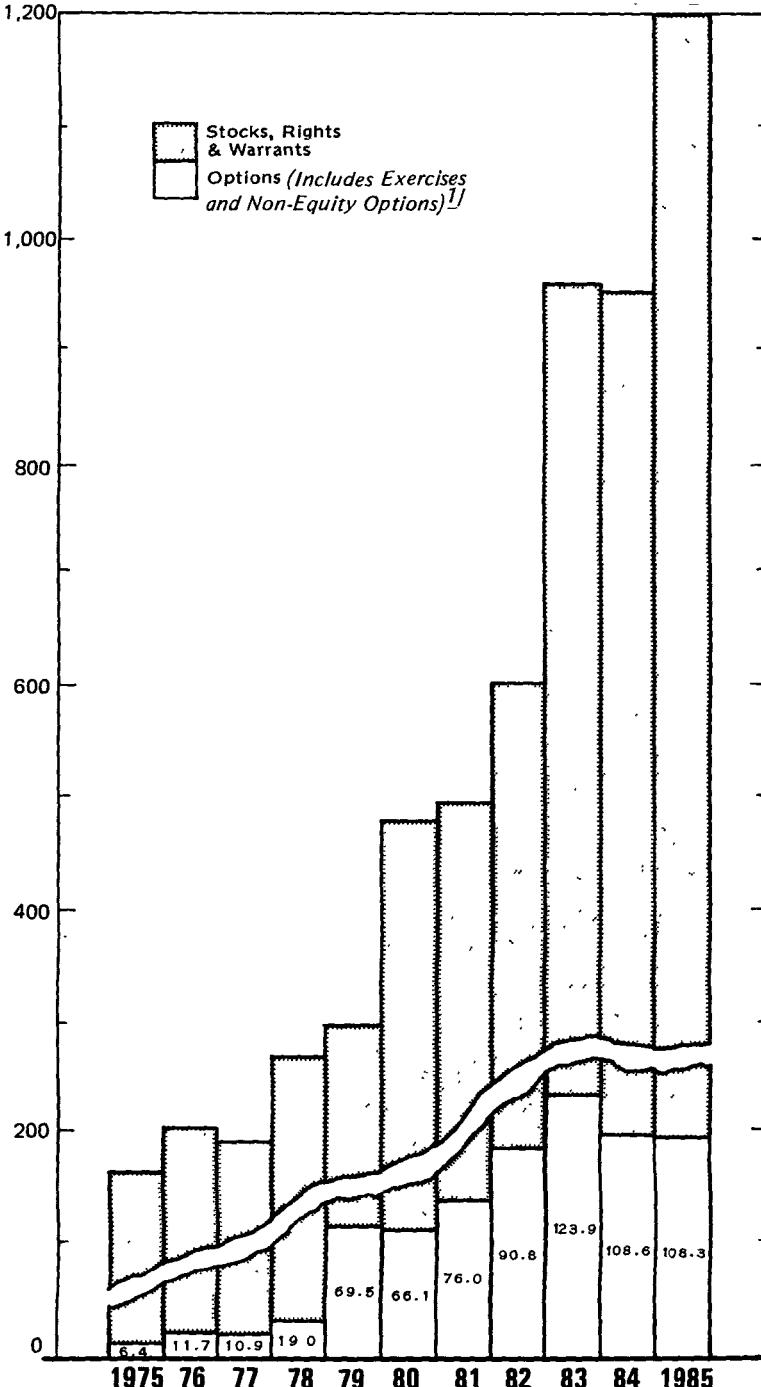
Share volume in 1985 for stocks, rights and warrants on exchanges totaled 37.2 billion, an increase of 23 percent from the previous year. The New York Stock Exchange accounted for 82 percent of the 1985 share volume; the American Stock Exchange, six percent; the Midwest Stock Exchange, six percent; and the Pacific Stock Exchange, four percent.

The market value of stocks, rights and warrants traded was \$1.2 trillion, 26 percent over the previous year. Trading on the New York Stock Exchange contributed 85 percent of the total. The Midwest Stock Exchange and Pacific Stock Exchange contributed seven percent and three percent, respectively. The American Stock Exchange accounted for two percent of dollar volume.

Table 19

# Market Value of Equity/Options Traded On All U.S. Securities Exchanges

Dollars 1,200  
Billions



*1/ Includes equity options exercised as of 1/1/80; non-equity options as of 10/22/82*

**Table 20**  
**SHARE VOLUME BY EXCHANGES<sup>1</sup>**  
 In Percentage

Year	Total Share Volume (Thousands)	NYSE	AMEX	MSE	PSE	PHLX	BSE	CSE	Other <sup>2</sup>
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	1,441,120	68.47	22.27	2.20	3.11	0.88	0.38	0.04	2.65
1961	2,142,523	64.99	25.58	2.22	3.41	0.79	0.30	0.04	2.67
1962	1,711,945	71.31	20.11	2.34	2.95	0.87	0.31	0.04	2.07
1963	1,880,793	72.93	18.83	2.32	2.82	0.83	0.29	0.04	1.94
1964	2,118,326	72.81	19.42	2.43	2.65	0.93	0.29	0.03	1.44
1965	2,671,012	69.90	22.53	2.63	2.33	0.81	0.26	0.05	1.49
1966	3,313,899	69.38	22.84	2.56	2.68	0.86	0.40	0.05	1.23
1967	4,646,553	64.40	28.41	2.35	2.46	0.87	0.43	0.02	1.06
1968	5,407,923	61.98	29.74	2.63	2.64	0.89	0.78	0.01	1.33
1969	5,134,856	63.16	27.61	2.84	3.47	1.22	0.51	0.00	1.19
1970	4,834,887	71.28	19.03	3.16	3.68	1.63	0.51	0.02	0.69
1971	6,172,668	71.34	18.42	3.52	3.72	1.91	0.43	0.03	0.63
1972	6,518,132	70.47	18.22	3.71	4.13	2.21	0.59	0.03	0.64
1973	5,899,678	74.92	13.75	4.09	3.68	2.19	0.71	0.04	0.62
1974r	4,950,842	78.47	10.28	4.40	3.48	1.82	0.86	0.05	0.64
1975r	6,376,094	80.99	8.97	3.97	3.26	1.54	0.85	0.13	0.29
1976r	7,129,132	80.05	9.35	3.87	3.93	1.42	0.78	0.44	0.16
1977r	7,124,640	79.71	9.56	3.96	3.72	1.49	0.66	0.64	0.26
1978r	9,630,065	79.53	10.65	3.56	3.84	1.49	0.60	0.16	0.17
1979r	10,960,424	79.88	10.85	3.30	3.27	1.64	0.55	0.28	0.23
1980r	15,586,986	79.94	10.78	3.84	2.80	1.54	0.57	0.32	0.21
1981r	15,969,186	80.68	9.32	4.60	2.87	1.55	0.51	0.37	0.10
1982r	22,491,935	81.22	6.96	5.09	3.62	2.18	0.48	0.38	0.07
1983	30,316,014	80.37	7.45	5.48	3.56	2.20	0.65	0.19	0.10
1984	30,547,814	82.54	5.26	6.03	3.31	1.79	0.85	0.18	0.04
1985	37,187,668	81.52	5.78	6.12	3.66	1.47	1.27	0.15	0.03

<sup>1</sup>Share volume for exchanges includes stocks, rights, and warrants.

r = revised

<sup>2</sup>Includes all exchanges not listed individually.

Source: SEC Form R-31

**Table 21**  
**DOLLAR VOLUME BY EXCHANGES<sup>1</sup>**  
 In Percentage

Year	Total Dollar Volume (Thousands)	NYSE	AMEX	MSE	PSE	PHLX	BSE	CSE	Other <sup>2</sup>
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	45,309,825	83.80	9.35	2.72	1.94	1.03	0.60	0.07	0.49
1961	64,071,623	82.43	10.71	2.75	1.99	1.03	0.49	0.07	0.53
1962	54,855,293	86.32	6.81	2.75	2.00	1.05	0.46	0.07	0.54
1963	64,437,900	85.19	7.51	2.72	2.39	1.06	0.41	0.06	0.66
1964	72,461,584	83.49	8.45	3.15	2.48	1.14	0.42	0.06	0.81
1965	89,549,093	81.78	9.91	3.44	2.43	1.12	0.42	0.08	0.82
1966	123,697,737	79.77	11.84	3.14	2.84	1.10	0.56	0.07	0.68
1967	162,189,211	77.29	14.48	3.08	2.79	1.13	0.66	0.03	0.54
1968	197,116,367	73.55	17.99	3.12	2.65	1.13	1.04	0.01	0.51
1969	176,389,759	73.48	17.59	3.39	3.12	1.43	0.67	0.01	0.31
1970	131,707,946	78.44	11.11	3.76	3.81	1.99	0.67	0.03	0.19
1971	186,375,130	79.07	9.98	4.00	3.79	2.29	0.58	0.05	0.24
1972	205,956,263	77.77	10.37	4.29	3.94	2.56	0.75	0.05	0.27
1973	178,863,622	82.07	6.06	4.54	3.55	2.45	1.00	0.06	0.27
1974r	118,828,270	83.63	4.40	4.90	3.50	2.03	1.24	0.06	0.24
1975r	157,256,876	85.20	3.87	4.64	3.26	1.73	1.19	0.17	0.14
1976r	195,224,812	84.35	3.88	4.76	3.83	1.69	0.94	0.53	0.02
1977r	187,393,084	83.96	4.60	4.79	3.53	1.62	0.74	0.75	0.01
1978r	231,618,179	83.67	6.13	4.16	3.64	1.62	0.61	0.17	0.00
1979r	300,475,510	83.72	6.94	3.83	2.78	1.80	0.56	0.35	0.02
1980r	476,500,688	83.53	7.33	4.33	2.27	1.61	0.52	0.40	0.01
1981r	491,017,139	84.74	5.41	5.04	2.32	1.60	0.49	0.40	0.00
1982r	603,094,266	85.32	3.27	5.83	3.05	1.59	0.51	0.43	0.00
1983	958,304,188	85.13	3.32	6.28	2.86	1.55	0.66	0.16	0.04
1984r	951,094,499	85.24	2.26	6.55	2.93	1.58	0.85	0.19	0.00
1985	\$1,200,189,491	85.24	2.23	6.59	3.06	1.49	1.20	0.17	0.02

<sup>1</sup>Dollar volume for exchanges includes stocks, rights and warrants.

r = revised

<sup>2</sup>Includes all exchanges not listed individually.

Source: SEC Form R-31

## Special Block Distribution

In 1985, there were 12 special block distributions with a value of \$857.9 million. Secondary distributions accounted for all of these 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	No.	Shares sold	Value	No.	Shares sold	Value
1943 . . .	81	4,270,580	\$ 127,462	0	0	\$ 0	80	1,097,338	\$31,054
1944 . . .	94	4,097,298	135,760	0	0	0	87	1,053,667	32,454
1945 . . .	115	9,457,358	191,961	0	0	0	79	947,231	29,878
1946 . . .	100	6,481,291	232,398	0	0	0	23	308,134	11,002
1947 . . .	73	3,961,572	124,671	0	0	0	24	314,270	9,133
1948 . . .	95	7,302,420	175,991	0	0	0	21	238,879	5,466
1949 . . .	86	3,737,249	104,062	0	0	0	32	500,211	10,856
1950 . . .	77	4,280,681	88,743	0	0	0	20	150,308	4,940
1951 . . .	88	5,193,756	146,459	0	0	0	27	323,013	10,751
1952 . . .	76	4,223,258	149,117	0	0	0	22	357,897	9,931
1953 . . .	68	6,906,017	108,229	0	0	0	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
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 . . .	44	20,568,432	517,546	16	752,600	13,919	22	1,475,842	18,459
1977 . . .	39	9,848,986	261,257	6	295,264	5,242	18	1,074,290	14,519
1978 . . .	37	15,233,141	569,487	3	79,000	1,429	3	130,675	1,820
1979 . . .	37	10,803,680	192,258	3	1,647,600	86,066	6	368,587	4,708
1980 . . .	44	24,979,045	813,542	2	177,900	5,101	4	434,440	7,097
1981 . . .	43	16,079,897	449,600	0	0	0	0	0	0
1982 . . .	76	40,024,988	1,284,492	0	0	0	3	717,000	11,112
1983 . . .	85	70,800,731	2,245,465	0	0	0	0	0	0
1984 . . .	23	21,180,207	880,543	0	0	0	0	0	0
1985 . . .	12	25,458,047	\$ 856,917	0	0\$	0	0	0	\$ 0

Source: NYSE and AMEX

## Value and Number of Securities Listed on Exchanges

The market value of stocks and bonds listed on U.S. exchanges at the end of 1985 was \$3.3 trillion, an increase of 27 percent over the previous year. The market value of stocks was \$2.0 trillion, an increase of 25 percent during the year. The value of listed bonds increased 30 percent. Stocks with primary listing on

the New York Stock Exchange had a market value of \$1.9 trillion and represented 96 percent of the value of common and preferred stocks listed on registered exchanges. Those listed on the American Stock Exchange accounted for almost all of the remaining four percent of the total and were valued at \$63.2 billion, an increase of 22 percent over the previous year.

Table 23  
SECURITIES LISTED ON EXCHANGES<sup>1</sup>

December 31, 1985

EXCHANGES	COMMON		PREFERRED		BONDS		TOTAL SECURITIES	
	Number	Market Value (Million)	Number	Market Value (Million)	Number	Market Value (Million)	Number	Market Value (Million)
Registered								
American . . . . .	769	\$ 59,865	113	\$ 3,371	342	\$ 17,577	1,224	\$ 80,813
Boston . . . . .	95	1,439	0	0	3	19	98	1,458
Cincinnati . . . . .	4	141	3	50	6	48	13	239
Midwest . . . . .	16	1,024	6	14	0	0	22	1,038
New York . . . . .	1,449	1,830,548	791	52,119	3,746	1,328,951	5,986	3,211,618
Pacific . . . . .	47	1,157	17	628	80	1,347	144	3,132
Philadelphia . . . . .	17	357	21	1,091	38	1	76	1,449
Intermountain . . . . .	N.A.	N A	0	0	0	0	N A	N A
Spokane . . . . .	26	8	0	0	0	0	26	8
Total . . . . .	2,423	\$ 1,894,539	951	\$ 57,273	4,215	\$ 1,347,943	7,589	\$ 3,299,755
Includes Foreign Stocks:								
New York . . . . .	54	\$ 67,550	4	\$ 114	110	\$ 10,347	168	\$ 78,011
American . . . . .	48	22,521	3	123	5	78	56	22,722
Pacific . . . . .	4	32	0	0	2	5	6	37
Total . . . . .	106	\$ 90,103	7	\$ 237	117	\$ 10,430	230	\$ 100,770

r = revised

N.A. = Not Available

<sup>1</sup>Excluding securities which were suspended from trading at the end of the year, and securities which because of inactivity had no available quotes.

Source SEC Form 1392

**Table 24**  
**VALUE OF STOCKS LISTED ON EXCHANGES**  
(Billions of Dollars)

Dec 31	New York Stock Exchange	American Stock Exchange	Exclusively On Other Exchanges	Total
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
1978	822.7	39.2	2.9	864.8
1979	960.6	57.8	3.9	1,022.3
1980	1,242.8	103.5	2.9	1,349.2
1981	1,143.8	89.4	5.0	1,238.2
1982	1,305.4	77.6	6.8	1,389.7
1983	1,522.2	80.1	6.6	1,608.8
1984	1,529.5	52.0	5.8	1,587.3
1985	\$ 1,882.7	\$ 63.2	\$ 5.9	\$ 1,951.8

Source SEC Form 1392

## Securities on Exchanges

As of September 30, 1986, a total of 7891 securities, representing 3,133 issuers, were admitted to trading on securities exchanges in the United States. This compares with 7,570 issues, involving 2,995 issuers a year earlier. Over 5,600 issues were listed and registered

on the New York Stock Exchange, accounting for 65.2 percent of the stock issues and 78.5 percent of the bond issues. Data below on "Securities Traded on Exchanges" involved some duplication since it includes both solely and dually listed securities.

Table 25  
SECURITIES TRADED ON EXCHANGES

	Issuers		Temporarily exempted	Unlisted	Total	Bonds <sup>1</sup>
	Registered					
American	970	1,079	—	23	1,102	324
Boston	1,227	192	—	1,133	1,325	12
Chicago Board of Trade	3	3	—	3	6	—
Cincinnati	1,134	31	—	1,187	1,218	47
Intermountain	29	23	—	6	29	—
Midwest	1,407	347	—	1,258	1,605	33
New York	1,994	2,677	2	5	2,684	2,970
Pacific Coast	889	812	—	276	1,088	157
Philadelphia	930	259	—	809	1,068	107
Spokane	42	40	—	2	42	3

<sup>1</sup>Issuers 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

Table 26  
UNDUPLICATED COUNT OF SECURITIES ON EXCHANGES  
(September 30, 1986)

	Stocks	Bonds	Total	Issuers Involved
Registered and Listed	4,101	3,775	8,934	3,130
Temporarily Exempted from Registration	—	—	—	—
Admitted to Unlisted Trading Privilege	10	5	15	3
Total	4,111	3,780	7,891	3,133

## Certification Immobilization

Again in 1986, the number of electronic book entries in settlement of securities transactions among DTC participants outpaced physical deliveries. This trend may be measured by noting the ratio of computer book-entry deliveries to total certificates withdrawn. These figures exclude municipal bearer bonds. While the combined number of shares traded on the Consolidated Tape and NASDAQ increased by 26%

in 1985 and the number of NSCC trade settlements increased 28%, the number of certificates withdrawn decreased in 1985 by 10%. While the total certificates withdrawn from DTC increased slightly in 1986, the ratio of the book-entry deliveries to certificates withdrawn has increased to 7.3 to 1 in 1986. In 1981, only 2.4 book-entry deliveries were made for every certificate withdrawn.

**Table 27**  
**IMMOBILIZATION TRENDS**

	1986	1985	1984	1983	1982	1981
Book-entry Deliveries at DTC (in thousands)	66,700	55,800	48,000	50,000	37,000	35,000
Total Certificates Withdrawn from DTC (in thousands)	9,200	9,100	10,100	13,600	12,500	14,400
Book-entry Deliveries per Certificates Withdrawn	..	7.3	6.1	4.8	3.7	2.4

## 1933 ACT REGISTRATIONS

### Effective Registration Statements

During the fiscal year ending September 30, 1986, 5,905 registration statements valued at \$491.4 billion became effective. This represents an increase in

registrations of 992 statements. Total dollar value increased by \$203.7 billion.

Among issuers whose registration statements became effective, there were 1,679 first-time registrants in fiscal year 1986, an increase of 214 registrants (15 percent) from the previous fiscal year's total of 1,465.

**Table 28**  
**EFFECTIVE REGISTRATIONS**  
(Millions of Dollars)

Fiscal Year	Cash Sale for Account of Issuers					
	Total		Common Stock and Other Equity <sup>1</sup>	Bonds, Debentures and Notes	Preferred Stock	Total
	Number of Statements	Value				
<b>Fiscal Year ended June 30</b>						
1935*	284	\$ 913	\$ 168	\$ 490	\$ 28	\$ 686
1936	689	4,835	531	3,153	252	3,936
1937	840	4,851	802	2,426	406	3,634
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	1,432
1941	313	2,611	196	1,721	164	2,081
1942	193	2,003	263	1,041	162	1,486
1943	123	659	137	316	32	485
1944	221	1,760	272	732	343	1,347
1945	340	3,225	456	1,851	407	2,714
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	1,678	2,817	537	5,032
1949	429	5,333	1,083	2,795	326	4,204
1950	487	5,307	1,788	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	6,325
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	427	13,282
1959	1,070	15,657	6,387	5,265	443	12,095
1960	1,426	14,367	7,260	4,224	253	11,737
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	14,655
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	37,268
1969	3,645	88,810	39,614	11,674	751	52,039
1970	3,389	59,137	28,939	18,436	823	48,198
1971	2,989	68,562	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	69,501
<b>Transition Quarter:</b>						
July Sept 1976	639	15,010	6,767	5,066	413	12,246
<b>Fiscal Year ended September 30</b>						
1977	2,915	92,579	47,116	28,026	2,426	77,568
1978 <sup>a</sup>	3,037	65,043	25,330	23,251	2,128	50,709
1979	3,112	77,400	22,714	28,894	1,712	53,320
1980	3,402	110,583	33,076	42,764	2,879	78,719
1981	4,326	144,123	49,276	40,163	2,505	91,944
1982	4,846	164,455	50,486	63,950	3,939	118,375
1983	5,503	240,058	77,403	80,718	9,339	167,460
1984	5,087	209,866	68,571	74,136	4,984	145,691
1985	4,913	287,851	72,013	117,178	6,999	196,190
1986	5,905	491,360	83,752	264,918	13,179	361,849
<b>Cumulative Total . . . . .</b>	<b>96,501</b>	<b>\$2,841,864</b>	<b>\$931,128</b>	<b>\$1,078,927</b>	<b>\$82,344</b>	<b>\$2,092,399</b>

p = Preliminary

r = revised

<sup>1</sup>Includes warrants, shares of beneficial interest, certificates of participation and all other equity interests not elsewhere included

\*For 10 months ended June 30, 1935.

<sup>a</sup>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

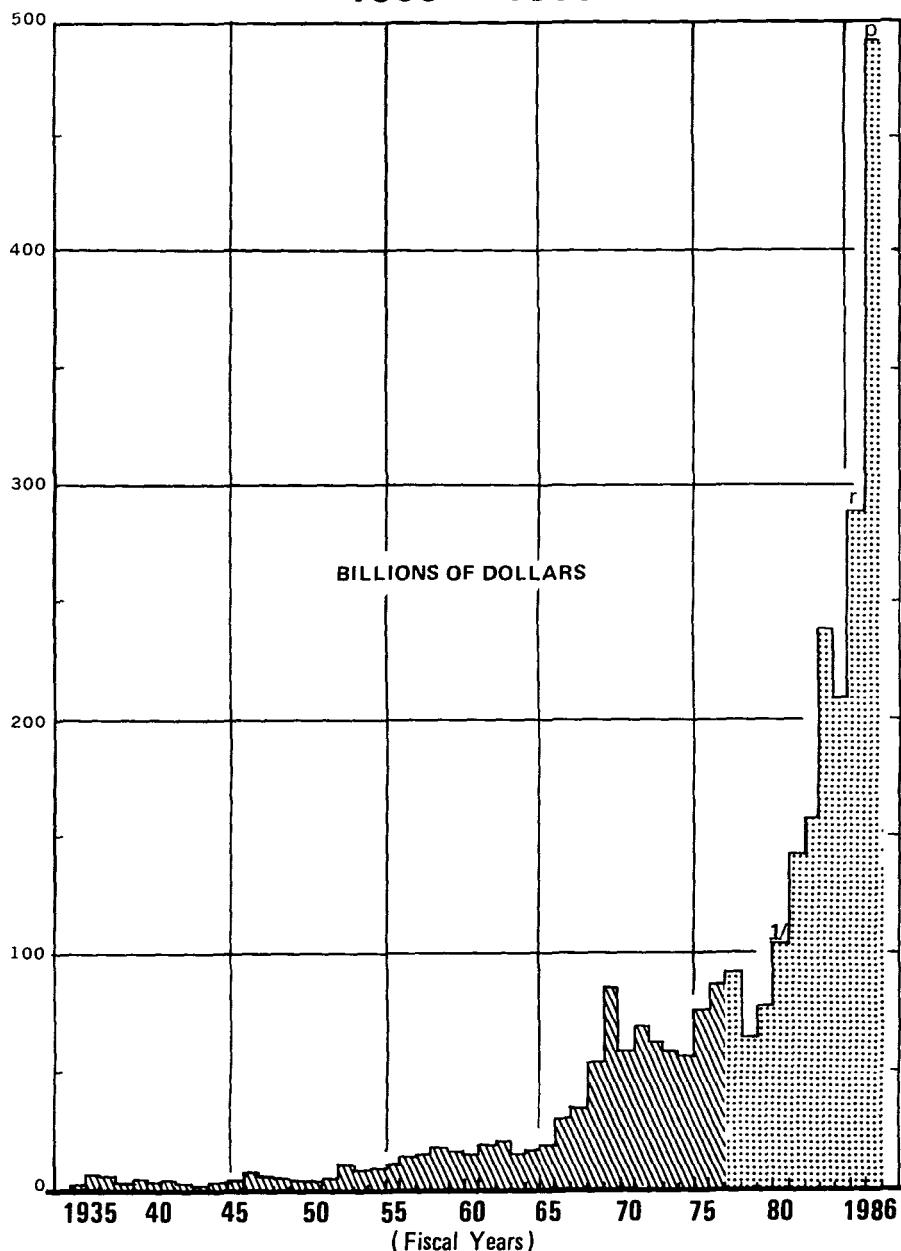
Note: The Total Cash Sale differs from earlier presentations due to changes in rounding procedures

Source: 1933 Act Registration Statements

Table 29

# Securities Effectively Registered With S.E.C.

## 1935 – 1986



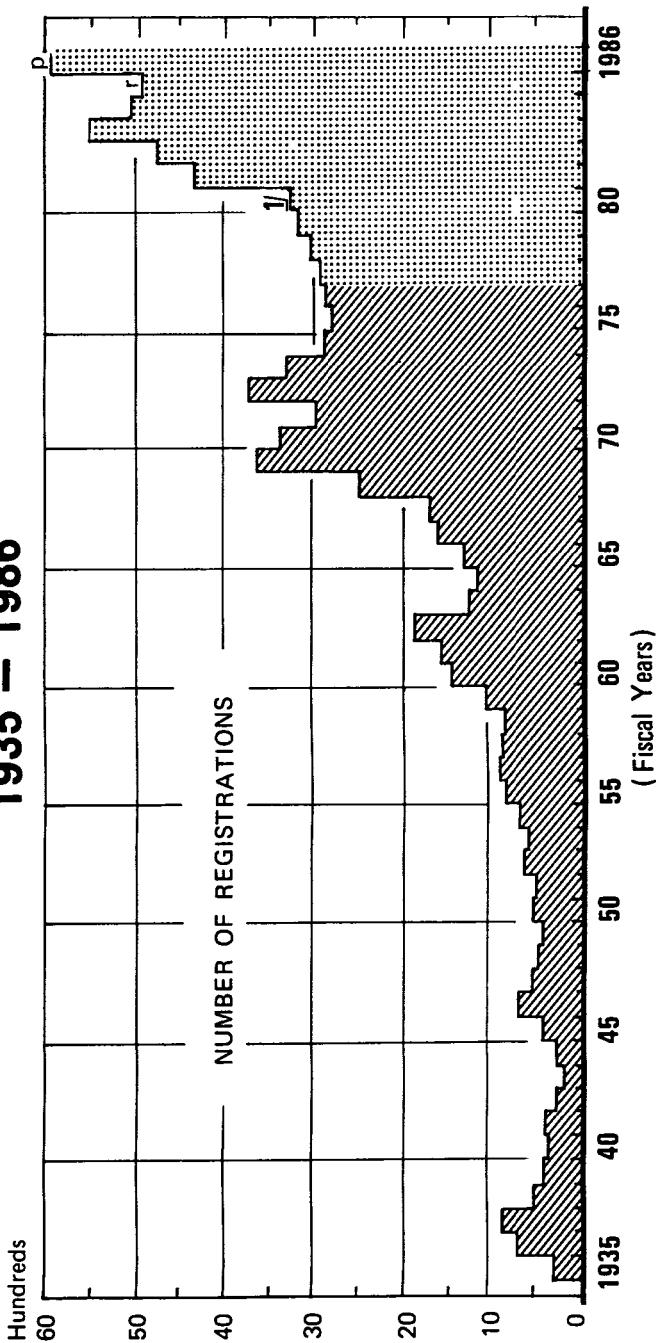
..... In 1977 Fiscal Year End Changed From June To September

Data For Transition Quarter July-September 1976 Not Shown On Charts.  
Number Of Registrations 639

1/ Does Not Include Investment Companies As Of 1/1/78 Due To Rule Change  
r=Revised p=Preliminary

Table 30

# Securities Effectively Registered With S.E.C. 1935 – 1986



In 1977 Fiscal Year End Changed From June To September  
Data For Transition Quarter July-September 1976 Not Shown On Charts:  
Number Of Registrations 6339

1/ Does Not Include Investment Companies As Of 1/1/78 Due To Rule Change  
r=Revised      p=Preliminary

## Purpose and Type of Registration

Effective registrations for cash sale for the account of issuers in fiscal year 1986 amounted to \$361.9 billion, an 85 percent increase from \$196.2 billion registered a year ago. Some \$94.5 billion (26 percent) was intended for immediate cash sale, an increase of \$33 billion (56 percent) from fiscal year 1985.

Of this \$94.5 billion, debt securities accounted for \$52.7 billion (56 percent), common stock and other equity accounted for \$34.3 billion (36 percent) and preferred stock \$8 billion (8 percent).

Delayed and extended cash sales registered for the account of the issuer totalled \$267.3 billion (54 percent of all registrations). Of registrations for delayed sales, domestic securities accounted for \$221.0 billion while foreign securities accounted for \$9.1 billion. Registrations for extended sales totalled \$37.2 billion.

Securities registered for the account of issuers other than cash sale (in conjunction with exchange offers, for example) amounted to \$112.5 billion for

fiscal year 1986 (23 percent of all registrations). Registrations of securities for secondary offerings (for the accounts of security holders rather than issuers) amounted to \$17.0 billion (3 percent of the total) in fiscal year 1986.

The value of registrations aggregating \$491.4 billion in fiscal year 1986 consisted of \$280.5 billion in bonds, debentures and notes, \$21.8 billion in preferred stock and \$189.0 billion in common stock and other equity. Of the \$280.5 billion of debt securities registered, \$52.7 billion (19 percent) were registered for immediate cash sale to the general public for the account of the issuer and delayed and extended cash sales accounted for \$212.3 billion (75 percent). Thirty-five percent of the \$21.8 billion in preferred stock registrations consisted of immediate cash offering and a similar portion consisted of securities for the account of issuers for other than cash sale. The \$189.0 billion of common stock and other equity consisted of \$34.2 billion in immediate cash, \$49.5 billion in delayed or extended cash sale, \$93.1 billion of non-cash registrations for the account of the issuer and \$12.2 billion of secondary offerings.

**Table 31**  
**EFFECTIVE REGISTRATIONS BY PURPOSE AND TYPE OF SECURITY:**  
**FISCAL YEAR 1986p**  
(Millions of Dollars)

Purpose of Registrations	Type of Security		
	Total	Bonds, Debentures and Notes	Preferred Stock
All registrations (Estimated Value) . . . . .	\$491,360	\$280,542	\$21,784
Account of Issuer for Cash Sale . . . . .	361,849	264,918	13,179
Immediate offering . . . . .	94,522	52,663	7,603
Delayed and Extended Cash Sale . . . . .	267,327	212,255	5,576
Domestic Delayed . . . . .	221,042	203,455	5,015
Foreign Delayed . . . . .	9,062	8,762	0
Extended . . . . .	37,223	38	561
Account of Issuer for Other Than Cash Sale . . . . .	112,485	11,744	7,617
Secondary Offerings . . . . .	\$ 17,026	\$ 3,880	\$ 988
			\$ 12,158

p = preliminary

<sup>1</sup>Includes warrants, shares of beneficial interest, certificates of participation and all other equity interests not elsewhere included.

Note. The categories of registrations shown in this table have been changed to more meaningfully reflect current registration practices. Last year's data (Table 32) have been revised and recast in the same format for comparability

Source: 1933 Act Registration Statements

**Table 32**  
**EFFECTIVE REGISTRATIONS BY PURPOSE AND TYPE OF SECURITY:**  
**FISCAL YEAR 1985r**  
(Millions of Dollars)

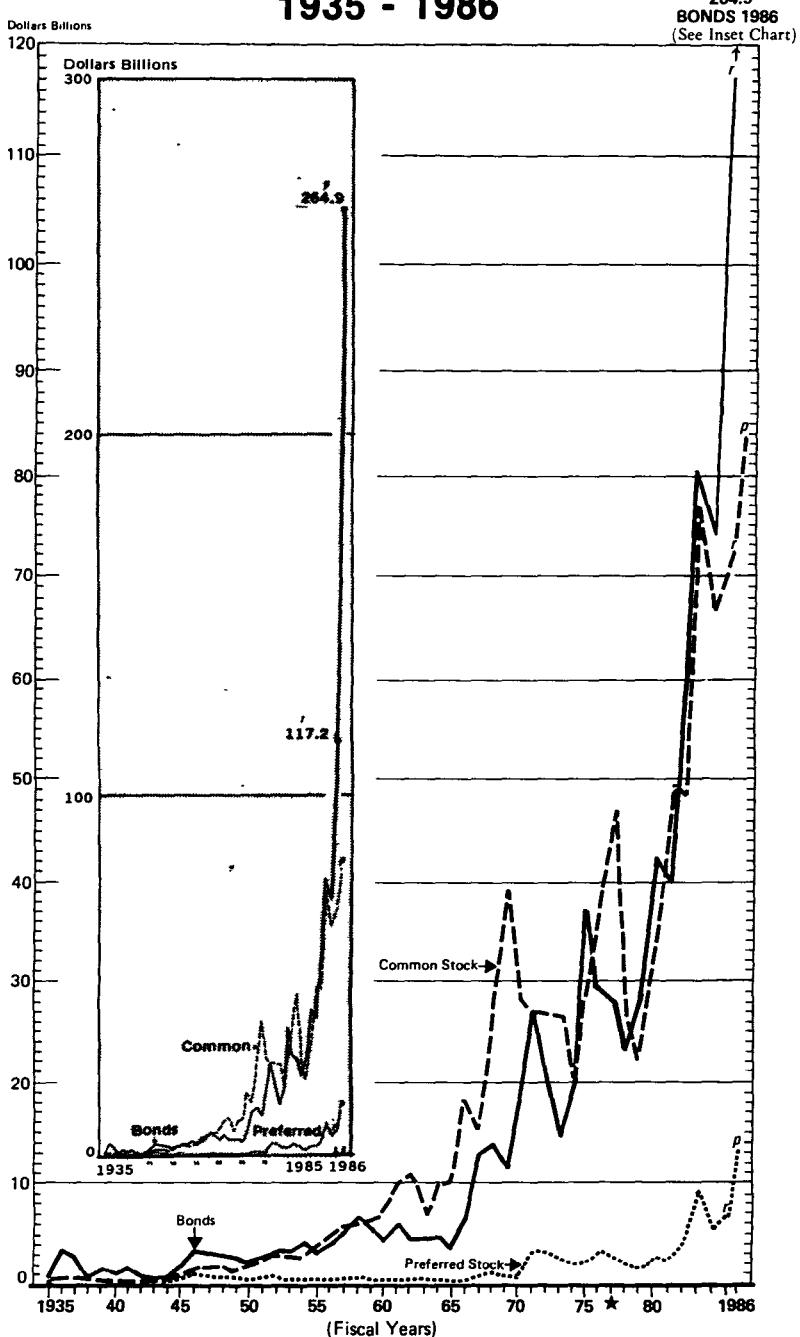
Purpose of Registrations	Type of Security		
	Total	Bonds, Debentures and Notes	Preferred Stock
All registrations (Estimated Value) . . . . .	\$287,851	\$125,193	\$14,202
Account of Issuer for Cash Sale . . . . .	196,190	117,178	6,999
Immediate offering . . . . .	61,670	30,082	4,682
Delayed and Extended Cash Sale . . . . .	134,520	87,096	2,317
Domestic Delayed . . . . .	93,078	81,389	2,240
Foreign Delayed . . . . .	6,374	5,670	75
Extended . . . . .	35,068	37	2
Account of Issuer for Other Than Cash Sale . . . . .	82,589	6,388	6,833
Secondary Offerings . . . . .	\$ 9,072	\$ 1,627	\$ 370
			\$ 7,075

r = revised

<sup>1</sup>Includes warrants, shares of beneficial interest, certificates of participation and all other equity interests not elsewhere included.

Source: 1933 Act Registration Statements

Table 33  
**Effective Registrations**  
**Cash Sale For Account Of Issuers**  
**1935 - 1986**



★ In 1977 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

r = Revised

p = Preliminary

## **Regulation A Offerings**

During fiscal year 1986, 104 offering statements for proposed offerings under Regulation A were processed and cleared.

**Table 34  
OFFERINGS UNDER REGULATION A (CLEARED)**

	Fiscal 1986	Fiscal 1985	Fiscal 1984	Fiscal 1983	Fiscal 1982
<b>Size</b>					
\$500,000 or Less	34	41	40	58	82
500,001-\$1,000,000	26	23	24	30	55
1,000,001-\$1,500,000	44	30	42	41	83
Total	104	94	106	129	220
<b>Underwriters</b>					
Used	10	17	37	67	129
Not Used	94	77	69	62	91
Total	104	94	106	129	220
<b>Offerors</b>					
Issuing Companies	104	94	106	129	220
Stockholders	0	0	0	0	0
Issuers and Stockholders Jointly	0	0	0	0	0
Total	104	94	106	129	220

## **ENFORCEMENT**

### **Types of Proceedings**

As the table 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 vio-

lators, 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 civil or criminal contempt against the violator.

**Table 35**  
**TYPES OF PROCEEDINGS**

ADMINISTRATIVE PROCEEDINGS	
Persons Subject to, Acts Constituting, and Basis for, Enforcement Action	Sanction
<b>Broker-dealer, municipal securities dealer, investment adviser or associated person</b>	Censure or limitation on activities; revocation, suspension or denial of registration, bar or suspension from association (1934 Act, Section 15B(c)(2)—(6), 15(b)(4)—(6), Advisers Act, Section 203(e)—(f)).
<b>Registered securities association</b>	Suspension or revocation of registration; censure or limitation of activities, functions, or operations (1934 Act, Section 19(h)(1)).
<b>Member of registered securities association, or associated person</b>	Suspension or expulsion from the association; bar or suspension from association with member of association (1934 Act, Section 19(h)(2)(3)).
<b>National securities exchange</b>	Suspension or revocation of registration; censure or limitation of activities, functions, or operations (1934 Act, Section 19(h)(1))
<b>Member of national securities exchange, or associated person</b>	Suspension or expulsion from exchange; bar or suspension from association with member (1934 Act, Section 19(h)(2)(3)).
<b>Registered clearing agency</b>	Suspension or revocation of registration; censure or limitation of activities, functions, or operations (1934 Act, Section 19(h)(1)).
<b>Participant in registered clearing agency</b>	Suspension or expulsion from clearing agency (1934 Act, Section 19(h)(2)).

**Table 35—Continued**  
**TYPES OF PROCEEDINGS**

ADMINISTRATIVE PROCEEDINGS	
<b>Persons Subject to Acts Constituting, and Basis for, Enforcement Actions</b>	<b>Sanction</b>
<b>Securities Information processor</b>	
Violation of or inability to comply with provisions of 1934 Act or rules thereunder	Censure or limitation of activities, suspension or revocation of registration (1934 Act, Section 11A(b)(6))
<b>Transfer agent</b>	
Willful violation of or inability to comply with 1934 Act, Sections 17 or 17A, or rules thereunder	Censure or limitation of activities, denial, suspension, or revocation of registration (1934 Act, Section 17A(c)(3))
<b>Any person</b>	
Willful violation of 1933 Act, 1934 Act, Investment Company Act or rules thereunder; aiding or abetting such violation; willful misstatement in filing with Commission	Temporary or permanent prohibition against serving in certain capacities with registered investment company (Investment Company Act, Section 9(b)).
<b>Officer or director of self-regulatory organization</b>	
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, Section 19(h)(4))
<b>Principal of broker-dealer</b>	
Engaging in business as a broker-dealer after appointment of SIPC trustee	Bar or suspension from being or becoming associated with a broker-dealer (SIPA, Section 10(b)).
<b>1933 Act registration statement</b>	
Statement materially inaccurate or incomplete.	Stop order refusing to permit or suspending effectiveness (1933 Act, Section 8(d))
<b>Issuer subject to Sections 12, 13, 14 or 15(d) of the 1934 Act or associated person</b>	
Failure to comply with such provisions or having caused such failure by an act of omission that person knew or should have known would contribute thereto.	Order directing compliance or steps effecting compliance (1934 Act, Section 15(c)(4)).
<b>Securities registered pursuant to Section 12 of the 1934 Act</b>	
Noncompliance by issuer with 1934 Act or rules thereunder.	Denial, suspension of effective date, suspension or revocation of registration; prohibition against trading in securities when registration suspended or revoked (1934 Act, Section 12(j)).
Public interest requires trading suspension.	Summary suspension of over-the-counter or exchange trading (1934 Act, Section 12(k)).
<b>Registered investment company</b>	
Failure to file Investment Company Act registration statement or required report; filing materially incomplete or misleading statement or report.	Suspension or revocation of registration (Investment Company Act, Section 8(e)).
Company has not attained \$100,000 net worth 90 days after 1933 Act registration statement became effective.	Stop order under 1933 Act; suspension or revocation of registration (Investment Company Act, Section 14(a)).

**Table 35—Continued**  
**TYPES OF PROCEEDINGS**

ADMINISTRATIVE PROCEEDINGS	
Persons Subject to Acts Constituting, and Basis for, Enforcement Action	Sanction
<b>Attorney, accountant, or other professional or expert</b>	
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 of appearing or practicing before the Commission (17 CFR 201.2(e)(1)).
Attorney suspended or disbarred by court, expert's license revoked or suspended, conviction of a felony or of a misdemeanor involving moral turpitude.	Automatic suspension from appearance or practice before the Commission (17 CFR Section 201.2(e)(2))
Permanent injunction against or finding of securities violation in Commission-instituted action, finding of securities violation by Commission in administrative proceedings.	Temporary suspension from practicing; censure, permanent or temporary disqualification from practicing before the Commission, (17 CFR Section 201.2(e)(3))
<b>Member of Municipal Securities Rulemaking Board</b>	
Willful violation of 1934 Act, rules thereunder, or rules of the Board, abuse of authority	Censure or removal from office (1934 Act, Section 15B(c)(8))
CIVIL PROCEEDINGS IN FEDERAL DISTRICT COURTS	
Persons Subject to, Acts Constituting, and Basis for, Enforcement Action	Sanction
<b>Any person</b>	
Engaging in or about to engage in acts or practices violating securities laws, 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, Section 20(b); 1934 Act, Section 21(d), Holding Company Act, Section 18(f), Investment Company Act, Section 42(e), Advisers Act, Section 209(e), Trust Indenture Act, Section 321)
Noncompliance with provisions of the law, rule, or regulation under 1933, 1934, or Holding Company Act, 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, Section 20(c), 1934 Act, Section 21(e), Holding Company Act Section 18(g))
Trading while in possession of material non-public information in a transaction on an exchange or from or through a broker-dealer (and transaction not part of a public offering), or aiding and abetting such trading.	Maximum civil penalty: three times profit gained or loss avoided as a result of transaction. (1934 Act, Section 21(d))
<b>Securities Investor Protection Corporation</b>	
Refusal to commit funds or act for the protection of customers.	Order directing discharge of obligations and other appropriate relief (SIPA, Section 7(b))
<b>National securities exchange or registered securities association</b>	
Failure to enforce compliance by members or persons associated with its members with the 1934 Act, rules or 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, Section 21(e)).
<b>Registered clearing agency</b>	
Failure to enforce compliance by its participants with its own rules	Writ of mandamus, injunction or order directing clearing agency to enforce compliance (1934 Act, Section 21(e)).

**Table 35—Continued**  
**TYPES OF PROCEEDINGS**

CIVIL PROCEEDINGS IN FEDERAL DISTRICT COURTS	
Persons Subject to Acts Constituting, and Basis for, Enforcement Action	Sanction
<b>Issuer subject to reporting requirements</b>	
Failure to file reports required under Section 15(d) of 1934 Act	Forfeiture of \$100 per day (1934 Act, Section 32(b))
<b>Registered Investment company</b>	
Name of company or of security issued by it deceptive or misleading.	Injunction against use of name (Investment Company Act, Section 36(d))
<b>Officer, director, member of advisory board, adviser, depositor, or underwriter of investment company</b>	
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, Section 36(a))
CRIMINAL PROSECUTION BY DEPARTMENT OF JUSTICE	
Basis for Enforcement Action	Sanction or Relief
<b>Any person</b>	
Willful violation of securities laws or rules thereunder; willful misstatement in any document required to be filed by securities laws or rules, willful misstatement in any document required to be filed by self-regulatory organization in connection with an application for membership or association with member.	Maximum penalties: \$100,000 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, Sections 20(b), 24; 1934 Act, Sections 21(d), 32(a); Holding Company Act, Sections 18(f), 28; Trust Indenture Act, Sections 321, 325; Investment Company Act, Sections 42(e), 49; Advisers Act, Sections 209(e), 217).
<b>Persons who engage in Foreign Corrupt practices</b>	
Any Issuer (which has securities subject to reporting requirements of the 1934 Act) which violates Section 30A(a) of the 1934 Act.	Maximum penalty: \$1,000,000 fine (1934 Act, Section 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, Section 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, Section 32(c)(3)).

\*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 36**  
**ENFORCEMENT CASES INITIATED BY THE COMMISSION**  
**DURING FISCAL 1985 IN VARIOUS PROGRAM AREAS**

(Each case initiated has been included in only one category listed below, even though many cases involve multiple allegations and may fall under more than one category.)

Program Area in Which Civil Action or Administrative Proceeding Was Initiated	Civil Actions <sup>1,2</sup>	Administrative Proceedings	Total <sup>1</sup>	% of Total Cases
<b>Securities Offering Cases</b>				
(a) Non-regulated Entity .. .	40 (129)	29 (30)	69 (159)	
(b) Regulated Entity .. .	14 (51)	5 (9)	19 (60)	
Total Securities Offering Cases	<u>54 (180)</u>	<u>34 (39)</u>	<u>88 (219)</u>	28%
<b>Broker-Dealer Cases</b>				
(a) Backoffice .. .	5 (9)	11 (25)	16 (34)	
(b) Fraud Against Customer .. .	10 (39)	30 (51)	40 (90)	
(c) Stock Loan .. .	1 (4)	1 (3)	2 (7)	
(d) Other .. .	0 (0)	4 (5)	4 (5)	
Total Broker-Dealer Cases .. .	<u>16 (52)</u>	<u>46 (84)</u>	<u>62 (136)</u>	20%
<b>Issuer Financial Statement and Reporting Cases</b>				
(a) Issuer Financial Disclosure .. .	21 (62)	18 (27)	39 (89)	
(b) Issuer Reporting Other .. .	1 (1)	1 (1)	2 (2)	
(c) Issuer FCPA Violation .. .	1 (2)	0 (0)	1 (2)	
Total Issuer Financial Statement and Reporting Cases .. .	<u>23 (65)</u>	<u>19 (28)</u>	<u>42 (93)</u>	13%
<b>Other Regulated Entity Cases</b>				
(a) Investment Advisers .. .	9 (18)	21 (34)	30 (52)	
(b) Investment Companies .. .	2 (6)	0 (0)	2 (6)	
(c) Transfer Agents .. .	0 (0)	2 (2)	2 (2)	
Total Other Regulated Entity Cases .. .	<u>11 (24)</u>	<u>23 (36)</u>	<u>34 (60)</u>	11%
<b>Insider Trading Cases</b> .. .	24 (54)	6 (6)	30 (60)	10%
<b>Market Manipulation Cases</b>	11 (76)	3 (3)	14 (79)	4%
<b>Contempt Proceedings</b>				
(a) Civil .. .	9 (12)	0 (0)	9 (12)	
(b) Criminal .. .	5 (6)	0 (0)	5 (6)	
Total Contempt Proceedings .. .	<u>14 (18)</u>	<u>0 (0)</u>	<u>14 (18)</u>	4%
<b>Corporate Control Violations</b>	2 (3)	4 (5)	6 (8)	2%
<b>Related Party Transactions</b> .. .	3 (14)	0 (0)	3 (14)	1%
<b>Fraud Against Regulated Entity</b>	1 (1)	1 (1)	2 (2)	1%
<b>SUBTOTALS</b> .. .	<u>159 (486)</u>	<u>136 (202)</u>	<u>295 (688)</u>	
<b>Delinquent Filings</b>				
(a) Issuer Reporting .. .	15 (16)	0 (0)	15 (16)	
(b) Forms 3 & 4 .. .	3 (3)	0 (0)	3 (3)	
Total Delinquent Filings .. .	<u>18 (19)</u>	<u>0 (0)</u>	<u>18 (19)</u>	6%
<b>GRAND TOTALS</b> .. .	<u>177 (505)</u>	<u>136 (202)</u>	<u>313 (707)</u>	100%

<sup>1</sup>The number of defendants and respondents is noted parenthetically

<sup>2</sup>This category includes injunctive actions, and civil and criminal contempt proceedings

**Table 37**  
**INVESTIGATIONS OF POSSIBLE VIOLATIONS OF THE ACTS**  
**ADMINISTERED BY THE COMMISSION**

Pending as of October 1, 1985 .....	....	....	....	....	....	741
Opened in fiscal year 1986 .....	....	....	....	....	....	343
Total .....	....	....	....	....	....	1,084
Closed in fiscal year 1986 .....	....	....	....	....	....	305
Pending as of September 30, 1986 .....	....	....	....	....	....	779

During the fiscal year ending September 30, 1986, 92 Formal Orders of Investigation were issued by the Commission upon recommendation of the Division of Enforcement.

**Table 38**  
**ADMINISTRATIVE PROCEEDINGS INSTITUTED DURING FISCAL YEAR**  
**ENDING SEPTEMBER 30, 1986**

Broker-Dealer Proceedings .....	....	....	....	....	....	62
Investment Adviser, Investment Company and Transfer Agent Proceedings .....	....	....	....	....	....	25
Stop Order and Regulation A Proceedings .....	....	....	....	....	....	24
Rule 2(e) Proceedings .....	....	....	....	....	....	15
Disclosure Proceedings (Section 15(c)(4) of the Exchange Act) .....	....	....	....	....	....	10
Total Proceedings in fiscal year 1986 .....	....	....	....	....	....	136

**Table 39**  
**INJUNCTIVE ACTIONS**

Fiscal Year	Actions Initiated	Defendants Named
1976 .....	158	722
1977 .....	166	715
1978 .....	135	607
1979 .....	108	511
1980 .....	103	387
1981 .....	115	398
1982 .....	136	418
1983 .....	151	416
1984 .....	179	508
1985 .....	143	385
1986 .....	162	487

## Trading Suspensions

During fiscal year 1986, the Commission suspended trading in the securities of five companies. This compares with six in fiscal year 1985. In most instances, the trading suspension was ordered 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 transactions in the company's securities suggested possible manipulation or other violations.

## Foreign Restricted List

The Securities and Exchange Commission maintains and publishes a Foreign Restricted List which is designed to put broker-dealers, financial institutions, investors and others on notice of possible unlawful distributions 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 possible violation of the registration requirement of Section 5 of the Securities Act of 1933. The offer and sale of unregistered securities deprives investors of all the protections afforded by the Securities Act of 1933, 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 necessarily prevent promoters from illegally offering such securities directly to investors in the United States by mail, by telephone, and sometimes by personal solicitation. The following foreign corporations and other foreign entities comprise the Foreign Restricted List.

1. Aquacate Consolidated Mines, Incorporated (Costa Rica)
2. Alan MacTavish, Ltd. (England)
3. Allegheny Mining and Exploration Company,, Ltd. (Canada)
4. Allied Fund for Capital Appreciation (AFCA, S.A.) (Panama)
5. Amalgamated Rare Earth Mines, Ltd. (Canada)
6. American Industrial Research S.A., also known as Investigation Industrial Americana, S.A. (Mexico)
7. American International Mining (Bahamas)
8. American Mobile Telephone and Tape Co., Ltd. (Canada)
9. Antel International Corporation, Ltd. (Canada)
10. Antoine Silver Mines, Ltd. (Canada)
11. ASCA Enterprisers Limited (Hong Kong)
12. Atholl Brose (Exports) Ltd. (England)
13. Atholl Brose Ltd. (England)
14. Atlantic and Pacific Bank and Trust Co., Ltd. (Bahamas)
15. Bank of Sark (Sark, Channel Islands, U.K.)
16. Briar Court Mines, Ltd. (Canada)
17. British Overseas Mutual Fund Corporation Ltd. (Canada)
18. California & Caracas Mining Corp., Ltd. (Canada)
19. Caprimex, Inc. (Grand Cayman, British West Indies)
20. Canterra Development Corporation, Ltd. (Canada)
21. Cardwell Oil Corporation, Ltd. (Canada)
22. Caribbean Empire Company, Ltd. (British Honduras)
23. Caye Chapel Club, Ltd. (British Honduras)
24. Central and Southern Industries Corp. (Panama)
25. Cerro Azul Coffee Plantation (Panama)
26. Cia. Rio Banano, S.A. (Costa Rica)
27. City Bank A.S. (Denmark)
28. Claw Lake Molybdenum Mines, Ltd. (Canada)
29. Claravella Corporation (Costa Rica)
30. Compressed Air Corporation, Limited (Bahamas)
31. Continental and Southern Industries, S.A. (Panama)
32. Crossroads Corporation, S.A. (Panama)
33. Darien Exploration Company, S.A. (Panama)
34. Derkglen, Ltd. (England)
35. De Veers Consolidated Mining Corporation, S.A. (Panama)
36. Doncannon Spirits, Ltd. (Bahamas)
37. Durman, Ltd. Formerly known as Bankers International Investment Corporation (Bahamas)

- 38. Empresia Minera Caudalosa de Panama, S.A. (Panama)
- 39. Ethel Copper Mines, Ltd. (Canada)
- 40. Euroforeign Banking Corporation, Ltd. (Panama)
- 41. Finansbanker a/s (Denmark)
- 42. First Liberty Fund, Ltd. (Bahamas)
- 43. General Mining S.A. (Canada)
- 44. Global Explorations, Inc. (Panama)
- 45. Global Insurance, Company, Limited (British West Indies)
- 46. Globus Anlage-Vermittlungsgesellschaft MBH (Germany)
- 47. Golden Age Mines, Ltd. (Canada)
- 48. Hebilla Mining Corporation (Costa Rica)
- 49. Hemisphere Land Corporation Limited (Bahamas)
- 50. Henry Ost & Son, Ltd. (England)
- 51. Hotelera Playa Flamingo, S.A.
- 52. Intercontinental Technologies Corp. (Canada)
- 53. International Communications Corporation (British West Indies)
- 54. International Monetary Exchange (Panama)
- 55. International Trade Development of Costa Rica, S.A.
- 56. Ironoco Mining & Smelting Company, Ltd. (Canada)
- 57. James G. Allan & Sons (Scotland)
- 58. Jojoba Oil & Seed Industries S.A. (Costa Rica)
- 59. Jupiter Explorations, Ltd. (Canada)
- 60. Kenilworth Mines, Ltd. (Canada)
- 61. Klondike Yukon Mining Company (Canada)
- 62. KoKanee Moly Mines, Ltd. (Canada)
- 63. Land Sales Corporation (Canada)
- 64. Los Dos Hermanos, S.A. (Spain)
- 65. Lynbar Mining Corp. Ltd. (Canada)
- 66. Massive Energy Ltd. (Canada)
- 67. Mercantile Bank and Trust & Co., Ltd. (Cayman Island)
- 68. J.P. Morgan & Company, Ltd., of London, England (not to be confused with J.P. Morgan & Co., Incorporated, New York)
- 69. Norart Minerals Limited (Canada)
- 70. Normandie Trust Company, S.A. (Panama)
- 71. Northern Survey (Canada)
- 72. Northern Trust Company, S.A. (Switzerland)
- 73. Northland Minerals, Ltd. (Canada)
- 74. Obsco Corporation, Ltd. (Canada)
- 75. Pacific Northwest Developments, Ltd. (Canada)
- 76. Pan-Alaska Resources, S.A. (Panama)
- 77. Panamerican Bank & Trust Company (Panama)
- 78. Pascar Oils Ltd. (Canada)
- 79. Paulpic Gold Mines, Ltd. (Canada)
- 80. Pyrotex Mining and Exploration Co., Ltd. (Canada)
- 81. Radio Hill Mines Co., Ltd. (Canada)
- 82. Rancho San Rafael, S.A. (Costa Rica)
- 83. Rodney Gold Mines Limited (Canada)
- 84. Royal Greyhound and Turf Holdings Limited (South Africa)
- 85. S.A. Valles & Co., Inc. (Philippines)
- 86. San Salvador Savingss & Loan Co., Ltd. (Bahamas)
- 87. Santack Mines Limited (Canada)
- 88. Security Capital Fiscal & Guaranty Corporation S.A. (Panama)
- 89. Silver Stack Mines, Ltd. (Canada)
- 90. Societe Anonyme de Refinancement (Switzerland)
- 91. Strathmore Distillery Company, Ltd. (Scotland)
- 92. Strathross Blending Company Limited (England)
- 93. Swiss Caribbean Development & Finance Corporation (Switzerland)
- 94. Tam O'Shanter, Ltd. (Switzerland)
- 95. Timberland (Canada)
- 96. Trans-American Investments, Limited (Canada)
- 97. Trihope Resources, Ltd. (West Indies)
- 98. Trust Company of Jamaica, Ltd. (West Indies)
- 99. United Mining and Milling Corporation (Bahamas)
- 100. Unitrust Limited (Ireland)
- 101. Vacationland (Canada)
- 102. Valores de Inversion, S.A. (Mexico)
- 103. Victoria Oriente, Inc. (Panama)

- 104. Warden Walker Worldwide Investment Co. (England)
- 105. Wee Gee Uranium Mines, Ltd. (Canada)

- 106. Western International Explorations, Ltd. (Bahamas)
- 107. Ykon Wolverine Mining Company (Canada)

## Right to Financial Privacy

Section 21(h)(6) of the Securities Exchange Act of 1934 [15 U.S.C. 78u(h)(6)] requires that the Commission "compile an annual tabulation of the occasions on which the Commission used each separate subparagraph or clause of [Section 21(h)(21)] or the provisions of the Right to Financial Privacy Act of 1978 [12 U.S.C. 3401-22 (the RFPA)] to obtain access to financial records of a customer and include it in its annual report to the Congress." During the fiscal year, the Commission made no applications to courts for orders pursuant to the sub-

paragraphs and clauses of Section 21(h)(2) to obtain access to financial records of a customer. The table below sets forth the number of occasions upon which the Commission obtained access to the financial records of a customer using the procedures provided by (i) Section 1105 of the RFPA [12 U.S.C. 3405], applicable to administrative subpoenas; and (ii) Section 1107 of the RFPA [12 U.S.C. 3407], applicable to judicial subpoenas.

Section 1105	Section 1107
232	6

# PUBLIC UTILITY HOLDING COMPANIES

## System Companies

During fiscal year 1986, there were 13 holding companies registered under the Public Utility Holding Company Act of 1935 of which 12 were "active." The

registered systems include 65 electric or gas utility subsidiaries 74 non-utility subsidiaries and 22 inactive companies, or a total of 174 system companies including the parent but excluding seven power supply company subsidiaries. The following table lists the active systems.

Table 40  
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	1 <sup>d</sup>	4	4	0	9	2 <sup>a</sup>
American Electric Power Company (AEP) . .	1	0	12	15	5	33	2 <sup>a</sup>
Central and South West Corporation (CSW) .....	1	1 <sup>d</sup>	4	7	1	13	1 <sup>b</sup>
Columbia Gas System (CGS) .....	1	0	8	13	1	23	0
Consolidated Natural Gas Company (CNG) . . .	1	0	5	9	0	15	0
Eastern Utilities Associates (EUA) .....	1	0	3	1	0	5	4 <sup>c</sup>
General Public Utilities (GPU) .....	1	0	6	2	1	10	0
Middle South Utilities (MSU) .....	1	0	6	4	3	14	1 <sup>b</sup>
National Fuel Gas Company (NFG) . . .	1	0	1	4	1	7	0
New England Electric System (NEES) . . .	1	0	5	3	3	12	4 <sup>c</sup>
Northeast Utilities (NEU) . . .	1	0	5	5	6	17	4 <sup>c</sup>
Philadelphia Electric Power Company (PEP) . . .	0	1	1	0	1	3	0
Southern Company (SC) . . .	1	0	5	5	0	11	0
Total Companies .....	12	3	65 <sup>d</sup>	72	22	172	18

<sup>a</sup>Ohio Valley Elec. Corp. & Subs; Indiana-Kentucky Elec. Corp. electric utility: 37.8% AEP, 12.5% APS, 49.7% Other Companies.

<sup>b</sup>Arkahoma Corp: 32% CSW, 34% MSU, 34% Oklahoma Gas & Elec.

<sup>c</sup>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, 1.2% EUA, Maine Yankee Atomic Power Co.: 20% NEES, 15% NEU, 4% EUA; Statutory utility subsidiaries.

<sup>d</sup>West Penn Power Co. in APS and Southwestern Electric Power Co. in CSW are both electric utility and holding companies.

**Table 41**  
**KEY FINANCIAL STATISTICS OF REGISTERED PUBLIC UTILITY**  
**HOLDING COMPANY SYSTEMS**

Name of Company	As of March 31, 1986 (000) Omitted)	
	Total Assets	Operating Revenues
Allegheny Power System . . . . .	\$ 4,128,870	\$ 1,801,106
American Electric Power Company, Inc . . . . .	13,600,898	4,798,288
Central and South West Corporation . . . . .	6,813,605	2,694,244
Columbia Gas System, Inc . . . . .	5,444,032	3,908,363
Consolidated Natural Gas Company . . . . .	3,721,163	3,120,509
Eastern Utilities Associates . . . . .	724,724	336,795
General Public Utilities Corp . . . . .	6,481,178	2,883,673
Middle South Utilities, Inc. . . . .	13,827,416	3,289,121
National Fuel Gas Company . . . . .	1,053,934	932,351
New England Electric System . . . . .	3,718,977	1,480,428
Northeast Utilities . . . . .	6,246,589	2,040,100
Philadelphia Electric Power Company . . . . .	66,691	12,305
Southern Company, The . . . . .	16,757,724	6,807,012
Total =		\$34,104,295

## CORPORATE REORGANIZATION

During the fiscal year the Commission entered its appearance in 52 reorganization cases filed under Chapter 11 of the Bankruptcy Code involving companies with aggregated stated assets of about \$10.6 billion and close to 270,000 public investors. Including these new cases, the Commission was a party in a

total of 134 Chapter 11 cases during the fiscal year. In these cases the stated assets totalled approximately \$32.5 billion and about 730,000 public investors were involved. During the fiscal year, 33 cases were concluded through confirmation of a plan of reorganization, dismissal, or liquidation, leaving 101 cases in which the Commission was a party at year-end.

**Table 42  
REORGANIZATION PROCEEDINGS UNDER CHAPTER 11 OF THE BANKRUPTCY CODE  
IN WHICH COMMISSION ENTERED APPEARANCE**

Debtor	District	Fiscal Year Filed	Fiscal Year Closed
A H Robins Co., Inc.	E D VA	1985	
AIA Industries, Inc.	E D PA	1984	
AIC Photo <sup>4</sup>	E D NY	1985	
Air Florida System, Inc.	S D FL	1984	1986
Air One, Inc.	E D MO	1985	
Airlift International, Inc.	S D FL	1981	
Altec Corp.	C D CA	1985	
Amarex, Inc.	W D OK	1983	
American Monitor Corp.	S D IN	1986	
Amfesco Ind., Inc.	E D NY	1986	
Amfood Ind.	N D IL	1986	
Anglo Energy, Ltd. <sup>2</sup>	S D NY	1984	1986
ATI, Inc.	D NJ	1985	
Avanti Corp. <sup>4</sup>	N D IN	1986	
Baldwin United Corp. <sup>2</sup>	S D OH	1984	1986
Bear Lake West, Inc. <sup>1</sup>	D ID	1982	1986
Beehive International <sup>2</sup>	D UT	1985	1986
Beker Industries Corp.	S D NY	1986	
Berry Industries Corp.	C D CA	1985	
Bevill, Bressler & Schulman <sup>1</sup>	D NJ	1985	
The Bishop's Glen Fndn., Inc. <sup>1</sup>	N D FL	1985	
Branch Industries, Inc.	S D NY	1985	
Buttes Gas & Oil Co.	S D TX	1986	
Capitol Air, Inc.	S D NY	1985	
Chalet Gourmet Corp.	C D CA	1985	
Charter Co.	M D FL	1984	
Chem-Technics, Inc. <sup>3</sup>	N D GA	1986	1986
Citel, Inc.	N D CA	1985	
Citywide Securities Corp. <sup>1</sup>	S D NY	1985	
CLC of America	E D MO	1986	
CoElco Ltd.	C D CA	1986	
Colonial X-Ray Corp.	S D FL	1986	
Columbia Data Products, Inc.	D MD	1985	
Commodore Corporation	N D IN	1985	
Commonwealth Oil Refining Co., Inc.	W D TX	1984	
Computer Devices, Inc. <sup>3</sup>	D MA	1984	1986
Computer Depot, Inc.	D MN	1986	
Computer Usage Co. <sup>3</sup>	N D CA	1985	1986
Conesco Ind., Ltd.	D NJ	1986	
Consolidated Packaging Corp. <sup>2</sup>	D CO	1984	1986
Continental Airlines Corp. <sup>3</sup>	S D TX	1984	1986
Continental Steel Corp. <sup>3</sup>	S D IN	1986	
Cook United, Inc.	N D OH	1985	
Crompton Co., Inc.	S D NY	1985	

Table 42—Continued

**REORGANIZATION PROCEEDINGS UNDER CHAPTER 11 OF THE BANKRUPTCY CODE  
IN WHICH COMMISSION ENTERED APPEARANCE**

Debtor	District	Fiscal Year Filed	Fiscal Year Closed
Dakota Minerals, Inc . . . . .	D WY	1986	
The Diet Institute, Inc <sup>3</sup> . . . . .	D NJ	1985	1986
D'Lites of America, Inc. . . . .	N D GA	1986	
Dreco Energy Service, Ltd <sup>2</sup> . . . . .	S.D TX	1982	1986
DRW Realty Services, Inc <sup>1, 2</sup> . . . . .	N D TX	1986	1986
Eastmet Corp . . . . .	D MD	1986	
Emons Industries, Inc . . . . .	S D NY	1984	
Empire Oil & Gas Co <sup>3</sup> . . . . .	D CO	1982	1986
Energy Exchange Corp . . . . .	W D OK	1985	
Energy Management Corp. . . . .	D CO	1986	
Enertec Corp . . . . .	N D TX	1986	
Enterprise Technologies, Inc . . . . .	S D TX	1984	
Equestrian Ctrs of America, Inc . . . . .	C D CA	1985	
Evans Products Co . . . . .	S D FL	1985	
Fidelity American Financial Corp <sup>1</sup> . . . . .	E D PA	1981	
Financial & Bus Serv., Inc <sup>1</sup> . . . . .	W D NC	1986	
Flanigan Enterprises . . . . .	S D FL	1986	
General Exploration Co . . . . .	N D OH	1986	
General Resources Corp . . . . .	N D GA	1980	
GIC Government Securities, Inc <sup>1, 3</sup> . . . . .	M D FL	1986	
Global Marine, Inc . . . . .	S D TX	1986	
Haven Properties, Inc <sup>1</sup> . . . . .	D OR	1981	1986
Homecrafters Warehouse, Inc . . . . .	N D AL	1986	
ICX, Inc . . . . .	D CO	1984	
International Institute of Applied Tech, Inc . . . . .	D DC	1983	
International Waste Water <sup>1</sup> . . . . .	M D PA	1985	
K-Tel International, Inc <sup>2</sup> . . . . .	D MN	1985	1986
Kelly-Johnston Enterprises, Inc <sup>2</sup> . . . . .	W D OK	1985	1986
Koss Corp <sup>2</sup> . . . . .	D WI	1985	1986
LTV Corporation . . . . .	S D NY	1986	
Magic Circle Energy Corp . . . . .	W D OK	1985	
Manoa Finance Co, Inc <sup>1</sup> . . . . .	D HA	1983	
Mansfield Tire & Rubber Co <sup>2</sup> . . . . .	N D OH	1980	1986
Marville Corp . . . . .	S D NY	1982	
Marion Corp <sup>2</sup> . . . . .	S D AL	1983	1986
Microcomputer Memories, Inc . . . . .	C D CA	1986	
Mid-America Petroleum, Inc . . . . .	N D TX	1986	
Midland Capital Corp. . . . .	S D NY	1986	
Midwestern Companies, Inc <sup>3</sup> . . . . .	W D MO	1984	1986
Mobile Home Industries, Inc <sup>2</sup> . . . . .	N D FL	1985	1986
National Bus Communications Corp . . . . .	S D FL	1986	
ND Resource, Inc . . . . .	D AZ	1985	
New Brothers, Inc . . . . .	S D GA	1985	
Nicklos Oil & Gas Co . . . . .	S D TX	1986	
North Atlantic Airlines, Inc <sup>1, 3</sup> . . . . .	D VT	1984	1986
Nucorp Energy, Inc . . . . .	S D CA	1982	
Oxoco, Inc . . . . .	S D TX	1986	
Pacific Express Holding, Inc . . . . .	E D CA	1984	
Parute Oil & Mining Corp . . . . .	D UT	1985	
Penn Pacific Corp . . . . .	C D CA	1986	
Peoples Restaurants, Inc <sup>2</sup> . . . . .	M D FL	1985	1986
Petromac Energy, Inc <sup>4</sup> . . . . .	S D TX	1986	1986
Pettibone Corp . . . . .	N D IL	1986	
Provincetown-Boston Airline <sup>3</sup> . . . . .	M D FL	1985	1986
Psych Systems . . . . .	D MD	1986	
Robin Industries, Inc . . . . .	W D NY	1985	
Ronco Teleproducts, Inc . . . . .	N D IL	1984	
Rusco Industries, Inc . . . . .	S D GA	1986	

Table 42—Continued

**REORGANIZATION PROCEEDINGS UNDER CHAPTER 11 OF THE BANKRUPTCY CODE  
IN WHICH COMMISSION ENTERED APPEARANCE**

Debtor	District	Fiscal Year Filed	Fiscal Year Closed
Salant Corp ...	S D NY	1985	
Satelico, Inc <sup>2</sup> . . . . .	N D TX	1985	1986
Seatrain Lines, Inc . . . . .	S D NY	1981	
Selectors, Inc . . . . .	E D WA	1986	
Seneca Oil Co <sup>2</sup> . . . . .	W D OK	1985	1986
Servomatic Systems, Inc . . . . .	N D CA	1986	
SPW Corporation . . . . .	N D TX	1985	
Standard Metals Corp . . . . .	D CO	1984	
State Capital Corp . . . . .	M D FL	1985	
Steiger Tractor, Inc . . . . .	D ND	1986	
Storage Technology, Inc . . . . .	D CO	1985	
Swanton Corp . . . . .	S D NY	1985	
Sykes Datronics, Inc . . . . .	W D NY	1986	
Taco Eds, Inc <sup>1</sup> . . . . .	N D OH	1984	
Tacoma Boatbuilding Co . . . . .	S D NY	1986	
Technical Equities Corp . . . . .	N D CA	1986	
Texscan Corp . . . . .	D AZ	1986	
Tidwell Industries, Inc . . . . .	N D AL	1986	
Towle Manufacturing Co . . . . .	S D NY	1986	
Towner Petro <sup>2</sup> . . . . .	W D OK	1985	1986
Trans Western Exploration . . . . .	N D OK	1985	
Transcontinental Energy Corp <sup>2</sup> . . . . .	N D TX	1985	1986
Unimet Corp . . . . .	N D OH	1986	
The Veta Grande Cos , Inc . . . . .	C D CA	1986	
Victoria Station . . . . .	N D CA	1986	
Videostation, Inc . . . . .	C D CA	1985	
W & J Sloane Corp . . . . .	S D NY	1986	
Wheatland Investment Co. <sup>1</sup> . . . . .	E D WA	1985	
Wheeling-Pittsburgh Steel Corp . . . . .	W D PA	1985	
Windsor Ind , Inc . . . . .	N D IL	1986	
Wright Air Lines, Inc <sup>3</sup> . . . . .	N D OH	1985	1986
Xenerex Corp . . . . .	W D OK	1986	
Total Cases Opened (FY 1986)		52	
Total Cases Closed (FY 1986)			33

<sup>1</sup>Debtor's securities not registered under Section 12(g) of the Exchange Act<sup>2</sup>Plan of reorganization confirmed<sup>3</sup>Debtor liquidated under Chapter 7<sup>4</sup>Chapter 11 case dismissed

## **SEC OPERATIONS**

In fiscal year 1986, the Commission estimates that it will collect a record of more than \$200 million in fees for deposit into the General Fund of the Treasury. Such fees will amount to nearly 188 percent of the Commission's fiscal year 1986 funding, compared with

135 percent in fiscal year 1985. The four primary sources of fees were registration of securities under the Securities Act of 1933 (57 percent), transactions on securities exchanges (21 percent), tender offer and merger filings (19 percent), and miscellaneous filings and reporting fees (three percent).

Table 43

# Appropriated Funds vs Fees Collected

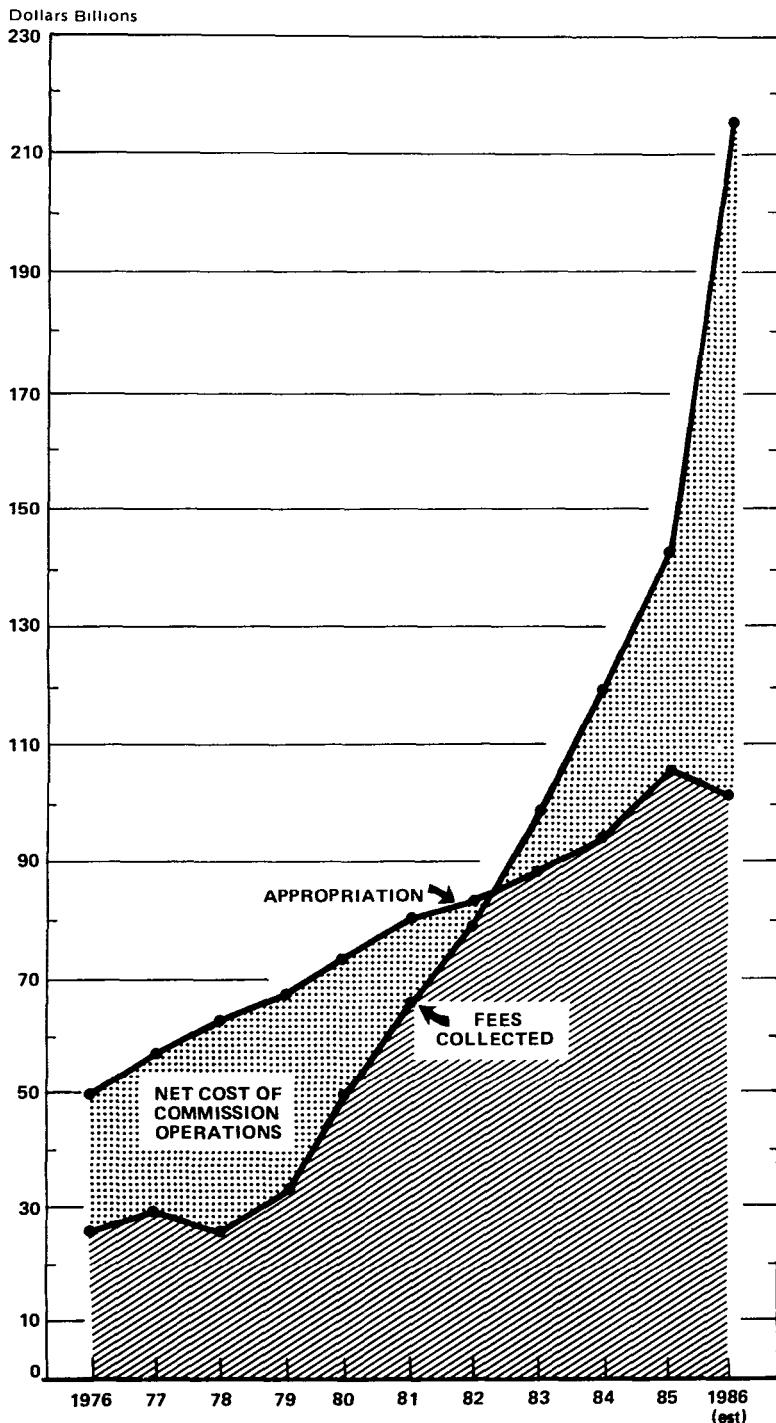


Table 44  
BUDGET ESTIMATES AND APPROPRIATIONS  
\$(000)

Action	Fiscal 1982		Fiscal 1983		Fiscal 1984		Fiscal 1985		Fiscal 1986		Fiscal 1987	
	Posi-	Posi-	Posi-	Posi-	Posi-	Posi-	Posi-	Posi-	Posi-	Posi-	Posi-	Posi-
	Posi-	Money	Posi-	Money	Posi-	Money	Posi-	Money	Posi-	Money	Posi-	Money
Estimate submitted to the Office of Management and Budget . . . . .	2,230	\$87,970	2,016	\$88,053	2,021	\$94,935	2,310	\$105,880	2,181	\$117,314	2,172	\$119,089
Action by the Office of Management and Budget . . . . .	-248	5,134	-120	-3,753	-125	-3,000	-268	-1,197	-121	-9,197	-86	-9,039
Amount allowed by the Office of Management and Budget . . . . .	1,982	82,836	1,896	84,300	1,896	91,935	2,042	104,683	2,060	108,117 <sup>a</sup>	2,086	110,050
Action by the House of Representatives . . . . .	+20	-1,130	+125	+4,300	+203	+3,847	+4	-2,215	+28	+1,650		
Sub-Total . . . . .	2,002	81,706	2,021	88,600	2,099	95,782	2,046	102,468	2,088	109,767		
Action by the Senate . . . . .	+19	+2,594	-560	-170	-5,190	-4	+2,889	-28	+588			
Sub-Total . . . . .	2,021	84,300	2,021	88,040	1,929	90,592	2,042	105,337	2,060	110,355		
Action by conferees . . . . .	-1,394		+92	+2,408	+4	+2,408	+4	+20	+745			
Annual funding level . . . . .	2,021	82,906	2,021	88,040	2,021	93,000	2,046	105,337	2,080	111,100		
Supplemental appropriation . . . . .	+400	+1,650	+1,000	+1,000	+1,000	+1,045	+1,045	+1,045	+1,045	-4,777		
Sequestration . . . . .												
Total funding level . . . . .	2,021	83,306	2,021	89,990	2,021	94,000	2,046	106,382	2,080	106,323		

<sup>a</sup>Includes \$3,135,000 not in original OMB submission for pay increase expenses considered by Congress in initial deliberations

<sup>b</sup>Includes 14 positions and \$550,000 for Public Utility Regulation activities which were excluded from the agency submission but considered by Congress

---

---

# Index

---

Enforcement .....	7
Key 1986 Results .....	7
Introduction .....	7
Program Areas .....	8
Corporate Reporting and Accounting .....	9
Insider Trading .....	10
Regulated Entities and Associated Persons .....	12
Securities Offering Violations .....	14
Market Manipulation .....	14
Changes in Corporate Control .....	15
Other Developments .....	15
Transnational Securities Issues .....	15
Sources for Further Inquiry .....	16
See also Footnotes .....	87
Appendix .....	105
Types of Proceedings .....	146
Trading Suspensions .....	152
Foreign Restricted List .....	153
Right to Financial Privacy .....	155
Full Disclosure System .....	17
Key 1986 Results .....	17
Rulemaking .....	18
Operational Edgar System .....	18
Tender Offers .....	18
Shareholder Communications .....	18
Filing Fees .....	19
Pricing Amendments .....	19
Classification of Issuers .....	19
Filings for Exempt Private Offerings .....	19
The Proxy Review Program .....	19
Interpretations .....	20
Conferences .....	20
SEC Government-Business Forum on Small Business Capital Formation .....	20
SEC/NASAA Conference under Section 29(c) of the Securities Act of 1933 .....	20
Accounting and Auditing Matters .....	20
Accounting-Related Rules and Interpretations .....	21
Oversight of Private Sector Standards-Setting .....	22
FASB .....	22
Pensions .....	23
Cash Flow Reporting .....	23

Income Taxes .....	24
Other Projects .....	23
Timely Financial Reporting Guidance .....	23
Oversight of the Accounting Profession's Initiatives .....	24
SEC Practice Section .....	25
Special Investigations Committee .....	26
The Edgar Project .....	27
Introduction .....	27
Pilot System .....	27
Operational System .....	28
Conclusion .....	29
Regulation of the Securities Markets .....	30
Key 1986 Results .....	30
Securities Markets, Facilities and Trading .....	31
The National Market System .....	31
National System for Clearance and Settlement of Securities Transactions .....	31
Securities Immobilization .....	32
Internationalization .....	32
Options .....	33
Issuer Tender Offers .....	34
Regulation of Brokers, Dealers, Municipal Securities Dealers and Transfer Agents .....	34
Rule 10b-6; shelf distributions .....	35
Rule 10b-6; shelf amendments .....	35
Financial Responsibility Rules .....	35
Uniform Net Capital Rules .....	36
Interpretations of the Net Capital Rules .....	36
Transfer Agent Registration Form .....	36
Bank Securities Activities .....	36
Extension of Credit by Broker Dealers of Direct Participation Programs .....	36
Interpretive Release, Section 28(e) of Exchange Act .....	37
Lost and Stolen Securities .....	37
Transfer Agent Regulation .....	37
Oversight of Self-Regulatory Organizations .....	38
National Securities Exchanges .....	38
National Association of Securities Dealers, Inc. ....	38
Municipal Securities Rulemaking Board .....	38
Clearing Agencies .....	39
SRO Surveillance and Regulatory Compliance Inspections .....	39
SRO Final Disciplinary Actions .....	40
Applications for Re-entry .....	43
Investment Company Advisers .....	44
Disclosure Requirements .....	45
Edgar .....	46
Regulatory Policy .....	46