

SECURITIES AND EXCHANGE COMMISSION NEWS DIGEST



brief summary of financial proposals filed with and actions by the S.E.C.

Washington 25, D.C.

In ordering full text of Releases from Publications Unit, cite number)

(Issue No. 65-1-8)

FOR RELEASE January 14, 1965

SEC PROPOSES B/D CAPITAL RULE. The SEC today announces (for January 15th Newspapers) a proposal (Release 34-7507) for revision of its net capital rule under the Securities Exchange Act (Rule 15c3-1) which would "impose minimum capital requirements, provide additional safeguards with respect to the financial responsibilities of brokers and dealers, and clarify various provisions of the rule." Interested persons are invited to submit views and comments thereon not later than March 1, 1965.

In its 1963 Report, the SEC Special Study of Securities Markets recommended a minimum net capital requirement as an essential qualification for any broker or dealer entering the securities business. It observed, among other things, that a disproportionately large number of violations of Commission rules has occurred among broker-dealers with limited capital; that firms with low capital were involved in a high proportion of revocation proceedings and that firms with net capital smaller than \$5,000 may have a significantly higher chance of falling into net capital difficulties under the Commission's ratio rule than those with a greater amount. Among the further reasons cited by the Study were the following: First, the securities business involves dealing with other people's funds, and no firm handling or having custody of customers' funds and securities should have such a small amount of its own resources in the business that customers' assets may, in fact, become the principal working capital of the firm. Secondly, the smooth and speedy functioning of market mechanisms requires members of the financial community to have confidence in each other's stability and responsibility, and this in turn requires each of such persons to have sufficient capital to have adequate personnel, resources and equipment so that each may rely upon the other's ability to do business responsibly. Third, if the liability to customers resulting from violations of state and federal laws is to be a deterrent to improper conduct by broker-dealers they should not be judgment proof, but rather should have a substantial financial stake in their business. Finally, a fundamental consideration underlying all of the above reasons is that those entering the securities business should have such a sense of commitment and obligation to their business as to produce responsible, reliable operations.

Rule 15c3-1 now provides that no broker or dealer subject to its provisions shall permit his "aggregate indebtedness" to exceed 20 times his "net capital," as defined in the rule. The proposed amendment would require broker-dealers engaged in the general securities business to have and maintain a minimum net capital of \$5,000. However, in line with the Study's recognition that the minimum net capital requirement could be scaled to reflect the fact that certain limited broker-dealer activities might require less minimum net capital, paragraph (a) would also provide that the minimum net capital requirement would be \$2,500 for a broker-dealer who does not hold customers' funds or securities, and whose business is limited to the sale and redemption of redeemable shares of registered investment companies (mutual funds), the sale of securities for a customer to obtain funds for immediate reinvestment in mutual funds, and the solicitation of accounts for certain insured savings and loan associations. The Commission also determined not to require broker-dealer firms to have and maintain additional net capital of \$2,500 for each branch office, and \$500 for each salesman. It is further contemplated that a substantial period of time, such as six months, would be permitted to elapse between the adoption of any minimum net capital requirement and its effectiveness, so that firms which do not have the prescribed minimum capital when the rule is adopted would have adequate time to bring themselves into compliance.

With respect to reserve requirements for customers' commodity accounts, the Commission pointed to the Ira Haupt & Co. case as an example of situations in which, either because of the nature of trading in commodities futures or the limited amount of margin required to be obtained from customers under the rules of various commodities exchanges, brokers who effect futures commodities transactions for customers may incur liabilities which create additional risks to the funds and securities of securities customers. Rule 15c3-1 now provides that, in computing "net capital," there shall be deducted from "net worth" 30% of the market value of all long and all short future commodity contracts carried in the capital and proprietary accounts of broker-dealer firms, but it does not contain special provisions to afford protection against the risks incurred by brokers who buy and sell commodities futures contracts for customers. As a result of the Ira Haupt & Co. insolvency, certain exchanges (including the NYSE) have imposed additional capital requirements on those members who conduct such a business; and the Commission believes that some specific reserve requirement is needed and proposes that its rule require non-member firms to have additional capital if they wish to carry futures commodities contracts for customers. Accordingly, it is proposed to amend Rule 15c3-1 to provide that in computing net capital there be deducted from net worth an amount equal to 1 $\frac{1}{2}$ % of the market values of the total long or total short futures contracts in each commodity, whichever is greater, carried for all customers. This is similar to the provision recently adopted by the NYSE and other exchanges.

An additional proposal relates to subordination agreements, and another proposed amendment of Rule 15c3-1 would delete the present exemption for a broker whose securities business is limited to acting as agent for an issuer in soliciting subscriptions for securities of the issuer, who promptly transmits all funds and promptly delivers all securities received in connection therewith, and who does not otherwise hold funds or securities for, or owe money or securities to, customers. However, a new provision would be added providing that the Commission may grant an exemption to any firm, upon application, if it satisfies the Commission that the nature of its business is such that an exemption is consistent with the public interest and the protection of investors, and that the safeguards of the firm with respect to financial responsibility are adequate for the protection of customers' funds and securities. The Commission's rules would continue to provide an exemption for members of specified exchanges which are able to demonstrate that their rules and settled practices provide comparable protection.

OVER

O/C REGISTRATION AND PROXY RULES ADOPTED. The SEC announces (for January 15th Newspapers) the adoption of an amendment to its Form 8-A under the Securities Exchange Act (Release 34-7508), an optional short form previously prescribed for use in the registration on a national securities exchange of an additional class of securities of an issuer which had one or more other classes so registered. The amended form expands the rules so that the form may be used under certain other circumstances, including (a) the registration of any class of security pursuant to the recently-enacted Section 12(g) of the Act, by an issuer which has one or more classes of securities registered on an exchange; (b) the registration pursuant to Section 12(g) of any class of securities of an issuer which has registered securities under the Securities Act of 1933, if such registration under Section 12(g) becomes effective within one year after the end of the last fiscal year for which certified financial statements were included in the Securities Act registration statement; and (c) the registration of securities by an issuer which by reason of an effective Securities Act registration statement is required to file periodic reports with the Commission pursuant to Section 15(d) of the Securities Exchange Act.

The Commission also has adopted an amendment to Rule 14a-3 of its proxy rules. This rule relates to the information to be furnished to security holders in connection with the solicitation of proxies by issuers subject to the proxy rules. Heretofore, the rule applied only to issuers having securities listed and registered on an exchange. The amendment makes those rules applicable to issuers having securities registered pursuant to the new Section 12(g) of the Act. Rule 14a-3 provides, in part, that where the management of an issuer solicits proxies at an annual meeting of security holders for the purpose of electing directors, its proxy statement shall be accompanied or preceded by an annual report to such security holders containing such financial statements for the last fiscal year as will in the opinion of management adequately reflect the financial position and operations of the issuer. The Commission has amended the rule to require companies which have not previously submitted to their security holders an annual report pursuant to the Commission's proxy rules to include in their first annual report submitted to security holders pursuant to such regulations such information as to their business operations during the past fiscal year as will, in the opinion of management, indicate the general nature and scope of the business of the issuer and its subsidiaries.

SEC CITES PREFERRED INVESTMENTS. The SEC has ordered administrative proceedings under the Securities Exchange Act of 1934 involving the broker-dealer firm of Preferred Investments, Inc. ("Registrant"), of 5301 East Colonial Drive, Orlando, Fla. Also named as respondents are Wilbur Max Ritter, president of Registrant and Troy Paul Odom. Ritter also is president of Preferred Risk Life Assurance Company, an Arkansas corporation which owns all of the stock of Registrant. Odom (operating under the name Paul Odom & Associates) was permanently enjoined by Federal court order in October 1964 from further conduct of a securities business in violation of the broker-dealer registration requirements of said Act.

The proceedings are based upon staff charges that during the period May 1963 to October 1964, Registrant and the two individual respondents engaged in various acts and practices violative of the Federal securities laws, including the offer and sale of stock of the said Life Assurance Company in alleged violations of the Securities Act registration and anti-fraud provisions.

A hearing will be held (at a time and place to be announced) to take evidence on the staff charges and afford the respondents an opportunity to establish any defenses thereto, all for the purpose of determining whether the alleged violations occurred and, if so, whether any action of a remedial nature is appropriate in the public interest.

HARPER AND CHILDS PLEAD GUILTY. The SEC Fort Worth Regional Office announced January 8 (LR-3125) that Donald Jacques Harper of Phoenix, Ariz. (formerly of Wichita, Ks.), entered a guilty plea (USDC Ks.) to four counts charging violations of the Securities Act registration provisions in the sale of common stock of Bankers Mortgage Corp. and Trans World Investments, Inc. Imposition of sentence was postponed pending the preparation of a presentence report. Kenneth R. Childs of Wichita, Ks., who previously had entered a guilty plea, received a 4-year prison sentence and was fined \$5,000. The prison sentence was suspended and Childs was placed on probation for 4 years.

NEAL LYONS AND UNI-SOL URANIUM ENJOINED. The SEC Fort Worth Regional Office announced January 11 (LR-3126) the entry of a Federal court order (USDC ND Tex.) temporarily enjoining Neal Lyons and Uni-Sol Uranium and Oil Corp., both of Dallas, Tex., from further violations of the anti-fraud and registration provisions of the Federal securities laws in the sale of stock of Uni-Sol Uranium and Oil.

STANDARD SYSTEM INVESTMENT CORP. DE-REGISTERED. The SEC has issued an order under the Investment Company Act (Release IC-4136) declaring that the Standard System Investment Corporation, Savannah, Ga., has ceased to be an investment company.

UNLISTED TRADING GRANTED. The SEC has issued an order under the Securities Exchange Act (Release 34-7505) granting an application of the Pacific Coast Stock Exchange for unlisted trading privileges in the common stock of Federated Department Stores, Inc.

NEW HAMPSHIRE JOCKEY CLUB VOTING TRUST. Trustees under a voting trust agreement involving stock of The New Hampshire Jockey Club, Inc. (a New Hampshire corporation), filed a registration statement (File 2-23086) with the SEC on January 13 seeking registration of voting trust certificates for 100,000 shares of the company's capital stock. The trustees include Louis Smith, president of the company.

AMERICAN MEDICAL & DENTAL INSTITUTE PROPOSES OFFERING. American Medical and Dental Banking Institute, Inc., First National Bank of Westminster, Denver, Col., filed a registration statement (File 2-23087) with the SEC on January 13 seeking registration of 500,000 shares of common stock. The stock is to be offered for public sale at \$5 per share through company officials and employees on a best-efforts basis; the company will deduct 15% of the offering price as underwriting expenses. A portion of the shares may be offered through securities dealers, which will receive a 10% selling commission. According to the prospectus, no sale will be made for less than 100 shares nor more than 1,000 shares without prior approval of a company official.

Organized under Utah law in March 1964 by the American Bankers Management Corporation, the company proposes to engage in lending funds to persons associated with the medical profession and allied fields. Net proceeds from its stock sale will be used as general operating funds of the company. The company has outstanding 10,000 shares of common stock, which were sold to company officials at \$2.50 per share. As compensation for organizing the company and supplying funds for its initial expenses, American Bankers Management Corp. will receive a sum equal to 2% of the company's net profits; however, the Management Company will not own stock of the company. Joseph J. Foss is board chairman and Fredrick H. Good is president of the company.

AMERICAN RESEARCH AND DEVELOPMENT RECEIVES ORDER. The SEC has issued an order under the Investment Company Act (Release IC-4137) certifying to the Secretary of the Treasury that American Research and Development Corporation, Boston, Mass., was principally engaged for its fiscal year ended December 31, 1964, in furnishing capital to other corporations which are primarily engaged in the development or exploitation of inventions, technological improvements, new processes, or products not previously generally available. The certification is a prerequisite to the qualification of American Research as a "regulated investment company" under Section 851(a) of the Internal Revenue Code of 1954.

ISRAEL FUND RECEIVES ORDER. The SEC has issued an exemption order under the Investment Company Act (Release IC-4138) with respect to the rendering of investment-advisory services to The Israel Fund, Inc., Baltimore, Md., election of its directors, and the acquisition of the Fund's shares by affiliates in exchange for State of Israel bonds. According to the application, the Fund presently has no shareholders; however, it proposes to issue up to 500,000 shares of common stock when its registration statement under the Securities Act of 1933 becomes effective. The application indicates that the Fund intends to comply with provisions of the said Act relating to a proposed investment advisory contract with Multiple Securities Management Company, as well as the election of directors, upon the sale of its shares. Officers of the Fund, its investment adviser or principal underwriter and certain employees would be permitted to purchase the shares without a sales load.

DOMINICK FUND RECEIVES ORDER. The SEC has issued an exemption order under the Investment Company Act (Release IC-4139) with respect to the rendering of investment-advisory services to The Dominick Fund, Inc., a Delaware closed-end investment corporation. According to the application, Dominick & Dominick, a partnership, has served the Fund as investment adviser since 1945. The contract provides for its automatic termination in the event of its assignment by the partnership. The partnership has proposed the transfer of its business to Dominick & Dominick, Incorporated, and the latter plans to serve the Fund as investment adviser without a written contract and without being paid any fee, except for regular and customary brokerage commissions on securities sold or purchased for the Fund, until the next annual meeting of the Fund's stockholders on February 23, 1965.

AMERICAN NATURAL GAS RECEIVES ORDER. The SEC has issued an order under the Holding Company Act (Release 35-15174) approving proposed modifications to the organization and conduct of business of American Natural Gas Service Company, a wholly-owned subsidiary of American Natural Gas Company, both of Detroit, and the service company's sale of certain securities to the parent. According to the application, the service company proposes to sell to the parent an additional 500 shares of its capital stock for an aggregate of \$50,000, and long-term unsecured notes aggregating \$450,000. The service company further proposes to sell to the parent additional unsecured notes from time to time during the period ending December 31, 1969 with such outstanding notes not to exceed \$1,000,000 at any one time. It is also proposed that the service company will acquire electronic data-processing equipment from associate operating companies in the American Natural Gas system, thereby centralizing all data-processing functions of the system.

RECENT FORM 8-K FILINGS. The companies listed below have filed Form 8-K reports for the month indicated and responding to the item of the Form specified. Photocopies thereof may be purchased from the Commission's Public Reference Section (please give News Digest's "Issue No." in ordering). Invoice will be included with the requested material when mailed. An index of the caption of the several items of the form was included in the January 4 News Digest.

The B.V.D. Co, Mar 64, (7)
 The Citadel Life Ins. of New York, Dec 64, (1)
 First General Real Estate Trust, Sept 64, (13)
 Badger Northland, Inc, Dec 64, (8,13)
 St. Louis Natl. Stkyds, Inc., Dec 63, (11)
 Campus Casuals of California, Dec 64, (11)
 Atlantic Research Corp, Dec 64, (2,3,8,10,12,13)

Ala, Inc, Dec 64, (11)

Bowser, Inc, Dec 64, (12)

Adams Engineering Co., Inc, Oct 64, (1,2,3,6,11)
 Bowmar Instrument Corp, Dec 64, (11,12)
 Two Hundred and Fifty East Main Street Corp
 Formerly: Manning Maxwell & Moore Inc
 Nov 64, (2,11,12,13)

Clear Creek Corporation, Dec 64, (5)
 First Charter Financial Corp, Dec 64, (7)
 First Western Financial Corp, Dec 64, (12)
 United Bowling Centers, Inc, Dec 64, (12)

Brockton Taunton Gas Co, Dec 64, (7,13)

All State Properties Inc, Dec 64, (13,12)
 Philadelphia Aquarium, Inc, Nov 64, (4,6,13)

McCormack Selph Associates, Inc, July 64,
 (1,2,11,13)

Atlanta Motor Lodges, Inc, Aug 64, (2,7,13)
 First Colony Life Insurance Co, Inc, Dec 64,
 (1,7)
 Surety Life Insurance Co, Dec 64, (12,13)

Texaco, Inc, Dec 64, (7,13)

Allied Radio Corp, Dec 64, (11)
 United Industrial Corp, Dec 64, (4,7,13)
 Washington Trotting Assn., Inc, Dec 64, (11)

Cramer Electronics, Inc, Dec 64, (11,13)
 First Investors Corporation, Dec 64, (2)
 Reda Pump Co, Dec 64, (4)
 Thrift Plan of Reda Pump Co, Dec 64, (7)
 Milwaukee Braves, Inc, Dec 64, (11)
 Savin Business Machines Corp, Dec 64, (3)
 Universal Pictures Co., Inc, Dec 64, (13)

American Fidelity Life Insurance Co, Mar 64,
 (11,13)
 National Central Life Ins. Co, Dec 64, (11,13)
 Union Tank Car Co, Dec 64, (8)

Edison Bros. Stores, Inc, Dec 64, (7,11)

Bridgeport Gas Company, Mar 63 (11) & Apr 64,
 (11) (2 repts)
 Navigation Computer Corp, Dec 64, (11,13)

Masonite Corp, Dec 64, (4,7,13)
 Phoenix Steel Corp, Dec 64, (3)
 I. Gordon Realty Corp, Amend #1 to 8K for Oct
 64, (2,7,13)
 Mangel Stores Corp, Amend #1 to 8K for Nov 64,
 (13)

Louis Lesser Enterprises Inc., Dec 64 (7, 8)

Arwood Corporation, Dec 64 (8)
 Central Chemical Corp., Dec 64 (11,13)
 Gloray Knitting Mills, Inc., Dec 64 (7)
 Stepan Chemical Co., Dec 64 (7)

Defiance Industries, Inc., Dec 64 (11)
 Philip Morris Inc., Dec 64 (8)

Channing Financial Corp., Dec 64 (12)
 F. W. Woolworth Co., Dec 64 (13)

McQuay-Norris Mfg. Co., Dec 64 (12)
 West Virginia Pulp & Paper Co., Dec 64 (13)

CCI Corp., Dec 64 (12)
 Warner Bros. Pictures, Inc., Dec 64 (12)

American Biltrite Rubber Co., Inc., Dec 64 (7)
 Doyle Dane Bernbach Inc., Dec 64 (12)
 General Motors Corp., Dec 64 (3,12,13)

Genl Tel Co of the Southwest, Dec 64 (7,13)
 Howard Industries, Inc., Dec 64 (7,10)
 H. K. Porter Company, Inc. Dec 64 (3,13)
 Standard Kollsman Industries, Inc., Dec 64 (13)
 U S Air Conditioning Corp., Dec 64 (12)

Bloomfield Building Ind. Inc., July 64 (12,13)
 The Sherwin-Williams Company, Dec 64 (4,7,11,13)

Chromalloy Corp., Dec 64 (4,7,13)
 Spartans Industries, Inc., Dec 64 (4,13)

George A. Hormel & Co., Dec 64 (11)

American Urethane, Inc. Dec 64 (12)
 Thatcher Glass Mfg. Co., Inc. Dec 64 (11)

Pitney-Bowes, Inc., Dec 64 (12)

Allied Artists Pictures Corp.
 Amend #1 to 8K for Oct 1963

SECURITIES ACT REGISTRATIONS. Effective January 8: General Dynamics Corp. (File 2-23032); Standard Forgings Corp. (File 2-22789).
Effective January 12: General Motors Corp. (File 2-23068); United States Plywood Corp. (File 2-23007); Volume Distributors, Inc. (File 2-22995).
Effective January 13: The May Department Stores Co. (File 2-22858); Petroleum Royalty Fund (listed as The Ohio Oil Royalty Fund in News Digest of November 2) (File 2-22889); Stockman National Life Insurance Co. (File 2-22231).
Effective January 14: Litton Industries, Inc. (File 2-23048); Pacific Power & Light Co. (File 2-23028).
Withdrawn January 13: Modern American Mortgage Corp. (File 2-16528).