



# SECURITIES AND EXCHANGE COMMISSION NEWS DIGEST

Washington, D.C. 20549

(Prepared by the SEC Office of Public Information)

A Daily Summary of  
S.E.C. Activities

(Issue No. 72-240)

FOR RELEASE December 18, 1972

## NEW RULES AND RULE PROPOSALS

**IMPROVED DISCLOSURE ON QUALITY OF EARNINGS PROPOSED.** The Commission today issued three releases proposing new rules and disclosure requirements on accounting policies, their impact on financial statements, reporting of income tax expense and supplementary material designed to make more meaningful and understandable the information presented in registration statements filed under the Securities Act of 1933 and reports and registration statements under the Securities Exchange Act of 1934.

The changes involve amendments to Rules 3-08 and 3-16 of Regulation S-X as well as an amendment to Guide 22 ("Summary of Earnings") of the Guides for Preparation and Filing of Registration Statements under the Securities Act of 1933 and a new guideline for similar summaries required by Item 2 of Forms 10 and 10K ("Summary of Operations") under the Securities Exchange Act of 1934.

One proposed amendment to Regulation S-X would require companies to disclose the various items which cause timing differences between book income and taxable income that result in deferred tax expense. The disclosure would describe the source of the timing difference (revenue recognition, depreciation, research and development costs, etc.) and the extent to which new deferrals in each category are offset by the reversal of prior deferrals. This is designed to enable users of financial statements to ascertain the current and prospective cash drain which is associated with payment of income taxes.

The other proposed change in Regulation S-X would require a summary of significant accounting policies to be included in the financial statements either separately or as the first note. The disclosure required would include a description of accounting principles followed and, under certain circumstances and where significant, an estimate of the dollar impact on net income of use of the principle followed, as compared to alternative acceptable principles.

Chairman William J. Casey issued the following statement on the Commission's proposed changes:

"The Commission is today releasing for comment new rules and disclosure requirements on accounting policies, changes in accounting and in assumptions used in determining income and expense and differences in calculating income for tax and financial reporting purposes. We believe these significant new requirements will dissolve much of the serious concern which has developed about the ability of some corporations to exaggerate earnings or obscure declines in earnings by selecting from among acceptable accounting principles, shifting from one accounting method to another, changing assumptions used in determining income and expense, using available tax elections which enhance net income in a current year and depress net income in future years, and accelerating or deferring optional expense items like research and advertising and other steps of this kind.

"It would seem necessary to full and fair disclosure of income and other financial data that management spell out how the choices it makes in the accounting and tax areas affect the financial results it reports to the public. I believe these requirements will go a long way to strengthen the confidence of investors, the credibility of corporations and the independence of accountants.

"The Commission and its staff believes this to be one of the most important steps the SEC has ever taken. In my first public statement as Chairman I said: 'The value of current reporting to investors and their advisors depends on its reliability and consistency. Also, the comparability of reporting by different companies has a great deal to do with the ability of investors to put their capital where it will be most effectively used. During the merger-conglomerate bubble of the mid-sixties, many of us were confused and dismayed by the extent to which pooling of interest and complex securities were used to inflate and pyramid earnings . . . I hope that the accounting profession will move toward disclosure of all optional practices selected for the determination of operating results and financial position and at least a broad indication of the differences which would have been reported if an alternate practice has been followed . . .'

"Speaking about the same period, I subsequently stated: 'The accountants were slow in tightening their rules, the SEC was slow in not requiring disclosures to correct misleading impressions and the analysts were slow in not putting the information which was available in proper perspective. It seems to me that corporate officers have a primary obligation to rise above accounting conventions and lay economic reality on the line."

"The accounting profession has undertaken a renewed effort to develop uniform accounting standards. The Commission, believing that accounting standards should be set in the private sector, intends to fully support the profession in this new effort. As this effort succeeds, the need and importance of this kind of supplementary disclosure will recede. In the meantime investors will have information on the significance of the accounting choices which corporations make and this will enhance investor confidence and corporate credibility.

"One proposal, in the form of a disclosure guideline, would require an analytical textual supplement to the summary of earnings setting forth data about non-operating earnings, the impact of changes in accounting principles, estimates and assumptions, and material changes in the relative or absolute amount of such discretionary expenditures as research and advertising. This same guideline would also be applicable to reports and registration statements filed pursuant to the Securities Exchange Act of 1934.

"The proposals also include amendments to Regulation S-X, which govern the form and content of financial statements contained in registration statements and reports filed with the Commission. These proposed amendments would require disclosure in such financial statements of accounting policies and of the dollar impact

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of changes in such policies or of the use of alternative acceptable accounting principles or of principles not in prevailing use in a particular industry. In addition, disclosure would be required of the reasons for any variation between the statutory tax rate and the effective tax rate as well as of the source of tax deferrals.

"I believe that these proposals are a major step forward for everyone interested in using and analyzing the content of financial statements. Investors will be better able to understand the reported results of operations, to separate these results from the impact of accounting and other non-operating matters, and to compare these results with those of similar companies. At the same time, company managements and public accountants will have an opportunity to enhance their credibility and overcome criticism that accounting principles are selected to "manage" reported results. While I recognize that implementation of these proposals may impose some additional costs on certain companies, I feel confident that overall benefits far outweigh these costs. After all, companies already have the numbers and these proposals would merely ask that the net effect of alternative methods be calculated or estimated and then presented. I would also point out that the Commission's staff and an industry advisory committee are studying ways to achieve reductions in reporting requirements to offset the additional disclosure burden that has become necessary. Their report will shortly be available for comment.

"We look forward to constructive criticism from all concerned parties on these new reporting requirements and on how to minimize the burden of meeting them. These will assist us in the achievement of these desirable goals."

All interested persons are invited to submit their views and comments on the foregoing proposal to amend Rules 3-08 and 3-16(o) of Regulation S-X in writing to John C. Burton, Chief Accountant, Securities and Exchange Commission, Washington, D. C. 20549, on or before February 15, 1973. Such communications should refer to File No. S7-464. All such communications will be available for public inspection.

View and comments on the proposals to amend Guide 22 and to adopt Guide 1 can be submitted in writing to Andrew P. Steffan, Chief Financial Analyst, Division of Corporation Finance, Securities and Exchange Commission, Washington, D. C. 20549, on or before February 15, 1973. Such communications should refer to File No. S7-463. All such communications will be available for public inspection. (Release Nos. 33-5342, 5343 & 5344)

RULE 202-1 PROPOSED. The SEC today proposed a new Rule and amendments to an existing Rule under the Investment Advisers Act which are designed to clarify the registration and record-keeping requirements under that Act for (i) persons controlling a registered investment adviser or a person affiliated with such a controlling person, and (ii) registered investment advisers primarily engaged in a business other than the advisory business. Proposed Rule 202-1 would exempt from the definition of investment adviser, set forth in Section 202(a)(11) of the Act, a person controlling a registered investment adviser or a person affiliated with such a controlling person where the controlled registered adviser meets certain objective criteria which indicate it is an autonomous entity.

Paragraph (12) of the existing Rule 204-2(a) under the Act is proposed to be amended to require a record of securities transactions to be kept by affiliated persons of a person in a control relationship to the investment adviser, and any affiliated person of such an affiliated person. Presently, the Rule calls only for such records to be kept in certain cases by any person in a control relationship to the investment adviser.

Proposed new paragraph (13) of existing Rule 204-2(a) would clarify application of the record-keeping requirements under the Rule to partners, officers, directors and employees of a registered investment adviser primarily engaged in a business other than the advisory business. In the case of such advisers, the transactions of partners, officers and directors would only be required to be recorded where they have some connection with the advisory portion of the business or obtain information regarding recommendations to be made.

Finally, proposed new paragraph (14) of existing Rule 204-2(a) would more clearly define the term "control" in the Rule by adopting the definition of "control" set forth in Section 2(a)(9) of the Investment Company Act of 1940.

All interested persons are invited to submit comments on these proposals to Alan Rosenblat, Chief Counsel, Division of Investment Company Regulation, Securities and Exchange Commission, Washington, D. C. 20549, on or before February 16, 1973. Please refer to File No. S7-462 in any communications. (Rel. IA-353)

#### DECISION IN ADMINISTRATIVE PROCEEDING

NASD ACTION AGAINST HOLLAND UPHELD. The SEC has issued an order dismissing the application of Edward J. Holland of San Bruno, Calif., who was a registered representative of a member of the National Association of Securities Dealers, Inc., for review of an NASD decision censuring him and fining him \$500.

The Commission found, as had the NASD, that Holland violated the NASD's Rules of Fair Practice in that, in soliciting a customer in April 1969 to purchase registered stock of Golden Pacific Airlines, Inc., which was being distributed by the member as managing underwriter, he fraudulently represented that the stock was being offered to her as an inducement to obtain new customers and that it would open on the market the following day at a price much greater than the \$6 offering price. According to the Commission's decision, the stock, which the prospectus labelled as involving a "high degree of risk", did not open at a premium and its price thereafter steadily declined. (Rel. 34-9900)

COMMISSION ANNOUNCEMENT

SEC ORDER CITES PROPERTY UNDERWRITERS. The SEC has ordered proceedings against Property Underwriters, Inc., of Edina, Minn., and Calvin A. Merriman, president of Property Underwriters, Inc. The Commission also ordered interlocutory administrative proceedings against Property Underwriters, Inc. to determine whether, pending final determination of the issues alleged in the order for proceedings, it is necessary or appropriate in the public interest and for the protection of investors to suspend its broker-dealer registration. The proceedings are based upon allegations of the Commission's staff that the respondents violated and aided and abetted violations of the record keeping, net capital, reporting, confirmation and registration provisions of the Federal securities laws. Respondents are also charged with failure to reasonably supervise persons under their supervision with a view to preventing the alleged violations.

A hearing will be scheduled by further order to take evidence on the staff's allegations for the purpose of determining whether the allegations are true and to afford the respondents an opportunity to offer any defenses, and whether any action of a remedial nature should be ordered by the Commission.

CHICAGO BOARD OPTIONS EXCHANGE, INC. EXTENDS FILING. The Chicago Board Options Exchange, Inc. consented to the Commission deferring action on its application for registration as a national securities exchange pursuant to Section 6 of the Securities Exchange Act of 1934, for an additional 14 days from and after December 17, 1972.

As previously announced by the Commission, the application and exhibits are available for public inspection in the Public Reference Section of the Commission's Headquarters Office and all interested persons may submit their views and comments on the above proposals in writing to the Securities and Exchange Commission, Washington, D. C. 20549. All communications with respect to the proposed registration should refer to File No. 10-54-1 and all such communications will be available for public inspection.

HOLDING COMPANY ACT RELEASES

MIDDLE SOUTH UTILITIES. The SEC has issued an order upon an application of Middle South Utilities, Inc., New York holding company and its subsidiary, Louisiana Power & Light Company, New Orleans, La., authorizing Louisiana to: (1) issue and sell notes to banks and commercial paper, in an amount not exceeding \$50,000,000; (2) increase the authorized amount of preferred stock by 350,000 shares; (3) sell to Middle South 3,150,000 shares of common stock for \$20,000,000, and (4) to pay a cash dividend of \$4,130,000, to Middle South which will concurrently acquire an additional 650,000 shares of Louisiana's common stock for a like amount. (Rel. 35-17808)

ARKANSAS POWER & LIGHT CO. The SEC has issued an order authorizing Arkansas Power & Light Company, Little Rock, Ark., subsidiary of Middle South Utilities, Inc., to issue and sell up to \$60 million of unsecured short-term promissory notes (including commercial paper) to eleven banks and/or a dealer in commercial paper. The net proceeds, together with other available funds, will be applied to Arkansas' construction program, estimated for 1972 at \$118,500,000 and 1973 at \$155,800,000. (Rel. 35-17811)

JERSEY CENTRAL POWER & LIGHT CO. The SEC has issued a supplemental order authorizing Jersey Central Power & Light Company, Metropolitan Edison Company, and Pennsylvania Electric Company, public-utility subsidiary companies of General Public Utilities Corporation, a registered holding company, to extend until December 31, 1974, the period within which the companies may engage in certain intrasystem transactions regarding their joint ownership of the Three Mile Island nuclear generating station now under construction. (Rel. 34-17814)

SECURITIES ACT REGISTRATIONS FILED

DUKE POWER COMPANY, 422 S. Church St., Charlotte, N. C. 28201 - 3,000,000 shares of common stock, to be offered for sale (\*at \$25 per share maximum) through underwriters headed by Merrill Lynch, Pierce, Fenner & Smith Inc., One Liberty Plaza, and The First Boston Corp., 20 Exchange Pl., both of New York. Net proceeds will be used to finance the company's construction program, estimated at \$453 million for 1973 and \$1,845 million for the years 1972-1975. (File 2-46524 - Dec 8)

EXTRACORPOREAL MEDICAL SPECIALTIES, INC., Royal and Ross Rds., King of Prussia, Pa. 19406 - 20,000 shares of common stock issued or issuable under the company's Qualified Stock Option Plan. (File 2-46525-Dec 8)

VARELLA PRODUCTS INC., 66 W. Flagler St., Miami, Fla. 33130 - 168,913 shares of common stock, to be distributed by Arthur S. Clark, Jr., president of Varella, without charge, among certain stockholders of Clarco, Inc. and certain other persons. Varella is not and has never engaged in any business activity. (File 2-46526 - Dec 4)

COMMERCE BANCSHARES, INC., 911 Main St., Kansas City, Mo. 64199 - 118,500 shares of common stock. It is proposed to offer these shares in exchange for all the outstanding capital stock of the following banks at the specified rates. 30 shares for each share of Citizens Bank of Festus, 15 shares for each share of Lexington Bank and Trust Company and 1.2 shares for each share of The Citizens National Bank of Harrisonville. A bank holding company, Bancshares owns virtually all of the stock of 21 banks in Missouri and owns a majority of the voting shares of certain non-banking corporations. (File 2-46527 - Dec 11)

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**STOCK PLANS FILED.** The following have filed Form S-8 registration statements with the SEC seeking registration of securities to be offered pursuant to employee stock and related plans:

- Davis Water & Waste Industries, Inc., Thomasville, Ga. (File 2-46533) - 15,000 shares
- Cities Service Company, New York, N. Y. (File 2-46534) - 100,000 shares
- Atlantic Richfield Company, Los Angeles, Calif. (File 2-46536) - 300,000 shares
- Coastal States Gas Corporation, Corpus Christi, Tex. (File 2-46538) - 75,000 shares and (File 2-46539) - 207,074 shares and 18,375 cumulative convertible preferred stock
- Litton Industries, Beverly Hills, Calif. (File 2-46540) - 1,000,000 shares
- Daniel Woodhead, Inc., Northbrook, Ill. (File 2-46541) - 61,031 shares
- The Goodyear Tire & Rubber Company, Akron, Ohio (File 2-46542) - 2,250,000 shares

#### MISCELLANEOUS

**RECENT FORM 8-K FILINGS.** The companies listed below have filed Form 8-K reports for the month indicated, responding to the item on the 8K form numbered in the parentheses. Photocopies may be purchased from the Commission's Public Reference Section (in ordering, please give month and year of report). An index of the captions of the several items of the form was included in the December 1 News Digest.

#### 8K Reports for Aug 72

<b>Mechanical Enterprises Inc</b>		<b>Saxon Inds Inc (8)</b>	<b>1-4111-2</b>
(11)	2-31548-2	Transmation Inc (2,14)	0-3915-2
<b>Memorex Corp (13,14)</b>	<b>1-5624-2</b>	<b>Varo Inc (4,11,14)</b>	<b>1-5381-2</b>
<b>Performance Systems Inc</b>		<b>Western Union Corp (7,8)</b>	<b>1-6310-2</b>
Jul 72 (3)	0-3571-2	<b>Zimmer Homes Corp (13)</b>	<b>1-5712-2</b>
<b>Planet Oil &amp; Mineral Corp</b>		<b>Interlake Inc (13)</b>	<b>1-6345-2</b>
(2,13)	0-3651-2	<b>Kinemotive Corp (11,13)</b>	<b>2-24790-2</b>
<b>Playboy Enterprises Inc</b>		<b>Package Machinery Corp</b>	
(7,13)	1-6813-2	(7,14)	0-577-2
<b>STP Corp (3,13,14)</b>	<b>1-5836-2</b>	<b>Pentair Inds Inc (3,13,14)</b>	<b>0-4689-2</b>
<b>Showboat Inc (2,13)</b>	<b>0-3971-2</b>	<b>Scientific Resources Corp</b>	
<b>Southland Paper Mills Inc</b>		(2,13,14)	1-4771-2
(4,7)	0-2630-2	<b>Smithfield Foods Inc (14)</b>	0-2258-2
<b>Sterling Communications Inc</b>		<b>Stecher-Traung-Schmidt Corp</b>	
(13,14)	0-3865-2	Jul 72 (3)	0-2558-2
<b>Systems Associates Inc</b>		<b>The Winde Group Inc (3)</b>	2-33706-2
Jul 72 (6)	0-4169-2	<b>Zale Corp (4,11)</b>	1-4129-2
<b>Tecor Inc (4,5)</b>	<b>2-30267-2</b>	<b>AFCOA (3)</b>	0-5231-2
<b>ASM Inds Inc</b>		<b>Columbia Technical Corp (7)</b>	1-5408-2
(1,7,10,11,14)	0-5188-2	<b>Giant Stores Corp (3,7)</b>	1-6837-2
<b>Curtis Electro Corp</b>		<b>Natl Mortgage Fund (7,13)</b>	0-3934-2
(2,13)	0-2563-2	<b>Ovitron Corp (4,7,14)</b>	0-3128-2
<b>McNeil Pacific Investors Fund</b>		<b>Pacesetter Inds Inc (11,13)</b>	0-6279-2
1972 (7)	2-42023-2	<b>Purity Stores Inc (13)</b>	0-1116-2
<b>NFF Corp (3)</b>	<b>0-4221-2</b>	<b>Ray Resources Corp (13,14)</b>	1-6202-2
<b>Resdel Inds (7,10,13)</b>	<b>0-5863-2</b>	<b>Seaco Computer Display Inc</b>	
<b>Sanders Associates Inc</b>		Jul 72 (13)	0-5212-2
(12,13)	1-5166-2	<b>Seatrain Lines Inc</b>	
		Jun 72 (13)	1-5957-2

**TRADING SUSPENSION CONTINUED.** The SEC has ordered the suspension of over-the-counter trading in the securities of Clinton Oil Company for the further ten-day period December 18-27, inclusive.

**SECURITIES ACT REGISTRATIONS.** Effective December 15: Ambient Pollution Control Corp., 2-44081 (90 days); Approved Engineering Test Laboratories, Inc., 2-45375 (Mar 15); ADRs of British Leyland Motor Corp. Ltd., 2-46520; Becton, Dickinson & Co., 2-46545; Colgate-Palmolive Co., 2-46274; D-Tektamatic Corp., 2-45156 (90 days); Genesco Inc., 2-46090; Montrose Investors, Inc., 2-38628; Rich's, Inc., 2-46335; Textured Products, Inc., 2-44268 (90 days).

**NOTE TO DEALERS.** The period of time dealers are required to use the prospectus in trading transactions is shown above in parentheses after the name of the issuer.

\*As estimated for purposes of computing the registration fee.

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