

INTRODUCTION

The U.S. Securities and Exchange Commission (SEC) is pleased to provide this Annual Report for fiscal year 2001. The activities and accomplishments presented on the following pages continue the agency's long tradition of effective enforcement in and regulation of our nation's capital markets.

The SEC is a civil law enforcement agency. Since its creation in 1934, the Commission's mission has been to administer and enforce the federal securities laws in order to protect investors, and to maintain fair, honest, and efficient markets. Though it is the primary overseer and regulator of the U.S. securities markets, the SEC works closely with many other institutions, including Congress, other federal departments and agencies, the self-regulatory organizations (*e.g.*, the stock exchanges), state securities regulators, and various private sector organizations.

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Table of Contents

Commission Members and Principal Staff Officers	vii
Biographies of Commission Members	x
Harvey L. Pitt ♦ Isaac C. Hunt, Jr. ♦ Laura S. Unger	
Regional and District Offices	xiv
Enforcement.....	1
International Affairs	16
Investor Education and Assistance	27
Regulation of Securities Markets	34
Investment Management Regulation	52
Compliance Inspections and Examinations	66
Full Disclosure System.....	73
Accounting and Auditing Matters	81
Other Litigation and Legal Activities	94
Economic Research and Analysis	113
Policy Management & Administrative Support	118
Endnotes	123
Appendix	133

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Commission Members and Principal Staff Officers

(As of November 5, 2001)

Commissioners	Term Expires
Harvey L. Pitt , <i>Chairman</i>	2007
Isaac C. Hunt, Jr. , <i>Commissioner</i>	2000
Laura S. Unger , <i>Commissioner</i>	2001

Mark Radke, *Chief of Staff*
Lisa Panasiti, *Deputy Chief of Staff*
Jonathan G. Katz, *Secretary of the Commission*

Principal Staff Officers

David Martin, *Director, Division of Corporation Finance**
Michael McAlevey, *Deputy Director*
Martin Dunn, *Senior Associate Director*
Mauri Osheroff, *Associate Director*
Shelley E. Parratt, *Associate Director*
James Daly, *Associate Director*
William Tolbert, *Associate Director*
Vacant, *Associate Director*

Stephen M. Cutler, *Director, Division of Enforcement*
Vacant, *Deputy Director*
William Baker, *Associate Director*
Paul Berger, *Associate Director*

*Allan Beller will become Director of the Commission's Division of Corporation Finance and Senior Counselor to the Commission effective January 14, 2002.

Thomas Newkirk, *Associate Director*
Linda Thomsen, *Associate Director*
Joan McKown, *Chief Counsel*
David Kornblau, *Chief Litigation Counsel*
Peter H. Bresnan, *Deputy Chief Litigation Counsel*
Charles Niemeier, *Chief Accountant*

Paul Roye, *Director, Division of Investment Management*
Cynthia Fornelli, *Deputy Director*
David B. Smith, *Associate Director*
Barry D. Miller, *Associate Director*
Susan Nash, *Associate Director*
Robert Plaze, *Associate Director*
Douglas Scheidt, *Associate Director*

Annette Nazareth, *Director, Division of Market Regulation*
Robert L.D. Colby, *Deputy Director*
Larry E. Bergmann, *Associate Director*
Belinda Blaine, *Associate Director*
Elizabeth King, *Associate Director*
Michael A. Macchiaroli, *Associate Director*
Catherine McGuire, *Associate Director/Chief Counsel*

David Becker, *General Counsel, Office of General Counsel*
Meyer Eisenberg, *Deputy General Counsel*
Meridith Mitchell, *Principal Associate General Counsel*
Anne E. Chafer, *Associate General Counsel*
Richard M. Humes, *Associate General Counsel*
Diane Sanger, *Associate General Counsel*
Jacob H. Stillman, *Solicitor*

Lori A. Richards, *Director, Office of Compliance Inspections and Examinations*
Karen Burgess, *Senior Advisor to the Director*
Mary Ann Gadziala, *Associate Director*
Gene Gohlke, *Associate Director*
John McCarthy, *Associate Director*
John Walsh, *Associate Director*

Robert K. Herdman, *Chief Accountant, Office of the Chief Accountant*

Brenda Murray, *Chief Administrative Law Judge, Office of the Administrative Law Judges*

Vacant, *Chief Economist, Office of Economic Analysis*

Brian Gross, *Director of Communications*

Vacant, *Director, Office of Congressional and Intergovernmental Affairs***

Susan Wyderko, *Director, Office of Investor Education and Assistance*

Michael Robinson, *Director, Office of Public Affairs, Policy Evaluation and Research****

Deborah Balducchi, *Director, Office of Equal Employment Opportunity*

James M. McConnell, *Executive Director, Office of the Executive Director*

Michael Bartell, *Associate Executive Director*

Margaret Carpenter, *Associate Executive Director*

Kenneth Fogash, *Associate Executive Director*

Jayne Seidman, *Associate Executive Director*

Vacant, *Director, Office of International Affairs*

**Casey Carter was appointed Director of the renamed Office of Legislative Affairs on January 8, 2002.

***Christi Harlan was appointed Director of the Office of Public Affairs, formerly known as the Office of Public Affairs, Policy Evaluation and Research, on January 8, 2002.

Biographies of Commission Members

Chairman Harvey L. Pitt

On August 3, 2001, President Bush appointed Harvey L. Pitt as the twenty-sixth Chairman of the United States Securities and Exchange Commission. Chairman Pitt had previously served as an attorney on the staff of the Commission from 1968 until 1978, the last three years of which he was the Commission's General Counsel.



For nearly a quarter of a century before rejoining the Commission, Chairman Pitt was in the private practice of law. Chairman Pitt also was a founding trustee and the president of the SEC Historical Society, and participated in a wide variety of bar and continuing legal education activities to further public consideration of significant securities law issues. Chairman Pitt served as an Adjunct Professor of Law at Georgetown University Law Center (1975-84), George Washington University Law School (1974-82) and the University of Pennsylvania School of Law (1983-84).

In his prior service with the Commission, before his appointment as the Commission's General Counsel (1975-78), Chairman Pitt started as a staff attorney in the Commission's Office of General Counsel (1968), and served in the following capacities over the next decade: Legal Assistant to SEC Commissioner Francis M. Wheat (1969); Special Counsel in the Office of the General Counsel of the SEC (1970-72); Editor of the SEC's Institutional Investor Study Report (1972); Chief Counsel of the SEC's Division of Market Regulation (1972-73); and Executive Assistant to SEC Chairman Ray Garrett, Jr. (1973-75).

Chairman Pitt received a J.D. degree from St. John's University School of Law (1968), and his B.A. from the City University of New York (Brooklyn College) (1965).

Commissioner Isaac C. Hunt, Jr.



Isaac C. Hunt, Jr. was nominated to the Securities and Exchange Commission by President Bill Clinton in August 1995 and confirmed by the Senate on January 26, 1996. He was sworn in as a Commissioner on February 29, 1996.

Prior to being nominated to the Commission, Mr. Hunt was Dean and professor of Law at the University of Akron School of Law, a position he held from 1987 to 1995. He taught securities law for seven of the eight years he served as Dean. Previously, he was Dean of the Antioch School of Law in Washington, D.C. where he also taught securities law. In addition, Mr. Hunt served during the Carter and Reagan Administrations at the Department of the Army in the Office of the General Counsel as Principal Deputy General Counsel and as Acting General Counsel. As an associate at the law firm of Jones, Day, Reavis and Pogue, Mr. Hunt practiced in the fields of corporate and securities law, government procurement litigation, administrative law, and international trade. In addition, Mr. Hunt commenced his career at the SEC as a staff attorney from 1962 to 1967.

Mr. Hunt was born on August 1, 1937 in Danville, Virginia. He earned his B.A from Fisk University in Nashville, Tennessee in 1957, and his LL.B. from the University of Virginia School of Law in 1962.

Commissioner Laura Unger

Ms. Unger was sworn in on November 5, 1997 as a member of the U.S. Securities and Exchange Commission, for a term expiring June 2001. On February 12, 2001, President Bush designated Laura Unger Acting Chairman of the U.S. Securities and Exchange Commission. She served in that capacity until August 3, 2001.



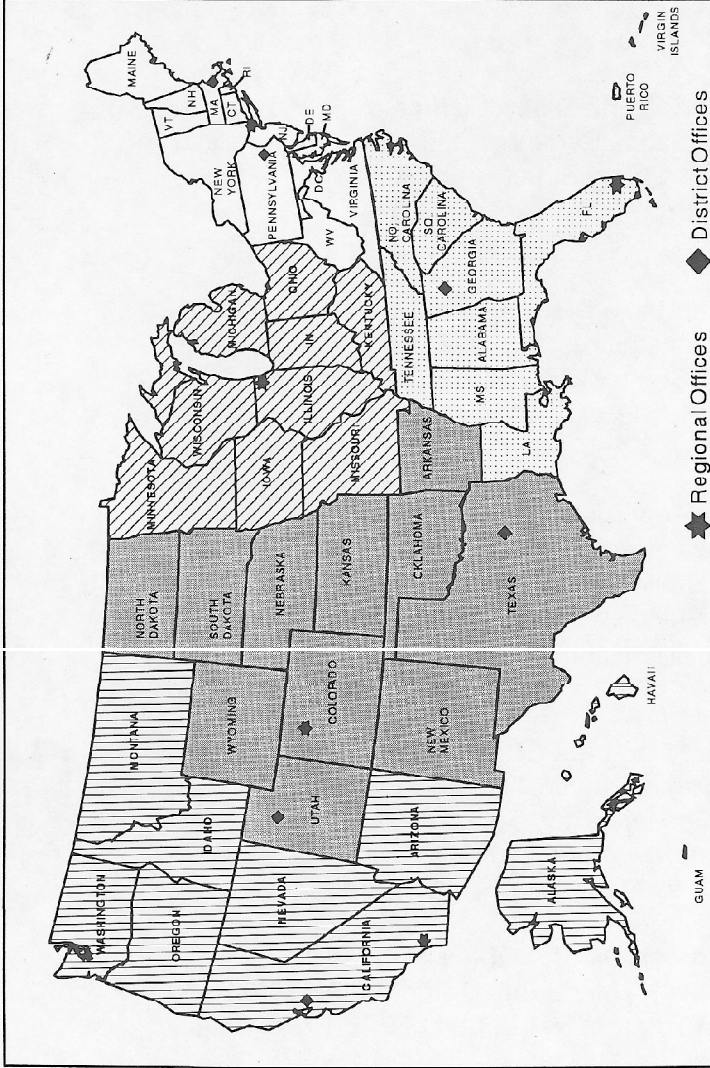
Ms. Unger's main focus is the impact of technology on the securities industry. She is evaluating how the Commission can optimize the benefits of technology for the capital markets and investors, and has been working to implement recommendations made in her 1999 report to the Commission: "Online Brokerage: Keeping Apace of Cyberspace."

Soon after arriving at the Commission, Ms. Unger conducted a top-to-bottom review of the Commission's Enforcement Division. Ms. Unger also played a key role in the Commission's efforts to deal with Year 2000 remediation efforts by both public reporting companies and Commission-regulated entities.

Before being appointed to the Commission, Ms. Unger served as Securities Counsel to the United States Senate Committee on Banking, Housing and Urban Affairs where she advised the Chairman, Senator Alfonse M. D'Amato. Prior to working on Capitol Hill, Ms. Unger was an attorney with the Enforcement Division of the U.S. Securities and Exchange Commission in Washington, D.C.

Ms. Unger received a B.A. in Rhetoric from the University of California at Berkeley in 1983, and a J.D. from New York Law School in 1987.

SEC REGIONAL AND DISTRICT OFFICES



-  Pacific Region
San Francisco District
-  Central Region
Fort Worth District
Salt Lake District
-  Midwest Region
-  Northeast Region
Boston District
Philadelphia District
-  Southeast Region
Atlanta District

Central Regional Office

Randall J. Fons, Regional Director
1801 California Street, Suite 4800
Denver, Colorado 80202-2648
(303) 844-1000

Fort Worth District Office

Harold F. Degenhardt, District Administrator
801 Cherry Street, 19th Floor
Forth Worth, Texas 76102
(817) 978-3821

Salt Lake District Office

Kenneth D. Israel, Jr., District Administrator
50 South Main Street, Suite 500
Salt Lake City, Utah 84144-0402
(801) 524-5796

Midwest Regional Office

Mary Keefe, Regional Director
Citicorp Center
500 West Madison Street, Suite 1400
Chicago, Illinois 60661-2511
(312) 353-7390

Northeast Regional Office

Wayne M. Carlin, Regional Director
233 Broadway
New York, New York 10279
(646) 428-1500

Boston District Office

Juan M. Marcelino, District Administrator
73 Tremont Street, Suite 600
Boston, Massachusetts 02108-3912
(617) 424-5900

Philadelphia District Office

Ronald C. Long, District Administrator
The Curtis Center, Suite 1120 E.
601 Walnut Street
Philadelphia, Pennsylvania 19106-3322
(215) 597-3100

Pacific Regional Office

Randall R. Lee, Regional Director
5670 Wilshire Boulevard, 11th Floor
Los Angeles, California 90036-3648
(323) 965-3998

San Francisco District Office

Helene Morrison, District Administrator
44 Montgomery Street, Suite 1100
San Francisco, California 94104
(415) 705-2500

Southeast Regional Office

David Nelson, Regional Director
1401 Brickell Avenue, Suite 200
Miami, Florida 33131
(305) 536-4700

Atlanta District Office

Richard P. Wessel, District Administrator
3475 Lenox Road, N.E., Suite 1000
Atlanta, Georgia 30326-1232
(404) 842-7600

Enforcement

The SEC's enforcement program seeks to promote the public interest by protecting investors and preserving the integrity and efficiency of the securities markets.

What We Did

- Obtained orders in SEC judicial and administrative proceedings requiring securities law violators to disgorge illegal profits of approximately \$478 million. Civil penalties ordered in SEC proceedings totaled approximately \$44 million.
- Obtained emergency relief from federal courts, in the form of temporary restraining orders (TROs) to halt ongoing fraudulent conduct, in 42 actions.
- Halted trading in two securities of issuers about which there was inadequate public disclosure.

Enforcement Actions Initiated

	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>	<u>FY00</u>	<u>FY01</u>
Civil Injunctive Actions	189	214	198	223	205
Administrative Proceedings	285	248	298	244	248
Contempt Proceedings	14	15	29	36	31
Reports of Investigation	1	0	0	0	0
Total	489	477	525	503	484

Significant Enforcement Actions

Most of the SEC's enforcement actions were resolved by settlement with the defendants or respondents, who generally consented to the entry of judicial or administrative orders without admitting or denying the allegations against them. The following is a sampling of the year's significant actions.

Financial Fraud and Disclosure Cases

- *SEC v. Arthur Andersen LLP, et al; In the Matter of Arthur Andersen LLP; In the Matter of Robert E. Algyer; In the Matter of Edward G. Maier; In the Matter of Walter Cercavski; In the Matter of Robert G. Kutsenda, CPA.*¹ On June 19, 2001, the Commission filed and settled antifraud injunctive actions and administrative proceedings against Arthur Andersen LLP and four of its current or former partners in connection with Andersen's audits of the annual financial statements of Waste Management, Inc. Those financial statements, on which Andersen issued unqualified or "clean" opinions, overstated Waste Management's pre-tax income by more than \$1 billion. The Commission found that Andersen's audit reports were materially false and misleading and that Andersen engaged in improper professional conduct. Andersen consented to this injunction, which is the first antifraud injunction in more than 20 years and the largest civil penalty--\$7 million--in a Commission enforcement action against a Big Five accounting firm. Andersen further agreed to be censured pursuant to rule 102(e) of the Commission's Rules of Practice. Three Andersen partners, Robert Algyer, Edward Maier, and Walter Cercavski, also settled the civil injunctive action, which charges each with violations of antifraud provisions of the federal securities laws, and agreed to payment of civil penalties in the amount of \$50,000, \$40,000 and \$30,000, respectively. In addition, these three Andersen partners settled the related administrative proceedings and each agreed to the

entry of an order barring them from appearing or practicing before the Commission as an accountant, with the right to request reinstatement after five years (Algyer) and three years (Maier and Cercavschi). A fourth Andersen partner, Robert Kutsenda, settled administrative proceedings finding that he had engaged in improper professional conduct and agreed to a bar from appearing or practicing before the Commission as an accountant, with the right to request reinstatement after one year.

- *In the Matter of Sunbeam Corporation; SEC v. Albert J. Dunlap, et. al; In the Matter of David C. Fannin.*² On May 15, 2001, the Commission instituted settled administrative proceedings against Sunbeam Corporation and filed injunctive actions against five former officers of Sunbeam Corporation and Phillip E. Harlow, the former engagement partner on the Arthur Andersen LLP audits of Sunbeam's financial statements, in connection with a massive financial fraud. The Commission's complaint alleges that the defendants engaged in a scheme to fraudulently misrepresent Sunbeam's results of operations in connection with a purported "turnaround" of the company. The creation of inappropriate accounting reserves--"cookie-jar" reserves--was used to increase Sunbeam's reported loss for 1996 and then used to overstate quarterly income as well as quarterly income growth in 1997, thus contributing to the false picture of a rapid turnaround. Then to further boost income in 1997, and to create the impression that Sunbeam was experiencing significant revenue growth, the five former officers, Albert J. Dunlap, Russell A. Kersh, Robert J. Gluck, Donald R. Uzzi and Lee B. Griffith, caused the company to recognize revenue for sales that did not meet applicable accounting rules. As a result, for fiscal year 1997, at least \$60 million of Sunbeam's reported earnings came from accounting fraud. When Sunbeam's "turnaround" was exposed as a sham, Sunbeam's stock price plummeted, causing investors billions of dollars in losses. This case was still pending at the end of the fiscal year. In addition, the Commission instituted

settled administrative proceedings against one of Sunbeam's former officers, David Fannin, for violations relating to this conduct.

- *SEC v. Michael Jerry Saylor, et al.; In the Matter of MicroStrategy, Inc.; In the Matter of Antoinette A. Parsons, et al.; In the Matter of Mark Steven Lynch, CPA.*³ On December 14, 2000, the Commission filed a settled civil injunctive action against MicroStrategy Inc.'s top three officers: Michael Saylor (co-founder and chief executive officer), Sanjeev Bansal (co-founder and chief operating officer), and Mark Lynch (former chief financial officer) for materially overstating its revenues and earnings from the sales of software and information services from the time of its initial public offering in June 1998 through March 2000. By prematurely recognizing its revenue, the company's public financial reports during this time showed positive net income when in fact MicroStrategy should have reported net losses from 1997 through the present. The defendants consented to the entry of permanent injunctions and agreed to disgorge over \$10,000,000 and to each pay a civil penalty of \$350,000. In addition, Lynch consented to the entry of an administrative proceeding barring him from practicing before the Commission as an accountant, with a right to reapply after three years. The Commission also instituted a settled order against MicroStrategy ordering the company to cease and desist from violating the federal securities laws and to engage in certain undertakings to effect future compliance with such laws. Additionally, the Commission instituted a settled order against MicroStrategy's corporate controller, Antoinette A. Parsons, and its accounting manager, Stacy L. Hamm, ordering them to cease and desist from violating the federal securities laws.
- *In the Matter of International Business Machines Corp.; SEC v. International Business Machines Corp.*⁴ On December 21, 2000, the Commission instituted settled administrative proceedings against International Business Machines Corp.

(IBM) for books and records violations resulting from payments of \$22 million to foreign officials by one of IBM's wholly-owned subsidiaries, IBM-Argentina, S.A. These improper payments were made in violation of the Foreign Corrupt Practices Act of 1977 (FCPA). IBM also consented to the entry of a judgment in U.S. District Court ordering it to pay a \$300,000 penalty.

- *In the Matter of Baker Hughes Inc.; SEC v. Eric L. Mattson, et al.; USA and SEC v. KPMG Siddharta Siddharta & Harsono, et al.*⁵ On September 12, 2001, the Commission instituted a settled administrative proceeding against Baker Hughes Incorporated for books and records violations associated with illegal payments to foreign officials. The Commission's order finds that in March 1999, Baker Hughes' CFO, Eric Mattson, and its controller, James Harris, authorized an illegal payment of \$75,000, through KPMG-Siddharta Siddharta & Harsono (KPMG-SSH), its agent in Indonesia, to a local government official in Indonesia. This improper payment was made in violation of the FCPA. In 1998 and 1995, senior managers at Baker Hughes authorized illegal payments to Baker Hughes' agents in India and Brazil, respectively. Baker Hughes failed to devise and maintain an adequate system of internal accounting controls to detect and prevent improper payments to foreign government officials and to provide reasonable assurance that transactions were recorded as necessary to permit the preparation of accurate financial statements. Baker Hughes also consented to a cease and desist order. Additionally, on September 12, 2001, the Commission filed an injunctive action against Mattson and Harris for their conduct in this matter. This action was pending at the end of the fiscal year. Finally, the Commission and the Department of Justice filed a joint civil injunctive action against KPMG-SSH and Sonny Harsono, a partner of KPMG-SSH, for their part in the payment of the \$75,000 bribe. These two defendants have consented to an injunction. This is the first joint action that the

Commission and the Department of Justice have filed under the FCPA.

Internet Cases⁶

- On March 1, 2001, the Commission announced its fifth nationwide Internet fraud sweep, as 11 enforcement actions were brought against a total of 23 companies and individuals who used the Internet to defraud investors. The sweep consisted of cases involving both publicly traded securities and privately held companies. The defendants used the Internet to “pump” the market capitalization of the stocks involved by more than \$300 million and raise \$2.5 million in proceeds from investors in the United States and abroad. The frauds were accomplished by a variety of online means including “spam” emails, electronic newsletters, websites, hyperlinks, message boards, and other Internet media. The cases include four administrative proceedings and seven civil actions. Seven of these cases are settled, three are litigated and in the last action, two of the four defendants settled, and the other two are litigating.

Broker-Dealer and Transfer Agent Cases

- *In the Matter of Rauscher Pierce Refsnes, Inc.*⁷ On September 27, 2001, the Commission filed settled administrative and cease and desist proceedings against Rauscher Pierce, now known as Dain Rauscher Inc. (Rauscher), for false and misleading statements and omissions made to investors in a municipal bond offering underwritten by Rauscher. Rauscher underwrote the City of Miami’s municipal bond offering for \$72 million in non-ad valorem revenue bonds to pay for certain of the city’s annual pension obligations. The Commission’s order alleges that Rauscher, through its investment bankers, violated the federal securities laws in connection with the offer and sale of these municipal bonds by failing to provide investors with accurate and complete disclosure of material facts regarding the

city's deteriorating financial condition. Rauscher consented to a cease and desist order and to pay a civil penalty of \$200,000. Rauscher also agreed to comply with undertakings to maintain its revised policies and procedures relating to municipal securities underwriting.

- *SEC v. The Chase Manhattan Bank; In the Matter of The Chase Manhattan Bank.*⁸ On September 24, 2001, the Commission filed an action in U.S. District Court and instituted an administrative proceeding against Chase, both of which were consented to, alleging that Chase committed recordkeeping and reporting violations while acting as a registered transfer agent for numerous corporate and municipal bond issues. Chase consented to the imposition of a \$1 million civil penalty. The Commission alleged that by March 1998, Chase, and companies with which it had merged, had identified but failed to reconcile inaccuracies in its computerized bond recordkeeping system totaling more than \$46.8 billion. Chase did not fully reconcile these records until after June 2000. Thus, Chase filed false annual reports required of transfer agents, maintained inaccurate records, and did not notify issuers or the appropriate regulatory agency in the prescribed manner of the discrepancies in its records.
- *In the Matter of JPR Capital, et al.; In the Matter of Jeffrey Ramson.*⁹ On June 13, 2001, the Commission instituted settled administrative proceedings against JPR Capital Corporation, a broker-dealer that operates as a day trading firm, and four associated persons, Paul Umansky, Charles Hampton, Jeffrey Wolf, and Jeffrey Ramson, for allowing customers of JPR to receive \$2 million in uncollateralized loans for the purpose of covering margin calls in violation of the rules and regulations governing the extension of margin loans to customers. JPR Capital consented to be censured, and to a cease and desist order. JPR Capital also agreed to pay a civil monetary penalty in the amount of \$55,000 and to comply with numerous undertakings, including hiring a full-time compliance officer,

hiring a full-time margin clerk, and revising its compliance procedures. In addition, the four individuals consented to be censured, to cease and desist orders, and to each pay a \$5,500 civil penalty.

- *In the Matter of Guy P. Wyser-Pratte, et al.*¹⁰ On May 9, 2001, the Commission instituted settled administrative proceedings against Guy P. Wyser-Pratte, and his two firms, Wyser-Pratte and Co., Inc., a broker-dealer, and Wyser-Pratte Management Co., Inc., an investment adviser. The Commission's order found that the respondents failed to establish, maintain and enforce written policies and procedures reasonably designed to prevent the misuse of material nonpublic information. Respondents engaged in merger arbitrage and investment initiatives involving companies where respondents pursued changes in the companies' governance, including initiatives involving investments in companies that have rejected merger or takeover proposals from other companies. Respondents' activities involved extensive interaction with market participants who often possess material nonpublic information. Wyser-Pratte's contacts with such market participants, and his control over all trading activities at his firms, coupled with the failure of his firms to establish adequate policies and procedures relating to material nonpublic information, created an identifiable potential for the misuse of such information. Wyser-Pratte, Wyser-Pratte and Co., and Wyser-Pratte Management Co. agreed to be censured, to cease and desist from violating federal securities laws, and to pay civil monetary penalties in the amount of \$50,000, \$200,000 and \$200,000, respectively. The respondents also agreed to retain an independent consultant to conduct a comprehensive compliance review and to implement the procedures recommended by this independent consultant.

Investment Adviser and Investment Company Cases

- *In the Matter of Duff & Phelps Investment Management Co., Inc.; In the Matter of Wayne C. Stevens; In the Matter of Chris Woessner.*¹¹ On September 28, 2001, the Commission instituted settled administrative proceedings against Duff & Phelps Investment Management Co. and its former president, Wayne C. Stevens, and instituted a contested administrative proceeding against Chris Woessner, a former vice president of sales for Duff. The proceedings concern the parties' roles in a scheme to direct approximately \$715,000 of Duff's client commissions for the benefit of a broker-dealer and a pension consultant in exchange for the referral of a client, a pension fund for the International Brotherhood of Teamsters Union Local 710. Duff did not disclose to its clients its direction of brokerage in exchange for a client referral, and it affirmatively and falsely stated in its Commission filings that it did not direct commissions in exchange for client referrals. Duff consented to a cease and desist order, to be censured, to pay a civil penalty of \$100,000, to pay disgorgement, and to comply with numerous undertakings. Stevens consented to a cease and desist order, to pay a civil penalty of \$20,000, and to comply with numerous undertakings. The action against Woessner was pending at the end of the fiscal year.
- *In the Matter of Trudie D. Whitehead; In the Matter of Kyle R. Kirkland; In the Matter of Western Asset Management Co. and Legg Mason Fund Adviser, Inc.*¹² On September 28, 2001, the Commission instituted settled public administrative and cease and desist proceedings against Trudie D. Whitehead, a portfolio manager for the Legg Mason High Yield Portfolio (High Yield Fund) and the U.S. High Yield Investments, N.V., a Legg Mason offshore fund (collectively, the Funds), and Kyle Kirkland, a principal of a former broker-dealer. The Commission's orders found that from 1996 to 1998, Whitehead caused the Funds to purchase securities underwritten by Kirkland and his former broker-dealer. After the securities

began performing poorly and the issuers suffered severe financial problems, Whitehead and Kirkland defrauded the Funds by concealing the problems and inflating the value of the troubled securities, which caused the High Yield Fund to materially overstate its net asset value. Whitehead consented to the entry of an order barring her from association with any investment adviser or investment company, a cease and desist order, and agreed to pay a \$25,000 civil penalty. Kirkland consented to the entry of an order barring him from association with any broker, dealer, or investment company with the right to reapply for association after three years and a cease and desist order, and agreed to pay a \$30,000 civil penalty. In addition, the Commission instituted settled public administrative proceedings against the Funds' manager, Legg Mason Fund Adviser, Inc. (Legg Mason) and the sub-adviser, Western Asset Management (WAM), for failing to reasonably supervise Whitehead, the portfolio manager. The Commission's order found that Legg Mason failed to have adequate policies and procedures to respond adequately to indications that the portfolio manager was overstating the value of one of the fund's securities and that WAM failed to have adequate policies and procedures designed to prevent securities violations by the portfolio manager. Legg Mason and WAM were each censured, each ordered to pay a \$50,000 civil penalty, and each ordered to comply with undertakings to maintain the enhanced supervisory policies and procedures previously implemented.

- *In the Matter of ABN AMRO, Inc; In the Matter of Oechsle International Advisors, L.L.C.; In the Matter of Angelo Iannone; In the Matter of Andrew S. Parlin.*¹³ On August 10, 2001, the Commission instituted settled administrative proceedings against Angelo Iannone, former head of international equities sales trading at ABN AMRO Inc. (AAI) and Andrew Parlin, a former principal and portfolio manager at Oechsle International Advisors, L.L.C. (Oechsle) for engaging in practices known as "portfolio pumping" and "marking the

close.” The Commission also instituted settled administrative proceedings against their respective former employers, AAI and Oechsle. The Commission’s orders found that on the last trading days of the second and third quarters of 1998, Iannone and Parlin placed purchase orders in five securities heavily owned by Parlin’s advisory clients shortly before the close of the various markets for the purpose of reaching a higher price, a practice known as “marking the close.” By intentionally buying those securities in volume at or near the close of trading, Parlin sought to cause, and in some cases caused, a short-term increase in the overall value of certain securities held in the accounts under his management. However, Parlin did not sell these securities based on the short-term price increases. In addition, in some cases the higher closing price increases coincided with the fiscal period ends, a practice known in the industry as “portfolio pumping.” In these proceedings, Iannone and Parlin each agreed to a cease and desist order, to pay a \$75,000 civil penalty, and to be suspended from association with any broker or dealer for 12 months. Additionally, both AAI and Oechsle agreed to be censured because the firms failed reasonably to supervise Iannone and Parlin, respectively, and to each pay a \$200,000 civil penalty.

- *SEC v. Alan Brian Bond, et. al.*¹⁴ On August 10, 2001, the Commission filed an injunctive action alleging that Bond and his investment adviser firm, Albriond Capital Management, LLC, orchestrated a cherry-picking or trade allocation scheme that resulted in his clients losing nearly \$57 million and Bond gaining nearly \$6.6 million on an initial investment of approximately \$260,000, a 5,487% return. The Commission’s complaint alleged that from March 2000 to July 25, 2001, Bond traded for his own personal account and the accounts of three institutional clients and that during this period, Bond allocated 93% of the profitable trades to his own account and 83% of the unprofitable trades to his clients’ accounts. When the case was filed, the Commission also obtained an order

freezing the assets of Bond and Albriond. Bond was sued by the Commission in December 1999 on a different scheme in which he allegedly received millions of dollars in kickbacks. This case was pending at the end of the fiscal year.

- *SEC v. Heartland Group*.¹⁵ On March 22, 2001, the Commission filed a settled action for a TRO and preliminary and permanent injunctions against Heartland Group, a registered open-end investment company, due to its failure to send annual reports for three of its Funds to the Funds' shareholders and for its failure to file necessary reports with the Commission. These failures were due to Heartland Group's inability to obtain audited financial results for the three funds because of concerns of Heartland's independent public accountant regarding the underlying valuations of the securities held in the Funds. Heartland Group consented to this action, which shut down the Funds; froze the assets held in the Funds; and provided for the appointment of a receiver to take control of the assets of the Funds. The receiver was authorized to manage the funds, suspend redemptions in the Funds and, if appropriate, liquidate the Funds.
- *SEC v. Paul J. Silvester*.¹⁶ On October 10, 2000, the Commission filed a partially settled civil action against Paul J. Silvester, the former Treasurer of the State of Connecticut; two private equity firms (Landmark Partners, Inc. and Triumph Capital Group, Inc.); three of their officers (Stanley F. Alfeld, Frederick W. McCarthy and Charles B. Spadoni); and five others (Jerome L. Wilson, Ben F. Andrews, Jr., Christopher A. Stack, KCATS, LLC, and Lisa Thiesfield) involved in a fraudulent scheme in connection with the investment of state pension fund money. The Commission alleged that the defendants participated in a scheme where Silvester awarded contracts to manage hundreds of millions of dollars of state pension fund money in exchange for lucrative fees paid by the private equity firms to Silvester's friends and political associates. Silvester then demanded and received kickbacks of

the fees from his friends. The Commission alleged that Silvester, Triumph, Landmark, and certain of the firms' officers violated their fiduciary duties by failing to disclose the quid pro quo. Simultaneously with the filing of the injunctive action, defendants Silvester, Stack and KCATS agreed to settle the case. Silvester consented to an order enjoining him from future violations of the federal securities laws and agreed to pay disgorgement of \$10,500. Stack and KCATS also consented to an order enjoining them from future violations of the federal securities laws and agreed, jointly and severally, to pay disgorgement of \$300,667. On December 18, 2000, defendant Landmark Partners and its chairman, Stanley F. Alfeld, consented to an order enjoining them from future violations of the federal securities laws, and Landmark and Alfeld agreed to pay \$100,000 and \$50,000 in civil penalties, respectively. The case was pending against the six additional defendants at the end of the fiscal year.

Insider Trading Cases

- *SEC v. Steve Madden*.¹⁷ The Commission filed a settled injunctive action against shoe designer Steve Madden alleging that he engaged in insider trading. The complaint alleged that after Madden learned from the criminal authorities that he was the target of a criminal investigation and would be indicted or otherwise charged for securities fraud, he sold 100,000 shares of common stock in his company, Steven Madden Ltd. Madden sold this stock without disclosing to the public the information he had learned regarding the criminal investigation. After Madden was arrested, the company's stock price sank and Madden avoided losses of \$784,000. Madden consented to an order of permanent injunction and agreed to disgorge \$784,000 of illegally avoided losses, plus prejudgment interest, and to pay \$784,000 in civil penalties.
- *SEC v. Jorge Eduardo Ballesteros Franco, et al.*¹⁸ On May 8, 2001, the Commission filed a partially settled injunctive action

in the U.S. District Court for the Southern District of New York, alleging that Jose Luis Ballesteros Franco, a former Director of Nalco Chemical Company, his brother (Jorge E. Ballesteros), his four sons (Jose Luis Ballesteros Gutierrez, Alejandro Ballesteros Gutierrez, Ricardo Ballesteros Gutierrez and Juan Pablo Ballesteros Gutierrez), and two friends of the Ballesteros family (Carlos Minvielle, Eugenio Minvielle) (all Mexican nationals), participated in insider trading prior to the announcement that Nalco would be acquired by Suez Lyonnaise des Eaux, a French company. The defendants purchased 263,329 Nalco shares at a cost of over \$9.8 million and made illegal profits of more than \$3.7 million. To carry out their fraud, the Ballesteros family used multiple offshore trusts in names other than the Ballesteros family name, trustees located in the Isle of Jersey, offshore nominee companies, and four different brokerage firms, with accounts located in the U.S. and Switzerland. The Minvielle family, friends of Jose Luis, also used two foreign-based companies as the vehicles through which they purchased Nalco stock. Several of the defendants have settled and consented to pay over \$4.7 million in disgorgement and penalties. In addition, one of the settling defendants, Ricardo Ballesteros Gutierrez, who was an analyst in the Investment Banking Division at Lehman Brothers, Inc., has also agreed to be barred from the securities industry with a right to reapply in five years. This action is being litigated against all of the non-settling defendants, which include Jorge E. Ballesteros, Juan Pablo Ballesteros Gutierrez, and the entities through which they traded (Cardinal Trust, Sagitton Limited, Gianni Trust, Gianni Enterprises Limited and Casford Limited).

- *SEC v. Alejandro Duclaud Gonzalez de Castilla, et al.*¹⁹ On May 11, 2001, the U.S. District Court for the Southern District of New York entered a TRO filed by the Commission against eight Mexican nationals and four offshore entities in connection with insider trading in CompUSA, Inc. stock that produced profits of nearly \$4 million. The trading occurred before the

January 24, 2000 public announcement that CompUSA had agreed to be acquired by Grupo Sanborns, S.A. de C.V., a Mexican holding company. One of the defendants, Alejandro Duclaud, is a partner in the Mexico City law firm that represented Grupo Sanborns in the final days of the tender offer negotiations and that acts as its regular outside counsel. Most of the other defendants are members of his family or offshore entities that permit the family members to trade anonymously. This order temporarily prohibited the defendants from obtaining their assets in brokerage accounts in the U.S. or disposing of any assets, wherever held, in a manner that could impair the Commission's ability to recover ill-gotten gains and obtain civil penalties. On June 27, 2001, the Court continued the asset freeze pending trial as to five of the Mexican nationals and as to the four offshore entities (three of the original defendants were dismissed from the action). Named as defendants are Alejandro Duclaud Gonzalez de Castilla, his wife Ana Igartua Baranda de Duclaud, his brother Jose Antonio Duclaud Gonzalez de Castilla, Rodrigo Igartua Baranda, Martha Baranda de Igartua, Anushka Trust, Caribbean Legal Trust, Antares Holdings Investment Ltd., and Banrise Ltd. BVI.

International Affairs

The SEC operates in a global marketplace. The Office of International Affairs works to protect U.S. investors and the integrity of U.S. markets by encouraging international regulatory and enforcement cooperation, negotiating information sharing arrangements for regulatory and enforcement matters, encouraging the adoption of high quality regulatory standards worldwide, and conducting international technical assistance programs.

What We Did

- Worked with foreign authorities to address cross-border fraud.
 - Encouraged high quality disclosure and transparency internationally.
 - Promoted the strengthening and implementation of high quality international disclosure standards.
 - Offered technical assistance to regulators of emerging securities markets.
-

Enforcement Cooperation

SEC Actions

The SEC continues to need assistance from foreign authorities to protect U.S. investors from cross-border fraud. To accomplish this,

the SEC has developed formal and informal relationships with foreign authorities for enforcement cooperation. To date, the SEC has entered into over 30 formal information-sharing arrangements with foreign counterparts. These arrangements have enabled the Commission to bring significant enforcement actions based on information gathered from abroad.

**Fiscal 2001
Enforcement Cooperation Results**

Requests to Foreign Authorities for Enforcement Assistance	364
Requests for Enforcement Assistance from Foreign Authorities	483

The SEC filed a record number of enforcement actions with international elements during the past fiscal year. Several of the actions, which illustrate the effectiveness and importance of the SEC's international enforcement program, are described below.

- *SEC v. PinnFund*.²⁰ In June 2001, the Commission obtained final judgments against Michael J. Fanghella and James L. Hillman, and entities controlled by them, for misappropriating at least \$276 million raised from about 166 investors, altering financial statements, and forging auditors' reports. Several months earlier, together with the U.S. Department of Justice and the U.S. Attorney in San Diego and with the assistance of Barbados authorities, the SEC succeeded in freezing the

assets of Fanghella and the relief defendants in Barbados.

- *In the Matters of Oeschle International Advisors, ABN AMRO Incorporated, Angela Iannone, and Andrew S. Parlin.*²¹ The Commission settled administrative actions against two individuals and their former employers, Oeschle, a U.S. investment adviser specializing in international stocks, and ABN-Amro, a U.S. broker-dealer. The individuals attempted to artificially pump up the value of Oeschle's portfolio by purchasing a large volume of foreign securities during the final minutes of trading on the last day of each quarter. The scheme was initiated in the United States and carried out in various overseas markets. The Commission obtained trading information from the French, German, Italian and U.K. securities regulators, which enabled the SEC to reconstruct trading patterns in various jurisdictions.
- *SEC v. Midpoint Trading Corp. and One or More Unknown Traders of Options on Common Stock of Ralston Purina Co.*²² The Commission obtained a preliminary injunction against Midpoint and Steve O'Hana. The Commission's complaint alleged insider trading in Ralston Purina securities prior to the announcement that Nestlé S.A. would acquire Ralston Purina. With the help of Guernsey authorities, the SEC was able to obtain crucial information from trading records sufficient to identify the beneficial owners of accounts that traded in Ralston Purina.
- *SEC v. Garry W. Stroud.*²³ The Commission obtained emergency relief, including a TRO and asset freeze, against Stroud. The complaint alleged that Stroud had conducted fraudulent Internet investment schemes, backed by certificates of deposit from Stroud's Euro

Credit bank, foreign gold-mining projects, and “prime-bank” trading programs. With information obtained through Swiss authorities, the Commission was able to allege in its complaint that the Euro Credit bank did not exist.

The Commission also worked on a multilateral basis to strengthen information sharing and cooperation with international regulators, thereby enhancing its ability to investigate and prosecute cross-border fraud. These multilateral initiatives included the following:

- *International Organization of Securities Commissions’ Response to the September 11 Events.* The effects of the September 11, 2001 events on securities markets underscored the importance of international cooperation among financial regulators. The SEC worked with the International Organization of Securities Commissions (IOSCO) to create a special task force to explore actions that securities regulators should take in light of the events of September 11 and their aftermath. IOSCO will focus on three specific areas: expanded cooperation among regulators and information sharing, identification of holders of bank and brokerage accounts and beneficiaries of financial transactions, and contingency planning.
- *Financial Action Task Force Work on Non-Cooperative Jurisdictions.* The SEC has been actively involved in efforts, on both a country-by-country basis and through international organizations, to encourage “non-cooperative” countries to join the international enforcement community by enhancing their ability to cooperate. As a result of these efforts, a number of foreign countries, including, for example, the Cayman Islands, have adopted new laws that enhance their ability to cooperate with SEC requests for assistance.

In June 2000, the international anti-money laundering organization, the Financial Action Task Force (FATF), with significant contribution from the SEC, publicly identified a number of countries with serious deficiencies in their anti-money laundering regulations as “non-cooperative.” Since that time, many of these “non-cooperative” countries implemented legislative changes to address the deficiencies identified by FATF, and have been more willing to assist the SEC in gathering information. In June 2001, FATF removed some countries from its list of “non-cooperative” countries, but will continue to monitor implementation of the reforms they adopted. FATF also continues to monitor the progress of countries remaining on the list.

- *Misuse of Corporate Vehicles.* Misuse of corporate vehicles (*e.g.*, for money laundering, financial fraud and market manipulation) is more likely to occur and go undetected in countries where there is no requirement either to disclose, or to provide to authorities upon request, information regarding the corporation’s ownership. The Commission worked with the U.S. Treasury Department, the Organization for Economic Cooperation and Development (OECD) and FATF to address these issues. In May 2001, the OECD issued a report recommending that:
 - ❑ countries have a mechanism for identifying beneficial owners of companies,
 - ❑ this mechanism be effectively supervised, and
 - ❑ governments be able to obtain and share this information with foreign authorities.

FATF also is examining the misuse of corporate vehicles in relation to its work in combating money laundering.

Transparency and Disclosure

International Accounting Standards

Issuers wishing to access capital markets in more than one country may have to comply with various disclosure requirements, including different accounting standards used to prepare financial statements. The Commission continued to support efforts towards convergence on high quality standards that provide investors consistent, comparable, relevant and reliable information.

For many years, the Commission has been active, both directly and through IOSCO and other international organizations, in encouraging the development and use of a high quality set of global accounting standards that could be used in cross-border capital formation. The Commission already allows foreign issuers to use International Accounting Standards Committee (IASC) standards, subject to reconciliation to U.S. Generally Accepted Accounting Principles (GAAP). In February 2000, the Commission issued a concept release soliciting public comment on accounting, auditing and regulatory issues that affect the quality of financial reporting in a global environment. The SEC currently is evaluating alternatives for action, as well as considering the issues of consistent application, auditing and enforcement.

International Disclosure Standards

Foreign companies increasingly are seeking to raise capital in U.S. financial markets. In 1999, the Commission amended its non-financial statement disclosure requirements for offerings by foreign

issuers to conform to the international disclosure standards adopted by IOSCO in 1998. The Commission's action was based on its assessment that conforming to the IOSCO standards would facilitate cross-border capital raising without compromising the quantity or quality of information investors receive.

In March 2001, IOSCO published a report describing how the international disclosure standards could be used in a shelf registration system. The report illustrates how the standards can be used in a "fast track" offering structure to enable issuers to tap capital markets more quickly. The report also underscores the importance of ensuring that current material information about an issuer is available in the markets.

Strengthening International Standards

International Organization of Securities Commission's Core Principles

In 1998, IOSCO adopted the "Objectives and Principles of Securities Regulation" (the Core Principles), which represent consensus among securities regulators worldwide on sound practices for regulating securities markets. To promote implementation of the Core Principles, the SEC and other IOSCO members are conducting self-assessments regarding their compliance with the Core Principles. IOSCO also is working with international financial institutions (*e.g.*, the International Monetary Fund (IMF) and the World Bank), which are using the Core Principles in their reform and restructuring work. During the year, Commission staff also participated in the work of international financial institutions on assessing the implementation of the Core Principles in a number of emerging market countries.

International Organization of Securities Commission-Committee on Payment and Settlement Systems Task Force on Clearance and Settlement

During the past year, IOSCO and the G-10 Committee on Payment and Settlement Systems (CPSS) jointly undertook work to promote the implementation of measures to strengthen securities settlement systems. The joint task force, in which the SEC participated, drafted a paper that sets forth recommendations for the design, operation, and oversight of securities settlement systems, including addressing issues raised by cross-border trading.

Joint Forum

The Joint Forum is an international organization formed under the auspices of IOSCO, the Basel Committee on Banking Supervision (BCBS) and the International Association of Insurance Supervisors (IAIS). The Joint Forum develops guidance to promote consistency in regulation of the different sectors of the financial services industry. Through its work on the Joint Forum, the SEC is addressing issues that are of common interest to securities, banking and insurance regulators.

This past year, the SEC participated in the Joint Forum's work on analyzing the IOSCO core principles. The Joint Forum issued a report identifying common elements of the core principles and explaining differences where they arise. The report is relevant to the work of the World Bank and the IMF, which have been assessing jurisdictions' compliance with the IOSCO, BCBS, and IAIS core principles as part of a program to identify financial system strengths and vulnerabilities and to reduce the potential for financial system crisis.

The Commission's staff also participated in the Joint Forum's work on approaches to risk assessment, internal controls, capital requirements, and group-wide supervision. The resulting report focuses on the differences among the securities, banking and

insurance sectors in their core business activities; similarities and differences in risk management tools; approaches to capital regulation; and cross-sectoral risk transfers and investments.

Investor Protection in the New Economy

The goals of investor protection and high quality corporate disclosure remained priorities for both securities regulators and market professionals. Following up on its earlier work on Investor Protection in the New Economy, an IOSCO Task Force chaired by Commissioner Hunt reported in March 2001 on the diversity of regulatory approaches in the public offering process, specifically with regard to securities allocation and lock-up practices. The report attributes the diversity of approach to differences in underwriting practices among jurisdictions, regulatory philosophies (*i.e.*, full disclosure versus merit regulation), and reliance upon exchanges or other self-regulatory organizations to prescribe, monitor and enforce allocation and lock-up practices. The report provides useful guidance to jurisdictions that may be considering securities allocation and lock-up practices.

Financial Stability Forum

The Commission continues to work together with the U.S. Department of the Treasury and the Federal Reserve Board on Financial Stability Forum (FSF) projects to address systemic threats to financial stability. In the past year, work focused on issues relating to hedge funds and offshore financial centers. The FSF also is encouraging global implementation of international standards to strengthen financial systems.

Corporate Governance

Commission staff participated in the work of the OECD on corporate governance, which was prompted by concerns that weaknesses in corporate governance at some Asian companies contributed significantly to the region's economic crisis in 1998. The OECD

developed guidelines that emphasize the need for management to focus on the interests of a company's owners--the shareholders--and call for the provision of timely and accurate disclosure of all material matters.

During the past year, Commission staff worked with the OECD and U.S. Treasury Department on regional initiatives to implement the OECD guidelines. In addition, through the Council of Securities Regulators of the Americas, Commission staff and other regulators from North, Central and South America and the Caribbean examined corporate governance practices within their respective countries. Finally, the Commission's staff is participating in the Joint Forum's study of approaches to corporate governance of regulated entities and the use of audits in the supervisory process.

Basel Capital Accord

In January 2001, the BCBS released for public comment a proposal for reforming the Basel Capital Accord. Because the proposal affects banks that also do business as broker-dealers, IOSCO, with the Commission staff's participation, undertook a review of the proposed Accord's effect on broker-dealers. IOSCO's comments to the BCBS focused on:

- providing insights regarding proposed capital requirements based on the experience of securities regulators,
- assessing whether the principles underlying the revised Accord appear sound and workable with respect to securities activities, and
- determining whether the Accord would create problems for securities regulators.

Technical Assistance

The Commission's technical assistance program helps emerging securities markets develop regulatory structures that promote investor confidence and capital formation. The program is multifaceted and includes training programs, review of foreign securities laws, and responses to specific inquiries from foreign regulators.

Fiscal 2001 Technical Assistance Results	
Requests for Technical Assistance from Foreign Authorities	266
U.S. Training Provided	206 Officials from 85 Countries
Overseas Training Provided	Over 210 Officials

The cornerstone of the Commission's technical assistance program is the International Institute for Securities Market Development, a two-week, management level training program covering the development and oversight of securities markets. In addition, the Commission conducts a week-long International Institute for Securities Enforcement and Market Oversight, covering techniques for investigating securities law violations and oversight of market participants.

Commission staff participated in a range of overseas training initiatives including: a regional enforcement and market oversight training program in Poland; regional capital markets programs in Peru and Bahrain; and corporate governance and regional enforcement programs in Russia.

Investor Education and Assistance

Our investor education and assistance staff serves investors who complain to the SEC about investment fraud or the mishandling of their investments by securities professionals. The staff responds to a broad range of investor contacts, produces and distributes educational materials, and organizes educational events.

What We Did

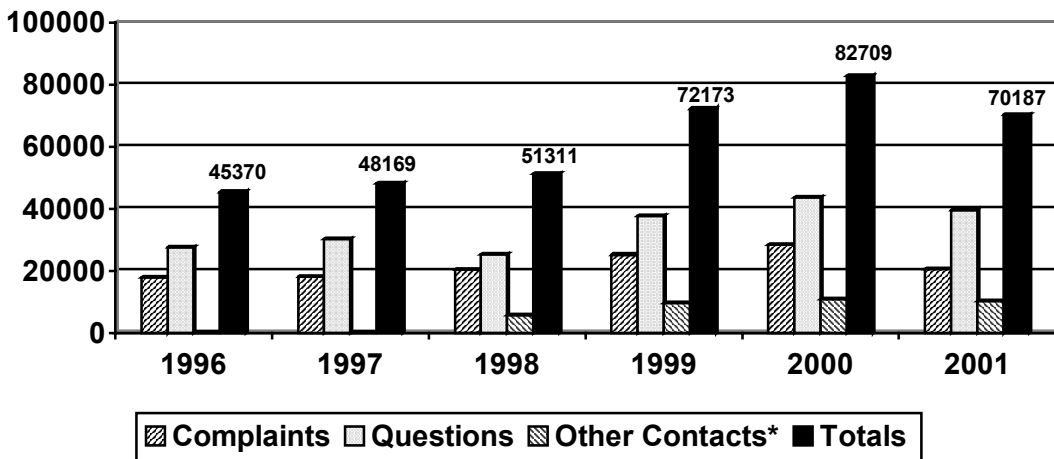
- Received 70,187 complaints and questions.
 - Launched 2 new interactive, web-based tools for investors, released 5 new publications, and substantially revised 4 existing brochures for investors.
 - Organized or participated in 73 investor education events, including seminars, town meetings, and panel discussions.
-

Investor Complaints and Questions

Continuing Rise in Electronic Contacts

During the year, the SEC's investor assistance staff received 70,187 complaints and questions. Nearly 39% of these contacts came in electronically through our online investor complaint form or email--compared with 33% the previous year. Approximately 40% of investor complaints and questions came in over the telephone, and the remainder included letters, faxes, and personal visits.

SEC Total Investor Contacts by Fiscal Year



* Other contacts includes repeat contacts, contacts with insufficient information to process, and contacts not within our jurisdiction.

Although the number of complaints and questions declined 15% from 2000 to 2001, the overall number of investor contacts has increased by almost 55% over the past 5 years.

Complaint Trends

The SEC received 20,431 complaints during 2000. Of these, nearly half--a total of 9,735--involved broker-dealers. For the first time, complaints concerning administrative and other fees became one of the leading complaint types. While complaints in most categories generally declined, complaints concerning misrepresentations rose by 22%.

The ten most common complaints against broker-dealers included:

2001 Ranking	Complaint Type	Total	Last Year's Ranking	Change
1	Misrepresentations	865	4	Up 22%
2	Unauthorized transactions	718	3	Down 20%
3	Failures to process/delays in executing orders	685	2	Down 44%
4	Transfer of account problems	679	1	Down 46%
5	Fees, including commissions and administrative costs	577	N/A	N/A
6	Unsuitable recommendations	558	N/A	N/A
7	Errors/omissions in account records	368	7	Down 38%
8	Margin position sellouts	359	8	Down 25%
9	Failure to follow customer's instructions	331	5	Down 48%
10	Errors in processing orders	260	10	Down 58%

Nearly one-quarter--24%--of all broker-dealer complaints received during the year concerned online brokerage firms, compared with 15% of all broker-dealer complaints received last year. The total number of online broker-dealer complaints fell to 2,320 during 2001, down approximately 45% from the 4,258 complaints we received in 2000 and almost 30% from the 3,313 complaints we received in year 1999. The top five types of online broker-dealer complaints for 2001 included:

1. failure to process/delays in executing orders (353),
2. fees (267),
3. margin position sellouts (213),
4. errors in processing orders (129), and
5. best execution problems (120).

Educating Investors

Because a well-educated investor provides one of the most important defenses against securities fraud, we continued our efforts to educate investors. A sampling of our significant accomplishments follows.

Redesigned Website

In February 2001, the SEC launched a newly redesigned website, which features streamlined graphics for quicker downloads, two new search engines, and an improved layout that speeds navigation.

New Interactive Tools

In April 2001, the SEC introduced the following tools for investors:

- *“Fast Answers” Database.* This is a pilot program using new interactive software to answer commonly asked questions through the SEC’s website. By matching incoming questions against a pre-loaded database of questions and answers, the new software allows users to receive instant answers. This new service dramatically increased the number of hits the SEC received on its “Investor Information” and “Fast Answers” web pages--from approximately 575,000 in 2000 to more than 1.4 million in 2001.

- *Margin Tutorial.* This new Internet-based tool helps individual investors estimate their likelihood--based on their actual securities holdings--of getting a margin call within the next month, quarter, or year. The free tutorial and calculators also explain how margin accounts work.

New Publications for Investors

We released the following publications for investors:

Title of Publication	What It Covers
Analyzing Analyst Recommendations	Describes the role analysts play in the capital formation process and advises investors not to rely solely on analyst recommendations when deciding whether to buy, hold, or sell a security.
Ask Questions! (revised)	Provides tips for checking out both brokers and investments and tells investors where to turn for help.
Check Out Brokers and Advisers (revised)	A comprehensive web page that tells investors how to research the background of financial professionals and provides links to helpful resources.
Execution Quality Statistics: How to Find Information on Order Execution and Routing Practices	Guidance on new rules that require brokers to disclose their order execution and routing practices and tips for finding order execution data.
Investment Advisers: What You Need to Know Before Choosing One (revised)	A Q&A primer on investment advisers.
Investor Alert: Stock Market Fraud "Survivor" Checklist	Six simple steps to help investors survive stock market fraud and avoid becoming a victim of Internet scams.
¡Pregunte! (folleto en Español)	A Spanish-language version of one of our most popular brochures, "Ask Questions."
Promissory Notes: Promises, Promises	A joint effort by the SEC, Securities Industry Association, and the North American Securities Administrators Association to educate the public about promissory note fraud.
Securities Investor Protection Corporation (SIPC) (revised)	Explains what happens when brokerage firms go out of business and links to helpful information about SIPC coverage.

Investor Education Events

Senior SEC officials participated in 49 investor education events, including investors' town meetings in the following cities:

- Fort Lauderdale, Florida;
- Atlanta, Georgia;
- Philadelphia, Pennsylvania;
- Norfolk, Virginia; and
- Arlington, Virginia.

In addition, as part of the town meeting program, the SEC and its partners--including industry associations, consumer groups, and state and federal agencies--held 24 educational seminars for beginning and advanced investors.

Regulation of Securities Markets

The Division of Market Regulation oversees the operations of the nation's securities markets and market participants. In 2001, the SEC supervised approximately 7,900 registered broker-dealers with over 87,765 branch offices and over 683,240 registered representatives. Broker-dealers filing FOCUS reports with the Commission had approximately \$3 trillion in total assets and \$208 billion in total capital for fiscal year 2001. In addition, the average daily trading volume reached 1.2 billion shares on the New York Stock Exchange and over 1.9 billion shares on the Nasdaq Stock Market as of September 30, 2001.

What We Did

- Adopted two rules that require improved disclosure of order execution and routing practices by market centers and broker-dealers.
 - Issued a concept release to solicit comments on the effects of subpenny trading on the markets and investors.
 - Engaged in rulemaking and provided guidance to implement the provisions of the Commodity Futures Modernization Act of 2000 (CFMA) that allow trading of single stock futures.
 - Amended a Commission rule to require quotations for exchange-listed options to be firm.
-

Securities Markets, Trading, and Significant Regulatory Issues

Implementation of the Commodity Futures Modernization Act

In establishing a regulatory framework for security futures products, the CFMA requires the Commission to conduct extensive rulemaking, much of it jointly with the Commodity Futures Trading Commission (CFTC).

- On August 13, 2001, the Commission adopted rules establishing a notice registration process for “security futures product exchanges” that are already registered with the CFTC and an expedited rule filing process for these exchanges.²⁴
- On August 20, 2001, the Commission and CFTC adopted rules concerning the statutory definition of a narrow-based security index.²⁵ The Commission also approved a joint order with the CFTC to permit futures on depositary shares.²⁶
- On August 21, 2001, the Commission issued an exemptive order under section 36 of the Securities Exchange Act (Exchange Act), to permit principal-to-principal trading of security futures products between eligible contract participants.²⁷
- On August 24, 2001, the Commission and CFTC proposed a rulemaking that would require associations and exchanges that trade security futures products to (1) use a settlement price for cash-settled security futures products that fairly reflects the opening price of the underlying securities, and (2) halt trading in any security futures product when a regulatory halt is instituted by the exchange or association listing the underlying securities.²⁸

- On September 5, 2001, the Division of Market Regulation issued Staff Legal Bulletin No. 15 offering guidance on how a national securities exchange or national securities association can comply with section 6(h)(3)(C) of the Exchange Act, which specifies the requirements for listing standards for security futures products. In consultation with staff of the CFTC, SEC staff developed sample security futures listing standards that we consider comparable to listing standards for options.²⁹
- On September 25, 2001, the Commission and CFTC proposed a rulemaking regarding the collection of customer margin for security futures.³⁰

Alternative Trading Systems (ATS)

Regulation ATS under the Exchange Act establishes recordkeeping and reporting requirements for ATSS that choose to register as broker-dealers.³¹ In 2001, the staff reviewed 17 initial operation reports, 48 amendments, 162 quarterly activity reports, and 12 reports of cessation of operations under Regulation ATS.

Order Handling Rules

The staff renewed, through March 15, 2002, nine no-action letters rolling over the no-action position towards electronic communications networks (ECNs) regarding the ECN Display Alternative provisions adopted as part of the Order Handling Rules. In fiscal 2001, letters were issued to Instinet Real-Time Trading Service, Island, Bloomberg Tradebook, Archipelago, the RediBook, the ATTAIN System, the Strike System, NexTrade, MarketXT, and the Globenet System.

Disclosure of Order Execution and Order Routing Practices

In November 2000, the Commission adopted two rules that require improved disclosure of order execution and routing practices by market centers and broker-dealers.³² Under rule 11Ac1-5, market centers that trade national market system securities are required to make publicly available monthly electronic reports that include uniform statistical measures of execution quality.³³ Under rule 11Ac1-6, broker-dealers that route customer orders in equity and option securities are required, among other things, to make publicly available quarterly reports that identify the venues to which customer orders are routed for execution.³⁴ Rule 11Ac1-5 has been in effect for all National Market System securities since October 1, 2001.

Day Trading

In February 2001, the Commission approved new New York Stock Exchange (NYSE) and National Association of Securities Dealers (NASD) rules restricting the use of credit (margin) in day trading.³⁵ Both NYSE and NASD rules impose a higher minimum equity requirement for pattern day traders, prohibit the use of customer-to-customer lending to meet day trading margin calls, and establish special account restrictions for pattern day traders who exceed their buying power.³⁶

Derivatives

The Commission continued to approve new derivative products designed to aid investors in risk management while strengthening market stability and integrity. The Commission approved listing standards and trading rules proposed by several exchanges to permit the trading of several new derivative products, including trust issued receipts and index-linked exchangeable notes. The exchanges also continued to use expedited procedures under rule 19b-4(e) to list and trade portfolio depository receipts issued by a unit investment trust and index fund shares issued by an open-end

management investment company.³⁷ Approving and utilizing these generic listing standards and trading rules allows the exchanges to trade new derivative products using an expedited procedure under rule 19b-4(e).³⁸ Under this rule, which the Commission approved in 1998, an exchange can start trading a new derivative product without prior Commission approval as long as adequate trading rules, procedures, surveillance programs, and listing standards that pertain to the class of securities covering the new product are in place.³⁹

Options Market Reform

The Commission continued to work closely with the options exchanges on several initiatives designed to encourage the further integration of the options markets into the national market system.

- *Intermarket Linkage Plan.* On July 28, 2000, the Commission approved an intermarket linkage plan to which all five options exchanges have agreed.⁴⁰ Pending completion of the linkage contemplated in the plan, the Commission approved rules submitted by the options exchanges establishing a voluntary interim linkage between the exchanges.
- *Trade-Through Disclosure Rule.* On November 17, 2000, the Commission adopted a new rule that requires broker-dealers to disclose when a customer's order for a listed option was executed at a price inferior to the best-published quote.⁴¹ Transactions effected on an options market that participates in a linkage plan approved by the Commission would be exempted from the rule.⁴² The compliance date of this rule was extended twice, most recently until April 1, 2002.⁴³

Decimalization and Subpenny Trading

The conversion from fractional to decimal pricing for equities and options was successfully completed in March 2001. Over the next year, the Commission will need to address several critical decimal-related market structure and investor protection issues. In particular, the Commission will consider issues pertaining to the minimum price increments that the markets have set for consolidated quotations in equities and options. For purposes of the decimal conversion, the self-regulatory organizations (SROs) selected a minimum increment of \$0.01 for stock quotations and of \$0.05 or \$0.10 for options. In September 2001, the SROs submitted studies to the Commission that analyzed how these increments have affected trading behavior as well as the transparency, liquidity, and fairness of the markets. By January 14, 2002, the SROs must submit rule proposals to establish their permanent increments for quotations in equities and options. In a related matter, the Commission issued a concept release on July 18 that solicits comment regarding the effects of subpenny trading on the markets and investors.⁴⁴

Market Information

On December 9, 1999, the Commission issued a concept release on the regulation of market information fees and revenues to solicit public comment on the arrangements currently in place for disseminating market data to the public.⁴⁵ In particular, the release focused on a cost-based limit on market information revenues; increasing public disclosure of fees, revenues, and costs; and expanding participation in the fee-setting process.⁴⁶ We received approximately 35 comment letters, which revealed widely varying views. In response, the Commission created an Advisory Committee to examine issues relating to the public availability of market information in the options and equities markets and make recommendations for future action. The Advisory Committee's report was delivered to the Commission on September 14, 2001. The report is available on the SEC website.

Trade Reporting Rules

On January 23, 2001, the Commission approved the NASD's "TRACE" proposal.⁴⁷ The TRACE proposal requires NASD members to report transactions in most U.S. corporate bonds to the NASD, and establishes a facility to collect and redistribute that transaction information.⁴⁸

Oversight of Self-Regulatory Organizations

National Securities Exchanges

As of September 30, 2001, there were nine active securities exchanges registered with the SEC as national securities exchanges: American Stock Exchange (Amex), Boston Stock Exchange, Chicago Board Options Exchange (CBOE), Cincinnati Stock Exchange, Chicago Stock Exchange, International Securities Exchange, NYSE, Philadelphia Stock Exchange, and Pacific Exchange Inc. During fiscal 2001, the Commission granted 164 exchange applications to delist equity issues and 42 applications by issuers seeking withdrawal of their registration and listing on exchanges. The exchanges submitted 452 proposed rule changes during 2001. The Commission approved 384 pending and new proposals. Sixty-one were withdrawn.

National Association of Securities Dealers

The NASD is the only national securities association registered with the SEC and includes more than 5,500 member firms. The NASD submitted 86 proposed rule changes to the SEC during the year. The Commission approved 84, including some pending from the previous year. Twelve were withdrawn.

The NASD partially owns and operates The Nasdaq Stock Market (Nasdaq). In June 2000, Nasdaq ceased to be a wholly-owned

subsidiary of the NASD. This was accomplished through a two-phase private placement of Nasdaq stock, wherein Nasdaq sold newly issued shares of stock and the NASD sold warrants to purchase Nasdaq stock it owned which are redeemable over time. The second private placement was completed in January 2001, and more than 2,900 investors other than the NASD now own approximately 40% of Nasdaq. In addition, the NASD has proposed to further reduce its ownership in Nasdaq by selling convertible debentures to a leading private equity firm. If the debentures are converted, the NASD's ownership of Nasdaq would be further reduced to approximately 27%.

Nasdaq filed its exchange application with the Commission in March 2001. The Commission published the application for comment on June 7, 2001 and extended the comment period to August 29, 2001.⁴⁹ The Commission received many comment letters on the application from exchanges, market participants, and other interested individuals. The Division of Market Regulation continues to work with both Nasdaq and the NASD to resolve any outstanding issues that result from Nasdaq's desire to operate as a fully independent exchange to ensure that both Nasdaq and the NASD can fulfill their self-regulatory obligations.

Emergency Measures Related to the Tragic Events of September 11, 2001

The following is a sampling of the key actions taken by the Commission in response to the events of September 11, 2001.

- *Hotline.* The Division of Market Regulation established a "live" hotline to respond to inquiries from brokerage firms, markets, legal counsel, and the general public. The hotline provided immediate or rapid responses to public inquiries stemming from the events of September 11, including the Commission's exemptive order concerning rule 10b-18, the effects of the market closing

on short selling, margin rules, the expiration of options contracts, and contact information for firms affected by the tragedy.

- *Market Center Communications.* The Commission staff participated in daily conference calls with the markets and other regulatory agencies to stay apprised of any new market developments or problems.
- *Temporary Relief for Amex.* The Amex incurred physical damage and disruption that required the temporary relocation of its trading facilities and personnel. The Commission approved various emergency proposals that established temporary arrangements to allow various securities listed or traded on the Amex to trade on other markets.⁵⁰ These temporary arrangements also allowed members of the Amex to perform various functions on other markets and, in some cases, allowed members of other markets to temporarily act as members of the Amex.
- *Issuer Repurchases.* On September 14 and 21, the Commission issued emergency orders temporarily easing the conditions of rule 10b-18, the safe harbor for issuer repurchases.⁵¹ The orders suspended the timing condition, so that issuers could purchase at the opening of the markets and stay in each day through the close. In addition, the volume limitation was raised from 25% to 100% of average daily trading volume. The orders were effective for each trading day through September 28.

On September 28, the Commission further extended the issuer repurchase exemptive order through October 14.⁵² The exemptive order also allowed issuers with average daily trading volumes of \$1,000,000 or more and public float values of \$150 million or more to stay in the markets until 10 minutes before the close of each trading day.

- *Financial Responsibility Relief for Broker-Dealers*. The Commission provided certain relief to broker-dealers from Exchange Act rules 15c3-1 and 15c3-3 concerning their calculation of net capital and the need to take deductions due to failed transactions and imbalances in securities accounting systems, and for the purposes of FOCUS reporting.⁵³

Municipal Securities Issues

Municipal Market Roundtable

The Commission held its Second Annual Municipal Market Roundtable on October 2, 2000. During the Roundtable, panels composed of issuers, underwriters, lawyers, financial advisers, and SEC staff discussed current issues in the municipal securities market. These panels discussed disclosure issues, use of electronic media, and Municipal Securities Rulemaking Board (MSRB) rules. This roundtable also included individual investors for the first time. The transcript of the roundtable is available on the SEC website

Municipal Securities Rulemaking Board

The MSRB is the primary rulemaking authority for municipal securities dealers. In fiscal 2001, the Commission received seven new proposed rule changes from the MSRB. A total of eight new or pending proposed rules were approved, including amendments to MSRB rules establishing optional procedures for electronic submissions of required materials under rule G-36. In addition, a rule was approved providing for the development of a new daily transaction report that will include data regarding all municipal securities transactions. This report will improve price transparency in the municipal market.

Broker-Dealer Issues

Net Capital Developments

The following guidance highlights the Commission's most significant net capital rule developments.

Special Purpose Vehicle

In a no-action letter to the Securities Industry Association's Capital Committee, the staff provided guidelines on the appropriate capital treatment of certain asset-backed securities issued by a special purpose vehicle (SPV). Generally, broker-dealers are allowed to treat asset-backed securities issued by a SPV as having a ready market for net capital purposes if:

- neither the issuer nor the securities are in default,
- the securities are rated, at a minimum, in one of the four highest categories by at least one nationally recognized statistical rating organization, and
- the securities are part of an initial issuance size of at least \$50 million.

Asset-backed securities deemed to have a ready market under the terms of the letter may be subject to a portfolio concentration charge under certain circumstances. In addition, the staff's no action relief would not include asset-backed securities that are held in a broker-dealer's inventory for more than 90 days because of a failure to complete an underwriting.

Use of Financial Models to Calculate Net Capital Requirements

The staff granted the requests of two over-the-counter derivative dealers (CDC Derivatives, Inc. and Credit Suisse First Boston Capital LLC.) to use financial models to calculate their net capital

requirements. The staff's approval was based on a review of each entity's internal risk management control systems regarding controls for market, credit, legal, liquidity and funding, and operational risks.

Books and Records Development

The Commission published an interpretive release on how the electronic storage requirements of rule 17a-4(f) under the Exchange Act meet, and are consistent with, the requirements of the Electronic Signatures in Global and National Commerce Act of 2000.

Financial Modernization Legislation

Implementation of Title II of Gramm-Leach-Bliley Act

Title II of the Gramm-Leach-Bliley Act (GLBA) redefined the terms broker and dealer. Under the old definitions, banks had a blanket exception from the definitions for all of their securities activities. Under the new definitions, banks have individual exceptions from these terms for specific bank securities activities. On May 11, 2001, the Commission adopted interim final rules clarifying key terms in the amended definitions of broker and dealer and providing guidance to banks in determining when and how to use a functional exception from the definitions of broker and dealer.⁵⁴ The interim final rules also provide non-exclusive safe harbors for banks and thrifts from the definitions of broker and dealer.

On July 18, 2001, the Commission extended the broker and dealer definition comment period; extended a temporary exemption for banks, savings associations, and savings banks from the definitions of broker and dealer; and gave notice of our intent to amend the interim final rules and, as appropriate, to extend further the temporary exemption. On August 2, 2001, Acting Chairman Laura Unger testified regarding the interim final rules on behalf of

the Commission in a joint hearing before the Capital Markets, Insurance and Government-Sponsored Enterprises and Financial Institutions and Consumer Credit Subcommittees of the House Committee on Financial Services. The Commission is carefully considering comments from industry members and the public.

Amendments of Privacy Rules

On August 21, 2001, the Commission adopted amendments to its consumer financial privacy regulation, Regulation S-P.⁵⁵ The amendments were adopted in light of section 124 of the CFMA that makes the privacy provisions of the GLBA applicable to activity regulated by the CFTC and its regulated entities. These amendments conformed the definitions of federal functional regulator and financial institution in Regulation S-P to the new meaning that the CFMA gave the corresponding terms in the GLBA.⁵⁶ To avoid duplicative regulation, the amendments also permit futures commission merchants and introducing brokers that are registered as broker-dealers to comply with Regulation S-P by complying with the CFTC's financial privacy rules. The amendments to Regulation S-P parallel a similar provision in the financial privacy rules of the CFTC.⁵⁷

Registration by Notice for the Limited Purpose of Trading Security Futures Products

Also on August 21, 2001, the Commission implemented section 203 of the CFMA, which provides for expedited notice registration for intermediaries trading security futures products.⁵⁸ Specifically, the Commission adopted Form BD-N and related rules to permit futures commission merchants and introducing brokers that are both registered with the CFTC and members of the National Futures Association to register by notice with the Commission as broker-dealers for the limited purpose of trading security futures products. This notice registration becomes effective upon the filing of a completed Form BD-N. Notice registered broker-dealers that wish to expand their securities

business beyond security futures products, however, would still need to apply for full registration by filing Form BD.

Arbitration and Mediation

The Commission approved amendments to the NASD Code of Arbitration Procedure that permit the Director of Arbitration to remove arbitrators for cause after hearings have begun.⁵⁹ The Commission also approved amendments to the NASD Code of Arbitration that permit investors to seek expedited court remedies against NASD member firms that are terminated, suspended, or defunct, to prevent such firms from dissipating assets.⁶⁰ In addition, the Commission approved amendments to the NYSE mediation and administrative conference program.⁶¹ Finally, the Commission approved CBOE's rule change to permit it to retain jurisdiction over former members who fail to pay arbitration awards beyond the two-year period applicable to other violations of law.⁶²

National Money Laundering Strategy for 2001

The staff worked with the Departments of Treasury and Justice on initiatives called for by The *National Money Laundering Strategy for 2001*. This is the third of five strategies called for by the Money Laundering and Financial Crimes Strategy Act of 1998. We worked closely with other government agencies to implement the Strategy and identify ways to assure that anti-money laundering measures aid broker-dealer efforts in blocking laundering through the securities markets. The staff also worked on initiatives relating to the development of a suspicious activity reporting rule for broker-dealers, the identification of ways in which accountants and lawyers may play a role in the fight against money laundering, and anti-money laundering aspects of anti-terrorism legislation introduced after September 11, 2001.

Letters Related to Broker-Dealer Activities

The Division of Market Regulation issued 48 no-action letters during the year. Several significant letters are highlighted.

American Express Bank, Ltd.

The staff granted no-action relief to a company seeking to engage in certain securities activities without registering as a broker-dealer. In granting this relief, the staff noted in particular that:

- American Express Bank, Ltd. (AEB) is “engaged in banking” as defined in section 211.2(f) of the Federal Reserve Board’s Regulation K;
- AEB has the same powers as a United States commercial bank, although the exercise of those powers is limited to international banking;
- AEB does business under the laws of Connecticut and, through its agencies, the New York and Florida; a substantial portion of AEB’s business consists of receiving deposits and making loans;
- AEB is licensed by the State of New York Banking Department; AEB’s global operations are supervised and examined on a by the State of New York Banking Department as if AEB were a New York state chartered bank; and
- AEB is not operated for the purpose of evading the provisions of the Exchange Act.⁶³

Broker-Dealer Registration for Internet-based Entity

The staff declined to provide no-action relief from broker-dealer registration for an Internet-based entity that proposed to solicit

orders from public customers, accept fees for communicating those orders, and perform brokerage services such as conducting auctions and reverse auctions.⁶⁴

Exemption from Exchange Act Rule 10b-17(b)(1)

The staff declined to provide a company an exemption from the requirements of Exchange Act rule 10b-17(b)(1), which requires issuers of publicly traded securities to furnish the NASD with timely advance notice of dividends and other distributions, including stock splits. This information allows the NASD to keep its members and the investing public informed in a timely manner of impending distributions. In denying the exemption, the staff noted in particular that the company did not seek an exemption from the rule until after it had already failed to provide the NASD notice within the rule's time frame.⁶⁵

Employee Leasing Arrangement

The staff issued a no-action letter granting no-action relief from broker-dealer registration under Exchange Act section 15(a) to an employee leasing services (also known as professional employer organization services). Employees subject to a leasing arrangement become co-employed by the leasing company and its client. The client remains the operational employer and continues to conduct its business and supervise employees it co-employs with the leasing company. The leasing company becomes the administrative employer and provides the client and co-employees with payroll processing, employee benefits and related services. Among other things, the no-action relief was based on the company's representations that client broker-dealers would maintain all supervisory control over their employees, that fees received by the company would not be based on brokerage commissions, and that the leasing company would have no authority to hire or fire broker-dealer personnel.⁶⁶

Internet-Based Execution Facility

The staff issued a letter granting no-action relief from broker-dealer registration under Exchange Act section 15(a) to an unregistered entity that proposed to help operate an Internet-based electronic execution facility for an affiliated broker-dealer. The staff noted, among many other factors, that:

- the unregistered entity would not receive compensation based directly or indirectly on the size or value of transactions in securities, or dependent upon the occurrence of transactions in securities (including per-order fees);
- the broker-dealer would take full responsibility for the portal leading to the platform and those portions of the platform involving securities (including exercising full discretion and authority with respect to content and substantive operations, and being the contracting party for all agreements related to the substantive portion of the facility); and
- the unregistered entity would not exercise any discretion or authority over the portal and those portions of the platform involving securities.⁶⁷

Compensation of Accountant Registered Representatives

The staff considered four requests for no-action relief involving broker-dealer compensation of registered representatives who also are accountants with certified public accounting firms (CPA firms), without the CPA firms registering as broker-dealers under Exchange Act section 15(b). The staff granted no-action relief under one compensation scenario, but denied relief under three others. Specifically, the staff granted no-action relief if the broker dealer paid commissions to an accountant registered representative so long as the accountant registered representative is not subject to

any formal or informal agreement or arrangement directing him to turn over securities commissions, or other income received as a result of securities activities, to an unregistered CPA firm or other unregistered entity. The staff declined to provide no-action relief if the broker-dealer paid commissions to an accountant registered representative who would turn the commissions over to a CPA firm, either voluntarily or pursuant to an agreement. The staff declined to take a no-action position under those circumstances because unregistered persons would have a financial stake in the revenues generated by the registered representative's securities transactions, while being in a position to influence the registered representative's actions and to direct customers to the registered representative. Finally, the staff did not provide no-action relief if the broker-dealer paid commissions to another broker-dealer, with which the accountant registered representative is dually registered, when the CPA firm or its partners own the other broker-dealer. The staff rejected that aspect of the request because the question of whether an unregistered person who owns a registered broker-dealer is engaged in broker-dealer activity is highly fact-specific.

Investment Management Regulation

The Investment Management Division regulates investment companies (which include mutual funds, closed-end funds and unit investment trusts) and investment advisers under two companion statutes, the Investment Company Act of 1940 and the Investment Advisers Act of 1940. The Division also administers the Public Utility Holding Company Act of 1935. The Division's goal is to minimize financial risks to investors from fraud, self-dealing, and misleading or incomplete disclosure.

What We Did

- Adopted amendments that enhance the independence and effectiveness of mutual fund directors, strengthen fund directors' ability to deal with fund management, and reinforce director independence. The amended rules also require funds to provide better information about directors to their shareholders.
- Adopted amendments requiring mutual funds to disclose standardized after-tax returns for 1-, 5-, and 10-year periods to help investors understand the magnitude of tax costs and compare the impact of taxes on the performance of different funds.
- Adopted a new rule that requires a registered investment company with a name suggesting that the company focuses on a particular type of investment to invest at least 80% of its assets in the type of investment suggested by its name.

- Launched the Investment Adviser Public Disclosure website, which provides public access to background, business, and disciplinary information about registered investment advisers.
 - Issued a staff report on mutual fund fees that describes trends in mutual fund fees between 1979 and 1999; identifies some of the major factors that influence the amount of fees charged; and recommends future actions by the Commission in the areas of disclosure, mutual fund governance, and investor education.
-

Significant Investment Company Act Developments

As stock prices retreated from record highs set in 2000, total assets managed by investment companies declined approximately \$400 billion to a total of \$7 trillion as of September 30, 2001. This \$7 trillion was managed in 34,312 investment company portfolios sponsored by 1,075 investment company complexes. Despite the decline in investment company assets under management (the first since 1977), investment companies still manage more than twice the amount of money on deposit at commercial banks (\$3.4 trillion) and more than the amount of financial assets at commercial banks (\$6.3 trillion). Open-end management investment companies, commonly known as mutual funds, are the largest segment of the investment company industry. Over 50 million U.S. households, about 52% of all U.S. households, own mutual fund shares.

Rulemaking

Independent Directors

The Commission adopted a package of rules and form amendments under the Investment Company Act to enhance the independence and effectiveness of mutual fund directors, strengthen fund

directors' ability to deal with fund management and reinforce director independence.⁶⁸ The amendments reflect many suggestions made during a roundtable to discuss the role of fund independent directors held by the Commission in 1999. For funds relying on certain exemptive rules under the Investment Company Act, the amended rules require that: (1) independent directors constitute a majority of the fund's board; (2) independent directors select and nominate other independent directors; and (3) any legal counsel for the independent directors be an independent legal counsel. The amended rules also require funds to provide better information about directors to their shareholders, including basic information about the identity and experience of directors, fund shares owned by directors, information about directors that may raise conflict of interest concerns, and information about the board's role in governing the fund.

After-Tax Returns

A mutual fund's trading practices and investment strategies affect the amount of taxes that investors must pay on fund profits. To help investors understand the magnitude of tax costs and compare the impact of taxes on the performance of different funds, the Commission adopted rule amendments that require mutual funds to disclose standardized after-tax returns for 1-, 5-, and 10-year periods.⁶⁹ After-tax returns must accompany before-tax returns in a fund's prospectus and be presented two ways: (1) returns after taxes on fund distributions only; and (2) returns after taxes on fund distributions and a redemption of fund shares. The amendments also require funds to include standardized after-tax returns in certain advertisements and other sales materials. The original compliance date for advertisements and sales materials was October 1, 2001, but was extended to December 1, 2001. The compliance date for prospectuses is February 15, 2001.

Investment Company Names

The Commission adopted a new rule to address certain broad categories of investment company names that are likely to mislead investors about an investment company's investments and risks.⁷⁰

The rule requires a registered investment company with a name suggesting that the company focuses on a particular type of investment to invest at least 80% of its assets in the type of investment suggested by its name. The rule also applies to names suggesting that an investment company focuses its investments in a particular country or geographic region, names indicating that a company's distributions are exempt from income tax, and names suggesting that a company or its shares are guaranteed or approved by the United States Government.

Electronic Recordkeeping

The Commission amended its rules to permit registered investment companies to preserve required records using electronic storage media such as magnetic disks, tape, and other digital storage media.⁷¹ The amendments respond to the Electronic Signatures in Global and National Commerce Act (E-SIGN), which encourages federal agencies to accommodate electronic recordkeeping.

Treatment of Repurchase Agreements

The Commission adopted a new rule and related rule amendments to enable investment companies to invest in certain types of repurchase agreements and pre-refunded bonds without causing technical violations of the rules requiring fund diversification or prohibiting investments in brokers, dealers, or underwriters. The new rule permits investment companies to look through counterparties to certain repurchase agreements and issuers of municipal bonds that have been refunded with U.S. Government securities and treat the securities comprising the collateral as

investments for certain purposes under the Investment Company Act.⁷²

Affiliated Transactions

The Commission proposed amendments to rule 10f-3 under the Investment Company Act that would expand the exemption provided by the rule to permit registered investment companies to purchase government securities during the existence of an underwriting syndicate for those securities when an affiliate of the investment company participates in the syndicate. The proposed amendments also would modify the rule's quantitative limit on purchases, to cover purchases by a fund as well as any account advised by the fund's investment adviser. The amendments are intended to respond to changes in the method of offering certain government securities and to improve the effectiveness of the quantitative limit on fund purchases.⁷³

Portfolio Investment Programs

The Commission denied the Investment Company Institute's rulemaking petition to regulate portfolio investment programs sponsored by broker-dealers and investment advisers under the Investment Company Act.⁷⁴ Investors participating in these programs typically use the sponsor's website to create personalized portfolios (also referred to as baskets) of securities. In the denial letter, the Commission contrasted the characteristics of an investment company with those of the portfolio investment programs and pointed out that sponsors of portfolio investment programs generally are subject to regulation and oversight under the Securities Exchange Act of 1934 and, in some cases, under the Investment Advisers Act. The Commission stated that it will monitor the development of these programs to assure that they are appropriately regulated under the federal securities laws.

Exemptive Orders

The Commission issued 293 exemptive orders to investment companies (other than insurance company separate accounts) seeking relief from various provisions of the Investment Company Act. The Commission also issued 51 exemptive orders to investment companies that are insurance company separate accounts. Some of the significant exemptive orders that the Commission issued in fiscal 2001 are discussed below.

Shareholder Approval of Subadvisory Contracts

The Commission issued an order denying a request for a hearing and granting an exemption to permit certain investment companies operating with a “manager of managers” structure to enter into, and materially amend, subadvisory agreements without shareholder approval.⁷⁵

Affiliated Transactions

The Commission issued an order permitting certain money market funds to engage in principal transactions in certain tax-exempt money market instruments with an affiliated dealer.⁷⁶ The Commission also issued an order permitting various types of transactions for certain investment companies that became prohibited as a result of an affiliation created by a joint venture between two financial services companies.⁷⁷ In addition, the Commission issued an order permitting certain investment companies to purchase securities through group orders when an affiliated broker-dealer is a member of the underwriting syndicate.⁷⁸

Employee Securities Companies

The Commission issued an order exempting certain employee securities companies, offered to employees who are accredited

investors or in reliance on rule 701 under the Securities Act of 1933, from various provisions of the Investment Company Act.⁷⁹

Orders Addressing Events of September 11, 2001

On September 14, 2001, the Commission issued a temporary order providing investment companies greater borrowing and lending flexibility.⁸⁰ The Commission subsequently issued an order extending this temporary order.⁸¹ The Commission also temporarily exempted investment companies from the in-person meeting and voting requirements for directors under the Investment Company Act.

Interpretive and No-Action Letters and Reports

The staff issued 43 interpretive and no action letters and reports during fiscal 2001. Some of the most significant Investment Company Act guidance that the Division issued in fiscal 2001 are discussed below.

Valuation

The staff provided interpretive guidance to mutual funds and their directors regarding their obligation to determine the fair value of funds' portfolio securities when market quotations for those securities are not readily available. The staff also reiterated: (1) the Commission's position on when market quotations may not be readily available; (2) certain circumstances under which funds should analyze whether market quotations are readily available; and (3) the obligation of fund boards to determine the fair value of funds' portfolio securities in good faith.⁸²

Mutual Fund Fees

The staff released a report on trends in mutual fund fees from 1979 to 1999.⁸³ The report:

- describes the legal framework with respect to mutual fund fees,
- analyzes how fees have changed over time,
- identifies factors that may influence the current level of fees,
- recommends initiatives that are designed to improve the corporate governance structure for the oversight of fund fees and the disclosure that investors receive regarding fees, and
- addresses a recommendation by the General Accounting Office (GAO) to require individual disclosure in account statements of the dollar amount of fund fees paid by investors by:
 - agreeing with the GAO that investors need clear and understandable information about the fees that they pay and that the fund industry and the Commission should encourage fund shareholders to pay greater attention to fees and expenses, and
 - suggesting an alternative approach in which the dollar amount of actual fees paid by investors would be disclosed in semi-annual and annual shareholder reports by calculating a hypothetical investment amount and the fund's actual returns.

Variable Annuity Exchange Offers

The staff provided guidance regarding the applicability of the “retail exception” under section 11 of the Investment Company Act when variable annuity contracts issued by an insurance company are exchanged for other contracts issued by the same insurance company. The staff identified factors appropriate for consideration

when analyzing whether an exchange offer falls within the retail exception, but cautioned that whether an exchange offer falls within the retail exception cannot be determined by the application of a bright line test.⁸⁴

Inadvertent Investment Companies

The staff stated that it would not recommend to the Commission an enforcement action under section 7(a) of the Investment Company Act against an issuer if the issuer fails to register as an investment company when the issuer meets the definition of investment company set forth in section 3(a)(1)(C) of the act and rule 3a-1 thereunder as a result of its holdings of shares of money market funds.⁸⁵

Private Investment Companies

The staff stated that it would not recommend enforcement action to the Commission under section 7(a) of the Investment Company Act if issuers that are excluded from the definition of investment company by section 3(c)(1) or 3(c)(7) of the act do not register as investment companies when, under certain circumstances, a participant-directed employee benefit plan invests in securities issued by the issuers.⁸⁶

Tracking Stock

The staff concluded that an operating company's issuance of tracking stock to track the performance of a business group within the company generally would not render the tracked business group a separate "issuer" under the Investment Company Act and hence would not subject the business group to registration and regulation under the act. The staff also provided guidance as to the circumstances under which a tracked business group could be deemed to be a separate issuer and an investment company under the Act.⁸⁷

Redemption Fees

The staff stated that, subject to certain conditions, it would not recommend enforcement action under various sections of the Investment Company Act if, upon the reorganization of a closed-end fund into an open-end fund, the new open-end fund imposed a temporary redemption fee of 4% on redemptions by certain of the new open-end fund shareholders. The staff also summarized the circumstances under which an open-end fund generally may impose a redemption fee of no greater than 2%.⁸⁸

Accumulation Unit Tables In Variable Annuity Prospectuses

The staff stated that it would not recommend enforcement action if the prospectus for certain variable annuity contracts includes the accumulation unit value tables required by Item 4(a) of Form N-4 only with respect to the classes of accumulation units corresponding to the highest and lowest combination of charges available under the contract, provided that tables for all other classes of accumulation units available under the contracts, corresponding to all other possible combinations of contract charges, are contained in the Statement of Additional Information.⁸⁹

Significant Investment Advisers Act Developments

As of September 30, 2001, 7,100 investment advisers were registered with the SEC. These advisers had assets under management of approximately \$20 trillion.

Rulemaking

Electronic Recordkeeping

The Commission adopted amendments to rules under the Investment Advisers Act that allow investment advisers to preserve

required records using electronic storage media such as magnetic disks, tape and other digital storage media in the same manner as adopted for investment companies.⁹⁰

Other

New Public Website

As an outgrowth of the new electronic registration system (the Investment Adviser Registration Depository or IARD), the Commission launched a new website (www.adviserinfo.sec.gov) through which investors have free access to the current registration statement filed by an investment adviser. By visiting the website, prospective clients can obtain current information about an adviser's background, fees, business practices and any disciplinary history.

Significant Public Utility Holding Company Act Developments

Developments in Holding Company Regulation

The trend towards consolidation of utility company systems continued, resulting in an increase in the number of proposed mergers and acquisitions considered by the Commission. As a result of these mergers and acquisitions, the Commission approved 11 new registered holding companies in fiscal 2001. In addition, utility holding company systems continued to show interest in investing in non-utility activities, both domestic and foreign, particularly in the area of electrical contracting and infrastructure services.

Registered Holding Companies

As of September 30, 2001, there were 34 public utility holding companies and 29 public utility holding company systems

registered under the Holding Company Act. The registered systems were comprised of 133 public utility subsidiaries, 98 exempt wholesale generators, 185 foreign utility companies, 2,472 nonutility subsidiaries and 402 inactive subsidiaries, for a total of 3,324 companies and systems with utility operations in 44 states. These holding company systems had aggregate assets of approximately \$417 billion and operating revenues of approximately \$173 billion for the period ended September 30, 2001.

Financing Authorizations

The Commission authorized registered holding company systems to issue approximately \$76.5 billion of securities, an increase of approximately 330% over last year. The financing authorizations included transactions totaling \$14.7 billion for investments in exempt wholesale generators and foreign utility companies.

Examinations

The staff conducted examinations of 3 service companies, 3 parent holding companies and 9 special purpose corporations. The examinations focused on the methods of allocating costs of services and goods shared by associate companies, internal controls, cost determination procedures, accounting and billing policies and quarterly and annual reports of the registered holding company systems. By identifying misallocated expenses and inefficiencies through the examination process, the SEC's activities resulted in savings to consumers of approximately \$30 million.

Orders

The Commission issued 76 orders under the Holding Company Act. Some of the more significant orders are described below.

Exelon Corporation

The Commission authorized Exelon Corporation to acquire all of the issued and outstanding common stock of PECO Energy Corporation following the merger of Unicom Corporation, an exempt holding company whose principal public utility is Commonwealth Edison Company, with Exelon. Subsequently, Exelon registered under section 5 of the Holding Company Act.⁹¹

CP&L Energy, Inc.

The Commission authorized CP&L Energy, Inc., a public utility holding company claiming exemption under the Holding Company Act, to acquire directly all issued and outstanding stock of Florida Progress Corporation, a holding company also claiming exemption under the Holding Company Act. Subsequently, the newly formed holding company, Progress Energy, registered under section 5 of the Holding Company Act.⁹²

The AES Corporation

The Commission authorized The AES Corporation, a Delaware public utility holding company exempt from registration by order under the Holding Company Act, to acquire all of the outstanding voting securities of IPALCO Enterprises, Inc., a holding company also exempt from registration under the Holding Company Act. The Commission issued an order exempting registration under the Holding Company Act conditioned upon AES' divestiture of certain interests within two years of the date of consummation of the acquisition.⁹³

Rulemaking

Foreign Utility Companies

The Commission re-proposed and sought further public comments on rules 55 and 56 and an amendment to rule 87 under the Holding

Company Act. The proposal generally requests comments on possible limitations upon the ability of a holding company to qualify foreign operations as a foreign utility company. The rulemaking is intended to carry out Congress' mandate to adopt rules concerning acquisitions of foreign utility companies by registered holding companies.⁹⁴

Electronic Recordkeeping

The Commission proposed and amended rule 1 under the Holding Company Act. The amendment addresses the maintenance of records by registered holding companies and their mutual or subsidiary service companies as required by rule 26 under the Holding Company Act.⁹⁵ The amendment expanded companies' ability to use electronic storage media, such as magnetic disks and tape, to maintain and preserve records, provided specified record maintenance procedures are followed. The Commission amended rule 1 in response to the passage of E-SIGN, which encourages federal agencies to accommodate electronic recordkeeping.

Compliance Inspections and Examinations

The Office of Compliance Inspections and Examinations manages the SEC's examination program. Inspections and examinations are authorized by the Securities Exchange Act of 1934, the Investment Company Act of 1940, and the Investment Advisers Act of 1940. Entities subject to this oversight include brokers, dealers, municipal securities dealers, self-regulatory organizations (SROs), transfer agents, clearing agencies, investment companies, and investment advisers.

What We Did

- Inspected 228 investment company complexes, 1,405 investment advisers, 21 insurance company complexes, 659 broker-dealers, and 151 transfer agents. We also conducted 31 inspections of specific programs, including at least one program at each of the 11 SROs.
- Continued to increase cooperation among SEC examiners responsible for different types of regulated entities to increase effectiveness and productivity and enhance investor protection. Also enhanced cooperation with foreign, federal, and state regulators, as well as with the SROs. The staff conducted coordinated examinations with staff from the Hong Kong Securities and Futures Commission and the United Kingdom's Financial Services Authority.
- Conducted a coordinated program to review broker dealers' preparations for the conversion to decimal quotations in the markets. This included general

oversight reviews in which the staff, in collaboration with the National Association of Securities Dealers (NASD), the New York Stock Exchange (NYSE), and the Chicago Board Options Exchange (CBOE) reviewed developments at broker-dealers representing a significant portion of trading volume in equities and options. The staff reviewed registrants' plans and procedures for dealing with potential decimalization problems, including remediation, testing, capacity, and contingency planning.

Investment Company and Investment Adviser Inspections

Investment Companies

Our examiners inspected 228 investment company complexes, including 14 fund administrators. The average frequency of inspections for investment company complexes was 5.2 years. The complexes inspected managed \$2.6 trillion in 11,115 portfolios, which represented approximately 33% of the 33,231 variable insurance products, unit investment trust and mutual and closed-end fund portfolios in existence at the beginning of 2001. The complexes inspected represented a mix of large and small complexes. Twenty-six of the inspections were done on a "for cause" basis, which means the staff had some reason to believe that a problem existed.

Many investment company examinations focused on the role of the fund's board of directors in reviewing and approving the advisory contract and the fund's distribution plan. We also focused on personal trading, allocation of portfolio securities, the fund's use of brokerage, and valuation procedures for illiquid securities.

The staff identified deficiencies or control weaknesses that resulted in a deficiency letter in 206--or 90%--of investment company

examinations. Most frequent deficiencies or weaknesses resulting in deficiency letters were inadequate internal control procedures, impermissible conflicts of interest, inadequate oversight by board of directors, errors and omissions in registration and SEC filings, and books and records problems.

Serious deficiencies found during 8--or 4%--of the examinations warranted referrals for further investigation by the Division of Enforcement. The most common deficiencies resulting in referrals involved fraud; failure to disclose material information, including conflicts of interest; impermissible affiliated transactions; misleading advertising; and failure to properly calculate NAV.

Investment Advisers

The staff completed 1,405 inspections of investment advisers. The average frequency of inspections for the 7,417 registered investment advisers was 5.3 years. The non-investment company assets managed by the advisers inspected totaled \$3 trillion. The staff inspected 87 investment advisers for cause.

Many investment adviser examinations focused on adviser performance advertising, personal trading, and allocation of portfolio securities among accounts. We also continued focusing closely on how advisers fulfill their duty of best execution in client securities transactions.

The staff identified deficiencies or control weakness resulting in a deficiency letter in 1,251--or 89%--of investment adviser examinations. Most frequent deficiencies were related to inadequate internal control procedures, custody, errors and omissions in Form ADV or the brochure, books and records problems, and inadequate marketing and performance practices.

Serious deficiencies warranting enforcement referrals were uncovered in 54--or 4%--of the examinations. The most common deficiencies resulting in referrals involved fraud; failure to disclose

material information, including conflicts of interest; brokerage and execution practices; and related custody and books and records problems.

Mutual Fund Administrators

Many mutual fund complexes use third party administrators to perform their accounting and administrative functions. During 2001, 11 of 14 fund administrator inspections resulted in deficiency letters and one in an enforcement referral.

Variable Insurance Products

In response to the rapid growth in variable insurance product assets and the emergence of new channels of distribution, specialized insurance product teams conducted examinations in this area. These teams identified and examined variable life and annuity contract separate accounts. Deficiency letters were issued to each of the 21 insurance company complexes that were examined.

Broker-Dealer and Transfer Agent Examinations

Broker-Dealers

In fiscal 2001, the staff conducted 659 oversight, cause, and surveillance examinations of broker-dealers, government securities broker-dealers, and municipal securities dealers. These examinations included 113 branch office examinations. Deficiency letters were sent to 545 broker-dealers, representing 83% of those examined. Serious deficiencies discovered in 112--or 17%--of the examinations warranted referrals to the Division of Enforcement for further investigation. An additional 66 examination findings were referred to SROs for appropriate action. The most common deficiencies found were recordkeeping deficiencies, net capital computation errors, unsuitable recommendations to customers, and inadequate written supervisory procedures.

Examination staff continued to conduct reviews of selected broker-dealers' internal controls, involving risk management, funding and liquidity, credit, and operations. Broker-dealer examinations also focused on a variety of sales practices, including retail sales of low priced, speculative securities frequently referred to as microcap stock. The staff continued to examine the sales of variable annuity products, mutual fund switching, and brokered certificates of deposits. The staff also, in conjunction with the NYSE and NASD, conducted examinations of a significant portion of the broker-dealers that clear trades for day trading correspondent firms.

In addition, the staff conducted several reviews of registrants' programs for dealing with the privacy rules outlined in Regulation S-P. We also began a coordinated examination sweep with the NASD and NYSE to assess how broker-dealers are complying with various anti-money laundering rules and regulations. Specifically, we are also looking at how firms are detecting suspicious activity that could be indicative of money laundering.

Examination staff continued initiatives to enhance cooperation with foreign, federal, and state regulators, as well as with SROs. Examiners worked through National Summit Meetings, Regional Summit Meetings, and other coordinated mechanisms to enhance cooperation and reduce any duplication of effort in broker-dealer examinations.

Transfer Agents

In 2001, our staff conducted 151 examinations of registered transfer agents, including 43 federally regulated banks. The program resulted in 121 deficiency letters, 10 cancellations or withdrawals of registrations, 11 referrals to the Division of Enforcement, 35 referrals to bank regulators, and one staff conference with a registrant. The examinations discovered 48 registrants with

deficiencies in compliance with the Lost Securities Rule. In addition, the staff completed three routine inspections of clearing agencies.

Self-Regulatory Organization Inspections

In fiscal 2001, the staff completed 31 inspections of SROs. The staff's inspections included at least one program at the following SROs:

- New York Stock Exchange,
- American Stock Exchange,
- Pacific Exchange,
- Boston Stock Exchange,
- Philadelphia Stock Exchange,
- Chicago Stock Exchange,
- Chicago Board Options Exchange,
- Cincinnati Stock Exchange,
- Municipal Securities Rulemaking Board,
- National Association of Securities Dealers, and
- International Securities Exchange.

The NASD inspections included review of the regulatory programs administered by the NASD's 14 district offices. The staff also inspected the Securities Investor Protection Corporation.

The inspections focused on SRO programs dealing with arbitration, initial listing and continued listing of securities for trading, financial and operational surveillance and examinations of member firms, market surveillance, investigations, disciplinary actions, and the detection of and sanctioning for sales practice abuses. In addition, the staff conducted inspections relating to customer order handling requirements in the equities and options markets, alternative trading systems, payment for order flow and internalization, and trading of Nasdaq securities pursuant to unlisted trading privileges. These inspections resulted in

recommendations to improve each SRO's effectiveness and efficiency.

SRO Final Disciplinary Actions

Section 19(d)(1) of the Securities Exchange Act of 1934 and rule 19d-1 require all SROs to file reports with the SEC of all final disciplinary actions. In fiscal 2001, a total of 1,966 reports were filed with the SEC, as reflected in the following table.

SRO Reports of Final Disciplinary Action	
American Stock Exchange	10
Boston Stock Exchange	0
Chicago Board Options Exchange	26
Chicago Stock Exchange	1
Cincinnati Stock Exchange	2
National Association of Securities Dealers	1,725*
National Securities Clearing Corporation	0
New York Stock Exchange	188
Options Clearing Corporation	1
Philadelphia Stock Exchange	13
Pacific Exchange	<u>0</u>
Total Reports	1,966

*This number does not include 19d-1 reports filed regarding Nasdaq delistings.

Full Disclosure System

The full disclosure system's goals are to:

- *foster investor confidence;*
- *provide investors with material information;*
- *contribute to the maintenance of fair and orderly markets;*
- *reduce the costs of capital raising; and*
- *inhibit fraud in the public offering, trading, voting, and tendering of securities.*

The Division of Corporation Finance achieves these goals by reviewing the financial and non-financial disclosure made by companies in their periodic reports and transactional filings. The Division also achieves its goal by recommending to the Commission rules that facilitate and enhance corporate disclosure and interpreting these rules.

What We Did

- Completed reviews of the year-end financial statements of 2,400 reporting issuers and 1,195 new issuers.
- Adopted a new rule providing safe harbors from integration for a registered offering following an abandoned private offering or a private offering following an abandoned registered offering.
- Proposed rules to require companies to disclose securities authorized under compensation plans to address investors' concerns about increased use of

equity compensation, particularly in the form of stock options.

- Proposed rule and form amendments that would require foreign private issuers and foreign governments to file their securities documents electronically through our Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system.
 - Issued an exemptive order enabling companies to make option exchange offers to employees for compensatory purposes without complying with certain Commission tender offer rules.
 - Initiated several special relief actions in the wake of the September 11, 2001 terrorist attacks.
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2001 Statistics

Companies filed registration statements with the Commission covering \$2.3 trillion in proposed securities offerings during the year, approximately the same as in 2000. Offerings filed by first-time registrants (IPOs) totaled approximately \$154 billion, 17% less than in 2000.

**Registration Statements Filed
(in billions of dollars)**

<u>Security</u>	<u>2001 Value</u>	<u>2000 Value</u>	<u>Change</u>
Common stock	\$1,242.4	\$1,570.4	-21 %
Asset backed	167.0	145.8	+14 %
Debt	609.3	372.5	+64 %
Unallocated shelf *	294.3	171.6	+71 %
Other equity	31.8	40.0	-20 %
Total	\$2,344.8	\$2,300.3	+2 %

* A transactional filing where the issuer registers a dollar amount of securities without specifying the particular amount of each different type of security to be issued.

Review of Filings

The following table summarizes the principal filings reviewed by the staff during the last five years.

Full Disclosure Reviews

<u>Major Filing Reviews</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Securities Act Filings					
Initial Public Offerings	1,255	1,320	1,010	1,350	745
Repeat Issuers	723	720	510	270	620
P/E Amdts. <u>a/</u>	41	28	10	10	25
Regulation A	111	81	65	70	50
Exchange Act					
Initial Registrations	349	338	680	1,015	400
Annual Report Reviews					
Full <u>b/</u>	1,949	1,527	1,375	595	880
Full Financial	1,208	997	960	550	1,400
Tender Offers (14D-1)	234	259	355	300	225
Going Private Schedules	94	115	180	115	145
Contested Proxy					
Solicitations	83	59	70	90	58
Proxy Statements					
Merger/Going Private	233	219	195	75	65
Others w/Financials	238	257	190	150	90
Reporting Issuer Reviews <u>c/</u>	3,513	2,828	2,550	1,535	2,400
New Issuer Reviews <u>d/</u>	1,715	1,739	1,755	2,435	1,195
Total Issuer Reviews	4,228	4,567	4,305	3,970	3,595

a/ Post-effective amendments with new financial statements.

b/ Includes annual reports reviewed in connection with the review of other filings that incorporated financial statements by reference.

c/ Includes companies subject to Exchange Act reporting whose financial statements were reviewed during the year.

d/ Includes reviews of Securities Act registration statements and Exchange Act registrations by non-Exchange Act reporting companies. Includes reviews of Regulation A filings.

With the decline in corporate merger activity and IPOs, the Division focused more of its resources on reviewing Securities Exchange Act of 1934 reports rather than transactional filings. During 2001, we reviewed fewer transactional filings than in 2000, 1,595 as compared with 1,925, but nearly twice as many Exchange Act reports, 2,280.

International Activities

Foreign companies' participation in the U.S. public markets continued to grow in 2001. During the year, approximately 130 foreign companies from 29 countries entered the U.S. public markets for the first time. At year-end, there were over 1,300 foreign companies from 59 countries filing reports with us. Public offerings filed by foreign companies in 2001 totaled over \$267 billion as compared with \$211 billion.

Recent Rulemaking, Interpretive and Related Matters

Rulemaking is undertaken to protect investors, facilitate capital formation, improve and simplify disclosure, establish uniform requirements, and eliminate unnecessary regulation. The objective in rulemaking is to define regulatory requirements on a cost-effective basis. We provide general interpretive and accounting advice through interpretive releases, staff legal bulletins, staff accounting bulletins, no-action and interpretive letters, our current issues outline, and responses to telephone inquiries.

Integration Safe Harbors for Abandoned Offerings

On January 26, 2001, the Commission adopted new Securities Act Rule 155 to provide safe harbors from integration for a registered offering following an abandoned private offering or a private offering following an abandoned registered offering.⁹⁶

Proposed Equity Compensation Plan Disclosure

On January 26, 2001, the Commission proposed amendments to our rules and forms that would require registrants to disclose, at least annually, information about the total number of securities that have been authorized for issuance under their equity compensation plans, whether or not the plans were approved by security holders.⁹⁷ The proposals are intended to address investor concerns about increased use of stock options as compensation, the potential dilutive effect of these options, and the absence of information regarding plans adopted without security holder approval.

Mandated EDGAR Filing for Foreign Issuers Proposed

On September 28, 2001, the Commission proposed rule and form amendments that would require foreign private issuers and foreign governments to file their securities documents electronically through the EDGAR system.⁹⁸ Currently, Commission rules only permit, but do not require, foreign issuers to file their securities documents on EDGAR.

International Disclosure Standards

On June 15, 2001, the Commission adopted technical amendments to Form 20-F, the basic Exchange Act registration statement and the annual report form used by foreign private issuers, and to Securities Act Forms F-2 and F-3.⁹⁹ The amendments clarify language in the forms that created confusion about the forms' disclosure requirements. The amendments also codify the longstanding practice of accepting two years audited income statements and statement of cash flows information if the financial statements are presented in accordance with U.S. Generally Accepted Accounting Principles.

Option Exchange Offers

On March 21, 2001, pursuant to delegated authority from the Commission, the Division issued an exemptive order addressing employee stock option exchange offers.¹⁰⁰ The exemptive order permits issuers to make these exchange offers without the need to comply with the rules requiring tender offers to be extended to all security holders of a class at the same price. The order contains conditions designed to assure that this relief is given only in the context of compensatory offers and that adequate disclosure is provided to employees.

Electronic Signatures in Global and National Commerce Act

On June 14, 2001, the Commission issued an interpretive release providing guidance on the application of the Electronic Signatures in Global and National Commerce Act (E-SIGN) to SEC recordkeeping requirements under the Securities Act, Exchange Act and Regulation S-T.¹⁰¹ The release provides that, because E-SIGN is not applicable to authentication documents that are generated principally for governmental purposes, issuers should continue to retain paper copies of these documents. The release also provides that the other identified records may be retained in electronic form, as long as the method selected for retention provides the same assurances of accuracy and accessibility as are provided by paper retention.

Special Relief Actions Taken in the Wake of the September 11, 2001 Terrorist Attacks

On September 14, 2001, the Commission issued an emergency order pursuant to Exchange Act section 12(k)(2) to respond to market developments.¹⁰² The order covered several matters, including registrant repurchases of securities under Exchange Act rule 10b-18 and the profit recovery provisions of section 16(b) of the Exchange Act. The Commission also issued an interpretive release expressing our views on how to calculate the average

weekly reported volume of trading in securities under Securities Act rule 144.¹⁰³ Furthermore, on September 28, 2001, the Commission issued a press release outlining a series of administrative actions taken to provide temporary emergency relief from regulatory burdens to companies in the airline and insurance industries, and to help these companies quickly access the U.S. capital markets.

Conferences

SEC/NASAA Conference Under Section 19(c) of the Securities Act

The SEC conducted the 18th annual federal/state uniformity conference in April 2001 in Washington, D.C. Approximately 60 Commission officials met with approximately 60 representatives of the North American Securities Administrators Association, Inc. to discuss methods of achieving greater uniformity in federal and state securities matters. After the conference, a final report summarizing the discussions was prepared and distributed to interested persons and participants.

SEC Government-Business Forum on Small Business Capital Formation

The SEC conducted the 20th annual Government-Business Forum on Small Business Capital Formation in Washington, D.C. in September 2001. This platform for small business is the only government-sponsored national gathering for small business, which offers annually the opportunity for small businesses to let government officials know how the laws, rules, and regulations are affecting their ability to raise capital.

Accounting and Auditing Matters

The Chief Accountant is the principal adviser to the Commission on accounting and auditing matters arising from the administration of the federal securities laws. Activities designed to achieve compliance with the accounting, financial disclosure, and auditor independence requirements of the securities laws include:

- *rulemaking and interpretation initiatives that supplement private sector accounting standards and implement financial disclosure requirements;*
 - *review and comment process for agency filings to improve disclosures in filings, identify emerging accounting issues (which may result in rulemaking or private-sector standard setting), and identify problems that may warrant enforcement actions;*
 - *oversight of U.S. private sector efforts, principally by the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA); and*
 - *monitoring various international bodies, which establish accounting, auditing, and independence standards designed to improve financial accounting and reporting and the quality of audit practice, including standards applicable to multinational offerings.*
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What We Did

- Took a proactive role in addressing various accounting, financial disclosure, and auditor independence issues resulting from the September 11, 2001 terrorist attacks.

- Continued our involvement in initiatives to ensure independence by auditors of public companies, culminating in the issuance of revised rules that modernized the Commission’s auditor independence requirements.
 - Issued a staff accounting bulletin (SAB) on loan loss allowance methodologies and documentation.
-

Accounting-Related Rules and Interpretations

The SEC’s accounting-related rules and interpretations supplement private sector accounting standards and implement financial disclosure requirements. The principal accounting requirements are contained in Regulation S-X, which governs the form and content of financial statements filed with the SEC.

Suspension of Restrictions on Stock Repurchases

In response to the events of September 11, 2001, the Commission issued a series of emergency and exemptive orders pursuant to various sections under the Securities Exchange Act of 1934, including the provision that public companies repurchasing their shares during the period ending October 12, 2001 would not have adverse consequences under the pooling-of-interests requirements in Accounting Principles Board (APB) Opinion No. 16, *Business Combinations*, and related interpretations of the AICPA.

Auditor Independence

After making modifications in response to public comments, the Commission adopted rules that modernized its auditor independence regulations.¹⁰⁴ The adoption of the rules culminated years of public debate; studies by the Independence Standards Board (ISB) and private research organizations; a hearing by the

Securities Subcommittee of the Senate Committee on Banking, Housing, and Urban Affairs; and a 75-day comment period that yielded approximately 3,000 comment letters and related public hearings at which approximately 100 investors, accountants, lawyers, academics, analysts, and others testified. The final rules:

- reduced the number of audit firm partners and employees whose investments in, and relatives' employment with, audit clients would impair auditor's independence;
- provided guidance for assessing whether a non-audit service, if provided to an audit client, impairs an auditor's independence, and a list of services that are deemed to be incompatible with the concept of being an independent auditor; and
- required the disclosure of:
 - audit fees,
 - fees for information system design and implementation,
 - fees for all other non-audit services,
 - whether the company's audit committee considered whether non-audit services provided by the auditor are compatible with the auditor's independence, and
 - whether more than 50% of the hours expended on the audit were done by persons other than the auditor's full-time, permanent employees.

Following the issuance of the revised independence rules, the accounting staff issued guidance regarding implementation and interpretive issues.

During 2001, the Commission issued a policy statement amending Financial Reporting Release No. 50 to state that the SEC will no longer look to the ISB for leadership in establishing and improving auditor independence standards applicable to auditors of the financial statements presented by SEC registrants.¹⁰⁵ As a result of the Commission's recently adopted independence rules, members of the ISB, the accounting profession, and the SEC believe that many of the issues that led to the creation of the ISB have been resolved, and that it would be preferable to involve the private sector in maintaining and improving the auditor independence requirements by working with the AICPA's Professional Ethics Executive Committee (PEEC) on discrete issues where appropriate. Standards and interpretations adopted or issued previously by the ISB will continue to be considered authoritative to the extent that they do not conflict with the Commission's rules and interpretations. The ISB discontinued its operations effective July 31, 2001.

In another initiative to address the business disruptions caused by the September 11, 2001 events, the Commission issued an interpretive release related to the provision of certain bookkeeping services to audit clients of accounting firms.¹⁰⁶ In response to inquiries from accounting firms and registrants, the release indicates that accounting firms may assist audit clients that had offices in and around the World Trade Center in recovering destroyed records and systems.

Allowance for Loan Losses

The SEC and the four federal banking agencies¹⁰⁷ completed their guidance on documentation of loan loss allowances, resulting in the issuance of a SAB¹⁰⁸ and a policy statement from the Federal

Financial Institutions Examination Council. The SAB provides guidance to registrants to assist them in improving their systematic methodologies for estimating loan loss allowances and their supporting documentation but does not change existing rules on accounting for loan loss allowances or provisions. Previously, the Commission issued guidance on loan loss methodologies and documentation in Financial Reporting Release No. 28;¹⁰⁹ the SAB provides guidance on it. In addition, the SEC and the federal banking agencies continue to support and encourage the Accounting Standards Executive Committee's (AcSEC) project to develop additional guidance on the accounting for loan losses.

Oversight of Private Sector Standard Setting

Accounting Standards

Financial Accounting Standards Board

The Commission oversees the FASB process to determine whether the process is operating in an open, fair, and impartial manner and whether each standard is within an acceptable range of alternatives that serves the public interest and protects investors. The Commission and its staff work with the FASB to improve the standard-setting process, including the need to respond to various regulatory, legal, and business changes in a timely and appropriate manner. The FASB process involves constant, active participation by all interested parties in the financial reporting process.

The staff attended meetings of the FASB's Emerging Issues Task Force, observed FASB task force meetings, and held quarterly discussions with the FASB staff. The Commission's Chief Accountant observed the quarterly meetings of the Financial Accounting Standards Advisory Council, which consults with the FASB on major policy and agenda issues.

A sampling of some of the FASB activities overseen by the staff during the year include:

- The adoption of new standards on accounting for business combinations that eliminate the pooling-of-interests method to account for business combinations and no longer require amortization of goodwill recognized under the purchase method of accounting.¹¹⁰
- The completion of a project to establish the appropriate accounting and financial disclosure for obligations associated with the retirement of long-lived assets and related asset retirement costs.¹¹¹
- The adoption of a revised standard on accounting for the impairment or disposal of long-lived assets.¹¹² The new standard supersedes an earlier FASB standard and Opinion of the APB that addressed these issues.¹¹³
- Activities relating to the FASB's long-term project to address financial instruments and off-balance sheet financing issues. The FASB considered comment letters and other input received on a preliminary views document on various issues relating to the determination and use of fair value for measuring financial instruments.¹¹⁴ During 2001, the FASB published a special report on an *ad hoc* international group's (the Financial Instruments Joint Working Group of standard setters) recommendations on reporting financial instruments and similar items.¹¹⁵
- Deliberations of the FASB's Derivatives Implementation Group, which identified issues related to implementation of the accounting standard for derivative instruments and hedging instruments,¹¹⁶ and developed recommendations for their resolution.

- The discontinuation of a project to specify when entities should be included within consolidated financial statements. From the SEC's perspective, the existing standards for determining when entities should be included in the consolidated financial statements of public companies generally should be adequate during the period preceding reassessment by the Board. (The existing standards are based on majority voting ownership, with certain exceptions under rule 3A-02 of Regulation S-X.) However, the existing standards do not adequately address circumstances involving entities with specific limits on their powers, also referred as SPEs. The FASB is urged to continue its efforts to provide consolidation guidance concerning SPEs.
- The completion of a research project on business reporting that evolved from previous recommendations made by the AICPA Special Committee on Financial Reporting and the Association for Investment Management and Research through its study, *Financial Reporting in the 1990s and Beyond*. The report issued by the research project's Steering Committee focused on the voluntary disclosures of certain types of non-financial information being made by leading companies in selected industries.¹¹⁷ In a related initiative, Professor Jeffrey Garten, Dean of Yale's School of Management, assembled a committee of leaders from the business community, academia, the accounting profession, standard-setting bodies, and others. The group's report was issued during 2001 and focused on how current SEC disclosures could be improved or enhanced through greater disclosures of a company's measures of value creation or lack thereof, such as key performance indicators.¹¹⁸ We are evaluating the recommendations made by these two groups to determine what actions may be appropriate for the protection of investors.

- The identification and resolution of accounting issues by the FASB's Emerging Issues Task Force (EITF). During 2001, the EITF reached consensus on several significant issues, including the appropriate financial reporting of the impact of the September 11 events. On this issue, the EITF concluded that none of the losses and expenses related to the events of September 11, 2001 should be classified as extraordinary for financial reporting purposes, even though some costs may satisfy the criteria for treatment as extraordinary items. The EITF concluded that the high level of judgment necessary to determine whether or not a loss is attributable to the September 11 events would result in an accounting model that is not operational and, therefore, decided to treat all costs as operating costs.

Accounting Standards Executive Committee

Our accounting staff oversaw various accounting-standard setting activities conducted through the AcSEC, established by the AICPA to provide guidance through its issuance of statements of position and practice bulletins. AcSEC issued a statement of position to provide guidance on the appropriate accounting and financial reporting for demutualizations and other activities of insurance companies.¹¹⁹ It also adopted a revised audit guide for investment companies.¹²⁰ AcSEC also continued work on a project on accounting for credit losses and issued a proposed statement of position on the appropriate accounting for certain costs and activities related to property, plant, and equipment.¹²¹

Panel on Audit Effectiveness of the Public Oversight Board

The accounting staff continued to monitor responses to the recommendations for improving the quality and effectiveness of audits set forth in the report of the Panel on Audit Effectiveness.¹²²

The Panel's report included approximately 200 recommendations to the accounting profession, standard setters, audit committees, and regulators. Some of those recommendations also focus on the need to improve international auditing and quality control standards. We have encouraged the appropriate responsible party to address each recommendation. The Public Oversight Board (POB) also has been asked to report to the public on the progress on implementation of the Panel's recommendations.

Auditing Standards

Auditing Standards Board (ASB)

The staff continued to oversee activities of ASB, established by the AICPA to set generally accepted auditing standards, including its efforts to enhance the effectiveness of the audit process. The staff is monitoring the ASB's progress in addressing the recommendations in the report of the Panel on Audit Effectiveness. During 2001, the ASB issued a new auditing standard that addresses the effect of information technology on the auditor's consideration of internal control.¹²³ The ASB also issued a series of annual audit risk alerts to provide auditors with an overview of recent economic, professional, and regulatory developments that may affect year-end audits.

Quality Controls and Peer Reviews

SEC Practice Section (SECPS)

Our accounting staff oversaw the processes of the SECPS, established by the AICPA to improve the quality of audit practice by member accounting firms that audit the financial statements of public companies. Two programs administered by the SECPS are intended to evaluate whether the financial statements of SEC registrants are audited by accounting firms that have adequate quality control systems. A peer review of member firms by other accountants is required every three years, and the Quality Control

Inquiry Committee (QCIC) reviews on a more timely basis the quality control implications of litigation against member firms that involves public company clients.

During the year, we encouraged the creation of a charter that gave the POB explicit authority to oversee additional aspects of the profession's system of governance. The charter, adopted in February 2001, gives the POB greater oversight over the setting of auditing standards in order to better coordinate the findings of the self-regulatory processes and the auditing standard setters, as well as the ability to conduct special reviews of the accounting profession.

Our accounting staff selected a random sample of peer reviews and evaluated selected working papers and the related POB oversight files and reviewed QCIC closed case summaries and related POB oversight files. The SEC staff provided the staff of the POB with comments on certain peer reviews with the goal of achieving more understandable communications to the public of the peer review findings.

The SECPS issued a new membership requirement in 2000 that sets standards for member firms' quality control systems for monitoring auditor's independence in U.S. firms. The largest firms in the SECPS agreed with the SEC staff to conduct a voluntary "look-back" program to assess each firm's compliance with specified independence criteria. The agreement requires firms to upgrade their quality control systems that monitor compliance with auditor independence rules. Pursuant to the terms of the look-back program, participating firms also are required to permit the POB to oversee the design and implementation of the new quality control systems. The look-back phase of the review has been completed and revealed an average of approximately 30 violations per firm--a small fraction of the professionals whose financial interests were reviewed under the program.

Self Discipline

The staff met with the PEEC to discuss the PEEC's disciplinary actions. The PEEC's disciplinary actions, including their timeliness, are affected by a lack of subpoena powers and a deferral policy that provides all other litigation to be completed before PEEC action is pursued. The PEEC has added three representatives of the public to its approximately 20-member board, and consideration is being given to further increasing the number of public members. In addition, the Panel on Audit Effectiveness made several recommendations to the AICPA and the PEEC that, if implemented, should improve the PEEC process.

International Accounting

Today, corporations regularly look beyond their home country's borders for both debt and equity capital. An increasing number of foreign companies routinely raise or borrow capital in U.S. markets, and U.S. investors have shown great interest in investing in foreign enterprises. Currently, issuers wishing to access capital markets in different jurisdictions must comply with the differing requirements of each jurisdiction. Foreign private issuers registering their securities in the U.S. are permitted to prepare their basic financial statements either in accordance with U.S. generally accepted accounting principles (GAAP) or another comprehensive body of accounting, such as International Accounting Standards or home country GAAP, along with reconciliation to U.S. GAAP. The SEC recognizes that the different listing and reporting requirements may increase the costs of accessing multiple capital markets and create inefficiencies in cross-border capital flows, and has been working with securities regulators and other bodies around the world to reduce accounting differences. The SEC, through the International Organization of Securities Commissions, is active in monitoring and reacting to accounting developments. The staff also works directly with other country regulators, and with accounting standards setters including

the FASB and the International Accounting Standards Board (IASB).

The IASB is the successor organization to the International Accounting Standards Committee and came about in a multi-year restructuring effort that changed the body to a full-time expert standards setting organization dedicated to the public interest. The new IASB established a full agenda of standards projects and began monthly meetings in April 2001. The SEC staff has observed most IASB meetings, is monitoring the progress of the IASB, and has encouraged the IASB to work with the FASB and other national accounting standards setters to create global accounting standards that will support the imperatives of a global marketplace. In particular, the staff has urged cooperation to achieve convergence on high quality accounting standards, which could reduce or eliminate the need for reconciliation.

During the past year, the staff began considering the views expressed in over 90 comment letters received in response to a concept release on accounting, auditing, and regulatory issues that impact the effectiveness of financial reporting in a global environment¹²⁴ and related research, and evaluating alternatives for SEC action, which could include recommendations for rulemaking. The comment letters reflect a wide variety of views on the present quality of international accounting standards and on the reliability of the information they produce for investors. European commenters generally favored reducing or eliminating reconciliation requirements, while U.S. commenters generally urged that present reconciliation requirements be retained. Comments vary on how consistently and reliably international accounting standards (IAS) are applied, audited, and enforced throughout the world, and on what the SEC should do regarding the use of IAS by foreign issuers listing in the United States.

International Auditing

Ensuring that high quality financial information is provided to the capital markets does not depend solely on the body of accounting standards used. Auditors have a key role to test and opine on whether the financial statements are fairly presented in accordance with Generally Accepted Accounting Principles. If these responsibilities are not met, accounting standards may not be properly applied, resulting in a lack of transparent, comparable, and consistent financial information.

For the last several years, the SEC and a number of international financial institutions have been urging the audit profession, and particularly the major global audit firms, to improve the quality of international auditing. This is a long-term goal that envisions a future global market where financial statements are subject to audit under uniform international auditing standards. Currently, financial statements presented by foreign private issuers must comply with U.S. Generally Accepted Auditing Standards.

Other Litigation and Legal Activity

The Office of General Counsel provides legal services to the Commission concerning its law enforcement, regulatory, legislative, and adjudicatory activities. The office represents the Commission in appeals and in defense of civil litigation, and provides technical assistance to Congress on legislative initiatives.

What We Did

- Played a lead role in advising the Commission on the scope of its emergency powers in the wake of the September 11, 2001 terrorist attacks.
 - Played a significant role in:
 - revising the Commission’s auditor independence rules;
 - developing rules to define the scope of the Gramm-Leach-Bliley Act’s functional exceptions from broker-dealer registration for certain bank securities activities; and
 - developing interagency rules to implement the Commodity Futures Modernization Act.
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Significant Litigation Developments

Oral Contracts and Options; Misrepresentation of Intent to Honor Option

In *Wharf (Holdings) Ltd. v. United Int'l Holdings, Inc.*,¹²⁵ the Supreme Court held, as the Commission had urged in its friend of the court brief, that granting an oral option to buy stock while secretly intending never to honor the option is fraud that violates section 10(b) of the Securities Exchange Act of 1934 (Exchange Act). The Court rejected the defendants' arguments that section 10(b) does not cover oral contracts and that a secret reservation not to permit the exercise of an option falls outside the scope of section 10(b).

Fraud "in connection with the purchase or sale of any security"

In *SEC v. Zandford*,¹²⁶ the Commission argued in its petition for Supreme Court review that, contrary to the court of appeals' decision,¹²⁷ a stockbroker's fraud was committed "in connection with the * * * sale of any security," and therefore in violation of Exchange Act section 10(b), when he sold his customer's securities for his own benefit and used the proceeds for himself, without disclosure to his customer and authorization. The petition also argued that the court of appeals' decision conflicts with the Supreme Court's decision in *Superintendent of Insurance v. Bankers Life & Cas. Co.*,¹²⁸ which held that section 10(b) covered the fraudulent misappropriation of the proceeds of a sale of securities, and the decision of the Court of Appeals for the Ninth Circuit in *United States v. Kendrick*,¹²⁹ in which a securities salesman was held criminally liable under section 10(b) for pledging a customer's securities as collateral for loans to the customer's account and then converting the funds to his own use. The Supreme Court has granted review, and the case is pending.

Municipal Securities Underwriter's Duty of Care

In *SEC v. Dain Rauscher, Inc.*,¹³⁰ the court of appeals reversed the grant of summary judgment for a defendant, who was the lead investment banker for a series of municipal bond offerings. The defendant, following what he claimed was the standard practice in the industry, failed to investigate, or disclose to investors, the risks of the offerings. The court of appeals held that while the industry standard is one factor to be considered, it is not determinative. Rather, the standard of care for an underwriter of municipal offerings is one of reasonable prudence. More specifically, the court held that the defendant had a duty to make an investigation that would provide him with a reasonable basis for a belief that the key representations in the official statements provided to investors were truthful and complete.

Insider Trading

In *United States v. Falcone*,¹³¹ the court of appeals agreed with the Commission's friend of the court brief that a stockbroker who obtained advance notice of the contents of *Business Week's* "Inside Wall Street" column through an employee of the magazine's wholesaler and traded on the information was not too "remote" in the chain of distribution of the magazine to have owed a duty of confidence to *Business Week*. The court of appeals held that the stockbroker had a duty not to trade on that information because *Business Week* communicated the need for confidentiality to its distributor, which in turn communicated it to the wholesaler, which accepted and enforced the confidence, and the stockbroker received the information with knowledge that he was getting it in breach of the confidentiality obligation.

In *SEC v. Lipson*,¹³² a case against the chief executive officer and chairman of the board of a public company, the Commission argued that the jury was correctly instructed that, when a corporate insider trades in stock of his company while in the possession of inside information, a fact-finder may infer from the possession that

he used the information, although the defendant may rebut the inference if he shows he had a pre-existing plan to trade the same amount of stock on the same date. The appeal is pending.

Definition of a Security

In *SEC v. SG Limited*,¹³³ the court of appeals reversed a summary judgment granted in favor of the defendant, the promoter of an Internet “virtual stock exchange.” The court agreed with the Commission that one of the “virtual securities” on the defendant’s website met the elements of an investment contract, and was therefore a security under the federal securities laws, even though the defendant had called the security a game.

In *Caiola v. Citibank, N.A.*,¹³⁴ the Commission filed a friend of the court brief arguing that an option on a security that is settled by payment of cash (instead of by delivery of the underlying security), and is exercised automatically at expiration if the option is in the money, is an “option” as that term is used in defining “security” in the Exchange Act. The Commission also explained that the Commodity Futures Modernization Act of 2000 (CFMA) did not remove options on securities from the definition of security. This appeal is pending.

Interim Investment Advisers for Mutual Funds

In *Navellier v. Sletten*,¹³⁵ the court of appeals agreed with the Commission’s friend of the court brief that rule 15a-4 under the Investment Company Act, which authorizes the directors of a mutual fund to retain an interim investment adviser for the fund pending a shareholder vote, does not require a finding that an emergency or other exigent circumstances make such a vote impractical. The court also agreed that rule 15a-4 was a valid exercise of the Commission’s exemptive authority under the act.

Antitrust Immunity

In a friend of the court brief in *Friedman v. Salomon Smith Barney*,¹³⁶ the Commission urged that antitrust liability based on an alleged conspiracy to stabilize the price of newly offered securities through the practice of “privilege revocation” was preempted by the Commission’s pervasive regulation of the offering process in general, and of stabilization in particular. The appeal is pending.

In contrast, in a friend of the court brief in *In re Stock Exchanges Options Trading Antitrust Litigation*,¹³⁷ the Commission had urged that conduct that violated a Commission rule that was intended to provide for competition is not immune from antitrust liability. The district court disagreed with the Commission’s position, and the decision is on appeal.¹³⁸

Class Action Attorney Fees

In *Wolff v. Cash 4 Titles*,¹³⁹ the Commission filed a friend of the court brief urging that a request for attorney fees of up to 25% of the settlement of a class action was excessive where the class action had been settled jointly with an action brought against the same defendants by a receiver appointed in a Commission enforcement action. The Commission argued that the receiver and Commission staff performed most of the work leading to the settlement, and that the fee requested by the class counsel would give them a windfall and would directly reduce the amount to be returned to defrauded investors by the receiver. The Court agreed that the work warranted awarding lower fees to the class counsel, and set the award at 17% of the settlement fund to the class counsel. The receiver has received permission from the judge presiding over the Commission’s enforcement action to appeal on the grounds that 17% is excessive.

Private Rights of Action Under the Securities Act of 1933

In friend of the court briefs in *McKowan Lowe & Co., Ltd. v. Jasmine, Ltd.*¹⁴⁰ and *Lee v. Ernst & Young*,¹⁴¹ the Commission argued that standing to sue under section 11 of the Securities Act of 1933 (Securities Act) for misrepresentations in a registration statement is granted to all who purchase the registered securities, including secondary market purchasers, and is not limited to those who purchase in the offering. These appeals are pending.

In *In re Safety-Kleen Bondholders Litigation*,¹⁴² the Commission's friend of the court brief, filed at the request of the district court, took the position that there is no liability under section 11 or section 12(a)(2) of the Securities Act on the part of the initial purchasers of securities that are issued pursuant to the exemption from registration in rule 144A under the Securities Act, then resold by the initial purchasers to qualified institutional buyers, and then exchanged by those buyers with the issuer for registered securities. The district court subsequently granted the motions of the defendant's initial purchasers to dismiss the buyers' claims under these provisions.

Insider Reporting and Short-Swing Profits Liability Under Section 16 of the Exchange Act

In *Morales v. Quintel Entertainment, Inc.*,¹⁴³ the court of appeals agreed with the Commission's friend of the court brief, that in appropriate circumstances a lock-up provision may demonstrate an agreement to hold or dispose of securities, and thus may make the shareholders agreeing to the lock-up provision a group whose shares should be aggregated for the purpose of determining whether the 10% threshold of section 16 has been crossed.

In *Levy v. Southbrook International Investments, Ltd.*,¹⁴⁴ the Second Circuit held, as urged by the Commission in a friend of the court brief filed at the request of the court, that a conversion cap that denies a preferred stockholder the right to convert his shares

into common stock if the conversion would result in the holder owning more than 4.9% of the outstanding common stock, prevented the investor from becoming the beneficial owner of more than 10% percent of an issuer's common stock under section 16, even if the shareholder might serially acquire and dispose of more than 10% of the common stock within a short period of time.

Litigation under the Private Securities Litigation Reform Act

The Commission addressed the state of mind pleading standard under the Private Securities Litigation Reform Act of 1995 (PSLRA) in a friend of the court brief filed in *Caprin v. Simon Transportation Services*.¹⁴⁵ Consistent with its position in other circuits, the Commission urged the position that the pleading standard does not eliminate recklessness as a basis for liability and that, in interpreting the pleading standard, courts should rely upon the pre-PSLRA Second Circuit tests, under which a plaintiff may allege facts that constitute strong circumstantial evidence of conscious misbehavior or recklessness or facts that show that the defendant had both a motive and an opportunity to commit fraud. This appeal is pending.

In *In re Cendant Corp. Litig.*,¹⁴⁶ the court of appeals agreed with the Commission's positions, in its friend of the court brief, that: (1) the PSLRA envisions a lead plaintiff that is active in selecting and supervising lead counsel; (2) competing lead plaintiff candidates should not be appointed "co-lead plaintiffs;" (3) a proposed lead plaintiff group should be forthcoming with information about the group, be properly constituted, and be limited to a small size so as to function as a single unit; and (4) district courts should resort to an auction to select and set a fee schedule for lead counsel only where the lead plaintiff is unable or unwilling to perform its role (including where the process is tainted by political contributions).

The Commission also addressed the PSLRA's lead plaintiff provisions in friend of the court submissions in *Lee v. Ernst &*

Young, In re Oxford Health Plans, Inc. Sec. Litig., and *In re PRI Automation, Inc. Sec. Litig.*¹⁴⁷ In *Lee*, the Commission argued that the district court has the power to appoint a replacement lead plaintiff even when the originally appointed lead plaintiff is later held to lack standing and no other class member filed an original complaint in the case or moved to be lead plaintiff within the first 60 days during which the PSLRA contemplates appointment of the initial lead plaintiff. In *Oxford*, the Commission urged the court of appeals to permit an interlocutory appeal of the district court's order certifying as class representatives competing lead plaintiff candidates the court erroneously appointed as "co-lead plaintiffs" at the outset of the case. In *PRI*, the Commission discussed standards for evaluating proposals for a lead plaintiff "group" and for multiple lead counsel. The *Lee* and *Oxford* matters are pending.

Variable Annuities Under the Securities Litigation Uniform Standards Act

In *Lander v. Hartford Life & Annuity Co.*,¹⁴⁸ the court of appeals agreed with the Commission's friend of the court brief, filed at the request of the court, that because variable annuities are securities issued by a registered investment company, they fall within the plain meaning of "covered security" under the Securities Litigation Uniform Standards Act of 1998. That statute generally preempts state fraud law class actions involving the sale of covered securities, such as the case before the court. Therefore, the court of appeals ruled that case should be dismissed.

Motions to Vacate Permanent Injunctions

In *SEC v. Coldicutt*,¹⁴⁹ the Ninth Circuit affirmed the rejection of Coldicutt's motion to lift the permanent injunction entered against her in 1992. Coldicutt argued that the injunction, which barred her from marketing unregistered securities, was no longer necessary since she had complied with the injunction for nine years, let her broker-dealer licenses lapse, and disavowed any intention of

returning to the securities industry. The court held that the mere passage of time was not sufficient grounds to vacate an injunction. It also noted that Coldicutt could market unregistered securities even without a broker's license (for example, over the Internet), and that Coldicutt had not shown that the injunction caused her any objective hardship (such as a lost business opportunity).

In *SEC v. Bechstein*,¹⁵⁰ the district court denied Bechstein's motion to lift the permanent antifraud injunction entered against him in October 2000 based on misrepresentations Bechstein made as president of a corporation during its initial public offering. Bechstein argued that the injunction was inequitable because, at the time he consented to its entry, he was unaware that it would disqualify him under the National Association of Securities Dealers' (NASD's) By-Laws and the federal securities laws and cause him to lose his job with a broker-dealer. The court held that the Commission had shown that the responsible Commission attorney had not assured Bechstein the injunction would not affect his job, and, in any event, Bechstein failed to include language in the settlement regarding the alleged assurances.

In *SEC v. Walsh*,¹⁵¹ the Commission opposed Walsh's motion seeking relief from a permanent antifraud injunction entered against him in May 1999 based on Walsh's purchase of securities in his wife's account while he was associated with a broker-dealer and in possession of material, nonpublic information. In a hearing before the trial court, Walsh argued his injunction should be vacated because he has not been able to register as a person associated with a broker-dealer in some states where he has clients. The Commission argued that this inability to register does not constitute unforeseen changed circumstances making compliance with the injunction substantially more onerous or making the injunction unworkable. It noted that the inability to register in a few states is a well-established risk of being subject to a permanent injunction, not an unforeseen changed circumstance justifying relief from the injunction. A decision is pending.

Plans of Distribution of Disgorged Assets

In *SEC v. Credit Bancorp, Ltd.*,¹⁵² the Commission defended the plan of partial distribution of customer assets disgorged from Credit Bancorp's ponzi scheme that had been approved by the trial court. The plan provided for a *pro rata* distribution of disgorged assets among all customers, whose contributions (whether in the form of cash or securities) had been commingled by Credit Bancorp in its various brokerage accounts and sold, spent, subjected to margin loans, and shifted between accounts at Credit Bancorp's whim. A customer who had transferred securities to the control of the ponzi scheme, where they were transferred between Credit Bancorp's accounts and served as collateral for margin loans to Credit Bancorp, appealed the plan of distribution to the Second Circuit, demanding the return of its unsold securities. The appeal is pending.

Actions to Enforce NASD Restitution Orders

Pursuant to section 21(e)(1) of the Exchange Act, the Commission, working with the NASD, filed applications seeking court orders requiring payments of fines and restitution imposed as NASD disciplinary sanctions that were affirmed by the Commission. Obtaining court orders enabled the NASD to enforce the disciplinary sanctions by collecting the fines and restitution. The Commission filed 15 21(e)(1) applications in 2001, and in each of those cases the Commission obtained a court order requiring payment or the NASD received payment from the respondent.

Application of the Work Product Doctrine to Work Product Shared with the Commission

The Commission filed a friend of the court brief in a private securities action in state court to explain that disclosure of attorney work product to the Commission under a confidentiality agreement does not waive the work product protection. The Commission stated that the work product doctrine should be waived because the

Commission's ability to obtain work product under confidentiality agreements plays an important role in its enforcement of the securities laws. The action is pending.

Confidentiality of Documents from Foreign Governments

The Commission filed a friend of the court brief in a Commodity Futures Trading Commission (CFTC) administrative proceeding regarding the interpretation of a Memorandum of Understanding (MOU) between the Commission, CFTC and United Kingdom authorities. The Commission argued that the MOU prohibits disclosure of investigative reports and correspondence from the United Kingdom authorities. The Commission filed the brief in support of the CFTC's Division of Enforcement after an administrative law judge (ALJ) ordered the production of documents from United Kingdom authorities and held that the MOU did not provide that the reports were confidential. The CFTC agreed with the Commission and reversed the ALJ's decision.

Requests for Access to Commission Records

The Commission received 106 subpoenas for documents and testimony. In certain of the cases, the Commission declined to produce the requested documents or testimony because the information sought was privileged.

The Commission received 2,834 requests under the Freedom of Information Act (FOIA) for access to agency records and 10,418 confidential treatment requests from persons who had submitted information to the Commission. There were 51 appeals to the Office of the General Counsel from initial denials from the FOIA Officer. One of these appeals resulted in district court litigation challenging a decision to withhold personal identifying information contained in consumer complaint letters. That case, *Registered Representative Magazine v. SEC*,¹⁵³ was dismissed.

Significant Adjudication Developments

The Commission issued 32 opinions and 25 orders, and the staff decided an additional 52 motions pursuant to its delegated authority. Appeals from decisions of Commission ALJs constituted over 35 percent of the cases decided by the Commission in 2001. This is an increase from fiscal 2000 (20%). Highlighted are some of the significant opinions issued by the Commission in fiscal 2001.

Broker-Dealer and Adviser Proceedings

On concluding that he aided and abetted an adviser's fraud, the Commission barred Marc N. Geman,¹⁵⁴ chief executive officer of Portfolio Management Consults, Inc. (PMC), a registered investment adviser, from association with a broker, dealer, or investment adviser, with the right to reapply for such association after three years. The Commission also imposed \$200,000 in civil money penalties and ordered Geman to cease and desist from violations of the antifraud and recordkeeping requirements.

Geman determined that PMC could increase its revenue by executing certain of its wrap fee program customers' market orders on a principal, rather than an agency, basis. PMC then selectively did so, at so-called "national best bid or offer" prices. The Commission found that a letter the firm sent to its customers disclosing its decision to begin principal trading was misleading--it failed to disclose that a critical reason for the capacity change was PMC's expectation that it would profit from principal trading, and that a chief source of the firm's wrap fee account-related revenue would be trading profits. Although the Commission declined to find that, additionally, PMC violated its obligation to obtain "best execution" for its customers, it stated that it was deeply troubled by PMC's trading practices, particularly the failure to use a price improvement service for its customers' trades. The Commission observed that a broker-dealer has the duty periodically to examine its practices in light of market and technology changes and to

modify those practices if necessary to obtain the best, reasonably available prices for its customers.

In another matter, *Abraham and Sons Capital, Inc.*,¹⁵⁵ the Commission revoked a firm's investment adviser registration; barred its president from association with a broker, dealer, or investment adviser, with a right to reapply after five years; and ordered each respondent to pay a civil money penalty of \$50,000 and cease and desist from violations of the antifraud and investment adviser recordkeeping and auditing requirements.

The Commission found, among other things, that the respondents wrote a series of letters to the investors in a private, pooled hedge fund that they managed, claiming that the fund gained 5.1% in value during the latter half of 1995 when, in fact, it had lost 59.7%. While the respondents claimed that they were unaware that they were misrepresenting the fund's performance, the Commission concluded that the fund's clearing firm kept them informed of the fund's results.

In *D.E. Wine Investments, Inc.*,¹⁵⁶ the Commission announced generally applicable principles for the calculation of markups and markdowns of security prices, and reiterated that all dealers, including market makers, have an obligation to charge only a reasonable markup or markdown from the prevailing market price. Undisclosed markups or markdowns on retail sales can be fraudulent if charged with scienter.

The Commission identified two general principles (which it cautioned were not rules to be enforced mechanically) for determining prevailing market price in an active and competitive market. First, appropriate trades between market makers and non-market makers are better evidence of the prevailing market price than other interdealer trades. Second, the closer in time an interdealer transaction is to a particular retail trade, the better evidence that transaction is of the prevailing market price.

Financial Statement Reporting Requirements

The Commission ordered KPMG LLP to cease and desist from violations of rules governing audit reports and from causing violations of reporting provisions.¹⁵⁷ KPMG entered into a “strategic alliance” with a newly formed financial services company and its subsidiaries. As part of this alliance, KPMG granted each of the entities the right to use the KPMG name in return for payment of a royalty fee of approximately 5% of each entity’s quarterly fee income. KPMG also lent each of the four individual owners of the parent company \$100,000 to use as an equity contribution to the entities. A company that filed reports with the Commission hired one of the subsidiaries to provide turn-around management. The head of that subsidiary (who was also an owner of the parent) became an officer of the company and directed its turn-around efforts in exchange for a management fee and a “success fee.” At the same time, KPMG audited the company’s financial statements for inclusion in an upcoming annual report.

The Commission concluded that these relationships impaired KPMG’s independence from its audit client, the company. KPMG’s loan to an officer of the audit client violated then-existing Commission independence standards and Generally Accepted Auditing Standards (GAAS) that required that auditors and their clients avoid debtor/creditor relationships. The “success fee” paid to the subsidiary, coupled with the “royalty fee” arrangement between the subsidiary and KPMG, gave KPMG the right to receive a fee attributable, in part, to the company’s financial success. The Commission determined that KPMG thereby violated a GAAS prohibition against receiving a contingent fee from an audit client.

The Commission determined that KPMG acted negligently with respect to maintaining its independence, violating the Commission’s requirements on audit reports and causing the company to violate the Commission’s reporting requirements

because the company's financial statements were not audited by independent accountants as represented. The Commission determined that KPMG's negligence was sufficient to meet the culpability standards of the cease and desist provisions. The Commission also determined that the Division of Enforcement must demonstrate some risk of future violation to warrant cease and desist relief, but that generally a past violation demonstrates the risk of a future violation. The Commission concluded that, given the lack of care at senior levels in determining KPMG's independence in this matter, it was appropriate to issue a cease and desist order against KPMG.

Legal Policy

The General Counsel's responsibilities include providing legal and policy advice on SEC enforcement and regulatory initiatives before they are presented to the Commission for a vote. The General Counsel also advises the Commission on administrative law matters, and has substantial responsibility for carrying out the Commission's legislative program, including drafting testimony, developing the Commission's position on pending bills in Congress, and providing technical assistance to Congress on legislative matters.

In the wake of the September 11, 2001 terrorist attacks, the General Counsel advised the Commission on the scope of its emergency powers under the Exchange Act in connection with the issuance of several emergency orders to promote orderly markets as discussed in the chapter entitled, "Regulation of the Securities Markets."

On the regulatory front, the General Counsel was significantly involved in the drafting of the Commission's auditor independence rules, which revised the regulatory standards for determining an outside accountant's independence from its audit clients. The office also assisted in the development of interagency rules with the

CFTC to implement the CFMA's provisions and was significantly involved in drafting regulations to define the scope of the Gramm-Leach-Bliley Act's functional exceptions from broker-dealer registration under the Exchange Act for certain bank securities activities.

Significant Legislative Developments

In fiscal 2001, Congress passed the Commodity Futures Modernization Act. The statute lifted the ban on trading of single stock and narrow-based stock index futures, which had been in place since the Shad-Johnson Accord. The CFMA also established a framework for the joint regulation of security futures products by the CFTC and SEC.

Several other bills that would affect the work of the SEC received significant attention during the year, including legislation that would reduce SEC transaction and registration fees. At year-end, Congress also was considering a bill that would expand the scope of the Commission's emergency authority under the federal securities laws.

Commission Congressional Testimony

The Commission testified at congressional hearings on the following matters during fiscal year 2001:

- the state of the U.S. financial markets following the September 11, 2001 terrorist attacks;
- the Competitive Markets Supervision Act of 2001, which would reduce certain SEC registration and securities transaction fees and give the SEC authority to match the pay and benefits of the federal banking agencies;

- information-sharing among regulators as a tool to control activities of rogue individuals in the financial services industries;
- proposals to repeal the Public Utility Holding Company Act of 1935 (PUHCA), and the impact of PUHCA on the energy crisis in California;
- the adoption of Regulation FD and the Commission's experience in the first months under the new rule;
- appropriations for the SEC in fiscal 2002, and the fiscal demands of keeping up with technological innovations in the securities markets, the development of a global marketplace, and SEC staff retention;
- the effects on the securities markets of the conversion of quotations in equity securities and options from fractional to decimal pricing;
- conflicts of interest faced by brokerage firms and their research analysts that may affect analysts' stock recommendations; and
- the Commission's rules implementing the Gramm-Leach-Bliley Act's functional exceptions to the Exchange Act's definitions of "broker" and "dealer."

Corporate Reorganizations

The Commission, as a statutory adviser in cases under Chapter 11 of the Bankruptcy Code, seeks to assure that the interests of public investors in companies undergoing bankruptcy reorganization are protected. During the past year, the Commission entered a formal

appearance in 56 Chapter 11 cases with significant public investor interest. The Commission also entered appearances in 36 brokerage firm liquidation proceedings under the Securities Investor Protection Act, as part of the Commission's pilot program for monitoring Securities Investor Protection Corporation proceedings. In monitoring these cases, the Commission focuses on how customer claims are resolved, the progress of cases, and administrative costs incurred by trustees and their counsel.

Official committees negotiate with debtors on the formulation of reorganization plans and participate in all aspects of a Chapter 11 case. The Bankruptcy Code provides for the appointment of official committees for stockholders where necessary to assure adequate representation of their interests. The Commission formally supported a motion for the appointment of a stockholders' committee in one case and successfully opposed the disbandment of equity committees in two other cases.

A Chapter 11 disclosure statement is a combination proxy and offering statement used to solicit acceptances for a reorganization plan. The bankruptcy staff commented on 154 of the 198 disclosure statements it reviewed during 2001. Recurring problems with disclosure statements included inadequate financial information, lack of disclosure on the issuance of unregistered securities and insider transactions, and plan provisions that contravene the Bankruptcy Code. Most of the staff's comments to debtors or plan proponents were adopted; formal Commission objections were filed in 12 cases.

The Commission was successful in persuading companies to eliminate provisions in 23 plans that were designed to improperly release officers, directors, and other related persons from liability. This is a significant issue for investors because in many cases debtors improperly seek to use the bankruptcy discharge process to protect officers and directors from personal liability for various kinds of claims, including liability under the federal securities laws. In nine cases, the Commission successfully blocked plan

provisions that would have resulted in the creation of shell companies that could have been used potentially for stock manipulation purposes. In six cases, the Commission prevented improper use of the Bankruptcy Code exemption from Securities Act registration.

Economic Research and Analysis

The economic analysis program provides the technical and analytical support necessary to understand and evaluate the economic effects of Commission regulatory policy, including the costs and benefits of rulemaking initiatives.

What We Did

- Assessed the costs and benefits of all new Commission rules and rule proposals.
- Monitored the economic effects of recent policy initiatives, such as decimalization, the new execution quality disclosure rule, and Regulation FD.
- Prepared reports on recent market developments, such as the growth of exchange-traded funds (ETFs) and intensified competition in the market for trading listed options.
- Provided technical assistance to IOSCO Working Party 3 on topics such as the cross-border marketing of financial services, capital adequacy standard for financial service firms, and methodologies for assessing operational risks.
- Provided advice and technical assistance to the SEC's inspections and examinations staff on issues such as market pre-opening practices, payment-for-order-flow arrangements, and order execution practices.

- Provided advice and technical assistance in a variety of investigations and enforcement actions, applied financial economics and statistical techniques to examine evidence, and estimated the amount of disgorgement to be sought in insider trading cases.
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Economic Analysis and Technical Assistance

Our economic analysis staff provided substantial quantitative economic evidence on approximately 45 regulatory and market initiatives impacting the securities industry and markets. Some of the more significant initiatives are discussed below.

Market Structure and Trading Practices

- Assessed the costs and benefits of Commission rules impacting the securities industry, such as the proposed amendments to broker-dealer books and records requirements.
- Monitored the implementation of decimal pricing on Nasdaq and exchanges and provided empirical analysis of related issues. For example, the staff prepared studies of decimalization's effects on quoted spreads, trading costs, quotation depth, limit orders, price volatility, bid flickering, quote jumping, and short selling.
- Analyzed the trading costs on electronic communications networks (ECNs) relative to those of comparable orders executed by market makers and reported the findings to the Commission.

- Monitored the implementation of the new execution quality disclosures and provided the Commission with analyses of the effective spreads and certain other execution quality metrics reported by various market centers.
- Provided economic advice and empirical analysis on the economic effects of rules governing market operations and trading structures and self-regulatory organization initiatives such as Nasdaq's SuperMontage.
- Analyzed the impact of short sale rules and rules governing options' markets quotations, electronic linkages, and trade-throughs.
- Assessed the likely effects of the single stock futures trading rules and evaluated proposed customer margin requirements.

Disclosure and Accounting Standards

- Monitored the economic effects of new Regulation FD and evaluated related surveys and empirical studies.
- Provided advice and technical assistance to the Division of Corporation Finance in conjunction with a Division study of compliance with the new audit committee requirements.
- Prepared a report analyzing the economic issues and related empirical research on the use of the pooling and purchase methods in preparing financial statements for mergers.

- Provided economic advice and technical assistance on issues pertaining to road show communications and the delivery of proxy statements to households.

Mutual Funds

- Analyzed the costs and benefits of rule changes impacting mutual funds and investment advisers, such as rules governing custody of fund assets, mergers of affiliated funds, and disclosure requirements pertaining to fund investment objectives and performance.
- Prepared reports on issues related to the economic effects of ETFs. For example, the staff analyzed the effects of trading in ETFs on the liquidity and volatility of markets for the underlying securities.
- Provided assistance to the Division of Investment Management and Office of Investor Education and Assistance on technical issues, such as the use of the Commission's mutual fund fee calculator and the computation of a mutual fund's after-tax returns.

International and Cross-Border Issues

- Provided technical assistance to IOSCO Working Party 3 on topics such as the cross-border marketing of financial services, capital adequacy standard for financial service firms, and methodologies for assessing operational risks.

Inspections and Examinations

Our economic analysis staff provided advice and technical assistance to the SEC's Office of Compliance Inspections and Examinations in reviewing the first phase of the new Combined Options Audit Trail,

Nasdaq market maker's pre-opening practices, the extent of payment-for-order-flow arrangements and their impact on the options markets, and broker-dealer and exchange order execution practices in the equity and option markets.

Enforcement Issues

Our economic analysis staff provided assistance in 65 investigations and enforcement actions involving insider trading, mutual fund trade allocation, market manipulation, fraudulent financial reporting, and other violations of securities laws. The staff applied financial economics and statistical techniques to determine whether the elements of fraud were present and to estimate the amount of disgorgement to be sought. The economics staff also assisted in evaluating the testimony of experts hired by opposing parties.

Policy Management & Administrative Support

The policy management and administrative support staff provide the Commission and operating divisions with the necessary services to accomplish the agency's mission. Their responsibilities and activities include developing and executing management policies, formulating and communicating program policy, overseeing the allocation and expenditure of agency funds, maintaining liaison with Congress, disseminating information to the press, and facilitating Commission meetings. Administrative support services include information technology, financial, space and facilities, and human resources management.

What We Did

- Held 35 Commission meetings, during which 211 matters were considered.
 - Acted on 1,036 staff recommendations by seriatim vote.
 - Completed the EDGAR system modernization and redesigned the SEC website.
 - Awarded a lease for our new headquarters facility.
 - Restored our Northeast Regional Office that was destroyed on September 11, 2001.
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Policy Management

Commission Activities

During the 35 Commission meetings held in 2001, the Commission considered 211 matters, including the proposal and adoption of Commission rules, enforcement actions, and other items that affect the nation's capital markets and the economy. The Commission also acted on 1,036 staff recommendations by seriatim vote.

Management Activities

The Office of the Executive Director continued to promote management controls and financial integrity and to manage the agency's audit follow-up system. In addition, the staff coordinated and implemented the agency's compliance to the Government Performance and Results Act of 1993. Working closely with other senior officials, the office formulated the agency's budget submissions to the Office of Management and Budget and the Congress.

Administrative Support

Financial Operations

The SEC deposited \$2.06 billion in fees in the U.S. Treasury in fiscal 2001, of which \$127.8 million was used to directly fund the agency in 2001. Of the \$2.06 billion in total fees collected, 48% were from securities registrations; 50% were from securities transactions; and 2% were from tender offer, merger, and other filings.

The fee rate for securities registrations was established in the Securities Act of 1933 at 1/50 of 1 percent. Between 1990 and 1996, Congress annually increased this fee rate to partially offset the costs of funding the agency. In October 1996, Congress

enacted Title IV of the National Securities Markets Improvement Act (NSMIA), reducing the fee rate for fiscal 1997 to 1/33 of 1 percent and providing future annual reductions in the fee rate. The rate for fiscal 2001 was 1/40 of 1 percent. When the scheduled NSMIA reductions are fully implemented in 2007, the fee rate on securities registrations will be 1/150 of 1 percent.

The transaction fee rate on exchange-based securities was established in the Securities Exchange Act of 1934 at 1/300 of 1 percent of the total dollar value of all trades. To equalize the costs of trading across markets, NSMIA extended these transaction fees to the over-the-counter market at the same rate of 1/300 of 1 percent. This rate will be reduced to 1/800 to 1 percent in 2007 for exchange listed and over-the-counter securities.

Revenue from other filings and reports includes fees for tender offers and merger filings under section 13 of the Exchange Act.

Northeast Regional Office

The Commission's Northeast Regional Office, located at 7 World Trade Center, was destroyed on September 11, 2001. A ten-year lease for new space at the Woolworth Building, 233 Broadway, was signed on September 27, 2001. In addition, we installed a new communications and information technology (IT) infrastructure, equipped the new office, and assisted employees.

Electronic Data Gathering, Analysis and Retrieval System (EDGAR)

The three-year effort to modernize the Commission's EDGAR system was substantially completed. The modernization simplified the means by which required disclosure filings are made with the Commission. The filer software was improved, the fee collection subsystem was integrated, and the public dissemination system and data format were upgraded. The modernization created an

environment that utilizes best practices for secure transactions and data management.

www.sec.gov

The agency's website provides the public with electronic access to the EDGAR database and other information of interest to the investing public. The website was redesigned with an improved search engine navigation tool that enhances accessibility. The website continues to be a popular source of information, with 196 billion pages downloaded this year.

New Investment Adviser Information Website

Last year, the SEC partnered with the National Association of Securities Dealers Regulation to develop a web-based electronic registration and filing system for investment advisers. The Investment Advisers Registration Depository system became operational in January 2001 and, when fully implemented, will contain information on over 8,000 SEC registered advisers and an additional 15,000 state registered advisers. In September 2001, a new website was launched by the SEC and the North American Securities Administrators Association (www.adviserinfo.sec.gov) that provides public access to information contained in filings made by investment advisers.

Complaint Handling, Assignment, Response, and Tracking System (CHART)

Work progressed on the CHART system that will help our Enforcement and Investor Education and Assistance programs receive and address complaints made by the public. The public will be able to submit their complaints via the SEC website using uniquely designed electronic complaint and question forms. The CHART system will automate the receipt and management of the public's complaints and questions, greatly improving handling, assignment, response, and tracking of these items.

Information Technology Security

In response to the Government Security Act of 2000, the SEC successfully deployed intrusion detection monitors, which combined with existing centralized logs and warnings, provide near real-time notification of intrusion attempts and other security events. The SEC's IT Security Group continues to conduct security awareness audits, system assessments and certifications, and penetration testing.

Information Support Services

Improvements to agency operations continued with the award of the performance-based contract for network operations maintenance, help desk, test lab, and facilities management. This consolidated contract provides 24x7 support for the SEC's IT operations. The contractor will perform all backups and disaster recovery on a continuous basis. The contract consolidated management of operational support services and implemented service-level agreements and a measurement program to achieve specific performance targets. The contract supports all SEC locations nationwide for a seven-year period.

Space and Facilities Management

During the year, the SEC:

- Awarded to Louis Dreyfus Properties, LCC the lease for SEC's headquarters facility that will house all SEC personnel located in the District of Columbia. The lease is for 650,000 square feet commencing on December 31, 2003 in a new building located adjacent to Union Station.
- Executed or began the process for new ten-year leases or long-term lease extensions for our other ten regional and district offices.

Endnotes

¹*SEC v. Arthur Andersen LLP, et al.*, Release No. LR-17039 (June 19, 2001); *In the Matter of Arthur Andersen LLP*, Release No. 34-44444 (June 19, 2001); *In the Matter of Robert E. Allgyer*, Release No. 34-44445 (June 19, 2001); *In the Matter of Edward G. Maier*, Release No. 34-44446 (June 19, 2001); *In the Matter of Walter Cercavski*, Release No. 34-44447 (June 19, 2001); *In the Matter of Robert G. Kutsenda, CPA*, Release No. 34-44448 (June 19, 2001).

²*In the Matter of Sunbeam Corporation*, Release No. 34-44305 (May 15, 2001); *SEC v. Albert J. Dunlap, et. al.*, Release No. LR-17001 (May 15, 2001); *In the Matter of David C. Fannin*, Release No. 33-7977 (May 15, 2001).

³*SEC v. Michael Jerry Saylor, et al.*, Release No. LR-16829 (Dec. 14, 2000); *In the Matter of MicroStrategy, Inc.*, Release No. 34-43724 (Dec. 14, 2000); *In the Matter of Antoinette A. Parsons, et al.*, Release No. 34-43725 (Dec. 14, 2000); *In the Matter of Mark Steven Lynch, CPA*, Release No. 34-43850 (Jan. 17, 2001).

⁴*SEC v. International Business Machines Corp.*, Release No. LR-16839 (Dec. 21, 2000); *In the Matter of International Business Machines Corp.*, Release No. 34-43761 (Dec. 21, 2000).

⁵*In the Matter of Baker Hughes Incorporated*, Release No. 34-44784 (Sept. 12, 2001); *SEC v. Eric L. Mattson, et al.*, Release No. LR-17126 (Sept. 12, 2001); *USA and SEC v. KPMG Siddharta Siddharta & Harsono, et al.*, Release No. LR-17127 (Sept. 12, 2001).

⁶*SEC v. Sunset Investment Group, Inc., et al.*, Release No. LR-16913 (Feb. 28, 2001); *In the Matter of Log Point Technologies, Inc., et al.*, Release No. 34-44023 (Feb. 28, 2001); *SEC v. Chidwhite Enterprises, Inc., et al.*, Release No. LR-16918; *SEC v. Smart-Mart, Inc., et al.*, Release No. LR-16917 (Feb. 28, 2001); *SEC v. PinkMonkey.com, et al.*, Release No. LR-16919 (Feb. 28, 2001); *In the Matter of WallStreet Prophet, et al.*, Release No. 34-44024 (Feb. 28, 2001); *SEC v. Internet Solutions for Business, Inc., et al.*, Release No. LR-16916 (Feb. 28, 2001); *In the Matter of Imcadvisors, Inc., et al.*, Release No. 33-7956 (Feb. 28, 2001);

SEC v. Kenneth W. Schilling, Release No. LR-16914 (Feb. 28, 2001); *In the Matter of iBiz Technology Corp.*, Release No. 34-44022 (Feb. 28, 2001); *SEC v. RumorSearch.com, Inc., et al.*, Release No. LR-16920 (Feb. 28, 2001).

⁷*In the Matter of Rauscher Pierce Refsnes, Inc.*, Release No. 34-44864 (Sept. 27, 2001).

⁸*SEC v. The Chase Manhattan Bank*, Release No. LR-17149 (Sept. 24, 2001); *In the Matter of The Chase Manhattan Bank*, Release No. 34-44835 (Sept. 24, 2001).

⁹*In the Matter of JPR Capital, et al.*, Release No. 34-44413 (June 13, 2001); *In the Matter of Jeffrey Ramson*, Release No. 34-44412 (June 13, 2001).

¹⁰*In the Matter of Guy P. Wyser-Pratte, et al.*, Release No. 34-44283 (May 9, 2001).

¹¹*In the Matter of Duff & Phelps Investment Management Co., Inc.*, Release No. IA-1984 (Sept. 28, 2001); *In the Matter of Wayne C. Stevens*, Release No. IA-1983 (Sept. 28, 2001); *In the Matter of Chris Woessner*, Release No. IA-1985 (Sept. 28, 2001).

¹²*In the Matter of Western Asset Management Co. and Legg Mason Fund Adviser, Inc.*, Release No. IA-1980 (Sept. 28, 2001); *In the Matter of Trudie D. Whitehead*, Release No. IA-1981 (Sept. 28, 2001); *In the Matter of Kyle R. Kirkland*, Release No. IA-1982 (Sept. 28, 2001).

¹³*In the Matter of ABN AMRO, Inc.*, Release No. 34-44677 (Aug. 10, 2001); *In the Matter of Oechsle International Advisors, L.L.C.*, Release No. IA-1966 (Aug. 10, 2001); *In the Matter of Angelo Iannone*, Release No. 34-44678 (Aug. 10, 2001); *In the Matter of Andrew S. Parlin*, Release No. IA-1967 (Aug. 10, 2001).

¹⁴*SEC v. Alan Brian Bond, et al.*, Release No. LR-17099 (Aug. 10, 2001).

¹⁵*SEC v. Heartland Group, Inc.*, Release No. LR-16938 (Mar. 22, 2001).

¹⁶*SEC v. Paul J. Silvester, et al.*, Release No. LR-16759 (Oct. 10, 2000) and Release No. LR-16834 (Dec. 19, 2000).

¹⁷*SEC v. Steve Madden*, Release No. LR-17015 (May 23, 2001).

- ¹⁸*SEC v. Jorge Eduardo Ballesteros Franco, et al.*, Release No. LR-16991 (May 8, 2001).
- ¹⁹*SEC v. Alejandro Duclaud Gonzalez de Castilla, et al.*, Release No. LR-16997 (May 11, 2001).
- ²⁰*SEC v. Pinnfund USA, Inc., et al.*, Release Nos. LR-16945 (Mar. 23, 2001); LR-16992 (May 8, 2001); and LR-17040 (June 20, 2001).
- ²¹*In the Matter of ABN Amro Incorporated*, Release No. 34-44677 (Aug. 10, 2001); *In the Matter of Angelo Iannone*, Release No. 34-44678 (Aug. 10, 2001); *In the Matter of Andrew S. Parlin*, Release No. 34-44679 (Aug. 10, 2001); *In the Matter of Oechsle International Advisors, L.L.C.*, Release No. IA-1966 (Aug. 10, 2001).
- ²²*SEC v. Midpoint Trading Corp. and One or More Unknown Traders of Options on Common Stock of Ralston Purina Co.*, Release No. LR-16878 (Jan. 31, 2001).
- ²³*SEC v. Garry W. Stroud*, Release No. LR-17057 (June 29, 2001).
- ²⁴Release No. 34-44692 (Aug. 13, 2001), 66 FR 43721 (Aug. 20, 2001).
- ²⁵Release No. 34-44724 (Aug. 20, 2001), 66 FR 44490 (Aug. 20, 2001).
- ²⁶Release No. 34-44725 (Aug. 20, 2001).
- ²⁷Release No. 34-44729 (Aug. 21, 2001).
- ²⁸Release No. 34-44743 (Aug. 24, 2001), 66 FR 45904 (Aug. 30, 2001).
- ²⁹Staff Legal Bulletin No. 15, dated September 5, 2001, published by the Division of Market Regulation. Staff Legal Bulletin No. 15 is available on the SEC's website at <http://www.sec.gov/interp/legal/mrslb15.htm>.
- ³⁰Release No. 34-44853 (Sept. 26, 2001), 66 FR 50720 (Oct. 3, 2001).
- ³¹17 CFR 242.300-303.
- ³²Release No. 34-43590 (Nov. 17, 2000), 65 FR 75414 (Dec. 1, 2000).
- ³³17 CFR 240.11Ac1-5.
- ³⁴17 CFR 240.11Ac1-6.

³⁵Release No. 34-44009 (Feb. 27, 2001), 66 FR 13608 (Mar. 6, 2001).

³⁶*Id.*

³⁷17 CFR 240.19b-4(e).

³⁸*Id.*

³⁹Release No. 34-40761 (Dec. 8, 1998), 63 FR 70952 (Dec. 22, 1998).

⁴⁰Release Nos. 34-43086 (July 28, 2000), 65 FR 48023 (Aug. 4, 2000); 34-43310 (Sept. 20, 2000), 65 FR 58583 (Sept. 29, 2000); and 34-43311 (Sept. 20, 2000), 65 FR 58584 (Sept. 29, 2000).

⁴¹Release No. 34-43591 (Nov. 17, 2000), 65 FR 75439 (Dec. 1, 2000) [adopting Exchange Act Rule 11Ac1-7(b)(2)(i), 17 CFR 240.11Ac1-7(b)(2)(i)].

⁴²Exchange Act Rule 11Ac1-7(b)(2)(i), 17 CFR 240.11Ac1-7(b)(2)(i).

⁴³Release Nos. 34-44078 (Mar. 15, 2001), 66 FR 15792 (Mar. 21, 2001), and 34-44852 (Sept. 26, 2001), 66 FR 50103 (October 2, 2001).

⁴⁴Release Nos. 34-44568 (July 18, 2001), 66 FR 38390 (July 24, 2001) (soliciting comment on effects of subpenny trading), and 34-44845 (Sept. 25, 2001), 66 FR 49877 (Oct. 1, 2001) (extending comment period).

⁴⁵Release No. 34-42208 (Dec. 9, 1999), 64 FR 70613 (Dec. 17, 1999).

⁴⁶*Id.*

⁴⁷Release No. 34-43873 (Jan. 23, 2001), 66 FR 8131 (Jan. 29, 2001).

⁴⁸*Id.*

⁴⁹Release Nos. 34-44396 (June 7, 2001), 66 FR 31952 (June 13, 2001), and 34-44625 (July 31, 2001), 66 FR 41056 (Aug. 6, 2001).

⁵⁰Release Nos. 34-44801 (Sept. 17, 2001), 66 FR 48499 (Sept. 20, 2001); 34-44802 (Sept. 17, 2001), 66 FR 48723 (Sept. 21, 2001); 34-44803 (Sept. 17, 2001), 66 FR 48495 (Sept. 20, 2001); 34-44808 (Sept. 17, 2001), 66 FR 48729 (Sept. 21, 2001); 34-44828 (Sept. 21, 2001), 66 FR 51095 (Sept. 27, 2001); 34-44887 (Sept.

28, 2001), 66 FR 51085 (Oct. 5, 2001); 34-44889 (Oct. 1, 2001), 66 FR 51078 (Oct. 5, 2001); 34-44890 (Oct. 1, 2001), 66 FR 51482 (Oct. 9, 2001); and 34-44929 (Oct. 12, 2001), 66 FR (Oct. 19, 2001).

⁵¹Release Nos. 34-44791, (Sept. 14, 2001), 66 FR 48494 (Sept. 20, 2001), and 34-44827 (Sept. 21, 2001), 66 FR 49438 (Sept. 27, 2001).

⁵²Release No. 34-44874, (Sept. 28, 2001), 66 FR 51076 (Oct. 5, 2001).

⁵³Release Nos. 34-44791 (Sept. 14, 2001), 66 FR 48494 (Sept. 20, 2001); 34-44839 (Sept. 24, 2001), 66 FR 49727 (Sept. 28, 2001); 34-44871 (Sept. 28, 2001), 66 FR 51077 (Oct. 5, 2001); and 34-44916 (Oct. 10, 2001) 66 FR 52648 (Oct. 16, 2001).

⁵⁴Release No. 34-44291 (May 11, 2001), 66 FR 27760 (May 18, 2001).

⁵⁵Release No. 34-44730 (Aug. 21, 2001), 66 FR 45137 (Aug. 27, 2001).

⁵⁶17 CFR §§ 248.3(m) & 17 CFR 248(n).

⁵⁷17 CFR § 160(b)(1).

⁵⁸Release No. 34-44730 (Aug. 21, 2001), 66 FR 45137 (Aug. 27, 2001).

⁵⁹Release No. 34-43695, File No. SR-NASD-00-34 (Dec. 8, 2000), 65 FR 78520 (Dec. 15, 2000).

⁶⁰Release No. 34-44158, File No. SR-NASD-01-08 (Apr. 6, 2001), 66 FR 19267 (Apr. 13, 2001).

⁶¹Release No. 34-43785, File No. SR-NYSE-00-39 (Dec. 29, 2000), 66 FR 1710 (Jan. 9, 2001).

⁶²Release No. 34-44741, File No. SR-CBOE-2001-14 (Aug. 23, 2001), 66 FR 45713 (Aug. 29, 2001).

⁶³Letter regarding American Express Bank Ltd. (Oct. 30, 2000).

⁶⁴Letter regarding BondGlobe (Feb. 6, 2001).

⁶⁵Letter regarding Exar Corporation (Feb. 21, 2001).

⁶⁶Letter regarding EPIX Holdings Corporation (Mar. 12, 2001).

⁶⁷Letter regarding Prescient Markets, Inc. (Apr. 2, 2001).

⁶⁸Release No. IC-24816 (Jan. 2, 2001), 66 FR 3734 (Jan. 16, 2001).

- ⁶⁹Release No. IC-24832 (Jan. 18, 2001), 66 FR 9002 (Feb. 5, 2001); Release No. IC-25175 (Sept. 26, 2001), 66 FR 5010 (Oct. 2, 2001) (extension of compliance date).
- ⁷⁰Release No. IC-24828 (Jan. 17, 2001), 66 FR 8509 (Feb. 1, 2001) (adopting release); Release No. IC-24828A (Mar. 8, 2001), 66 FR 14828 (Mar. 14, 2001) (correction).
- ⁷¹Release No. IC-24991, IA-1945 (May 24, 2001), 66 FR 29224 (May 30, 2001) (adopting release), 66 FR 30311 (June 6, 2001) (correction).
- ⁷²Release No. IC-25058 (July 5, 2001), 66 FR 36156 (July 11, 2001).
- ⁷³Release No. IC-24775 (Nov. 29, 2000), 65 FR 76189 (Dec. 6, 2000).
- ⁷⁴Letter to Craig S. Tyle, General Counsel, Investment Company Institute, from the Commission (pub. avail. Sept. 17, 2001).
- ⁷⁵*In the Matter of Hillview Investment Trust II et al.*, Release Nos. IC-24853 (Feb. 6, 2001) (notice) and IC-25055 (June 29, 2001) (order).
- ⁷⁶*Goldman Sachs Trust et al.*, Release Nos. IC-24834 (Jan. 23, 2001) (notice) and IC-24877 (Feb. 21, 2001) (order).
- ⁷⁷*Keeper Holdings, LLC et al.*, Release Nos. IC-25145 (Aug. 29, 2001) (notice) and IC-25171 (Sept. 25, 2001) (order).
- ⁷⁸*Apex Municipal Fund, Inc. et al.*, Release Nos. IC-25052 (June 26, 2001) (notice) and IC-25974 (July 24, 2001) (order).
- ⁷⁹*WS Investment Company, LLC et al.*, Release Nos. IC-25146 (Aug. 29, 2001) (notice) and IC-25173 (Sept. 25, 2001) (order).
- ⁸⁰Release No. IC-25156 (Sept. 14, 2001).
- ⁸¹Release No. IC-25165 (Sept. 21, 2001).
- ⁸²Letter to Craig S. Tyle, General Counsel, Investment Company Institute, from Douglas Scheidt, Associate Director and Chief Counsel, Division of Investment Management (pub. avail. Apr. 30, 2001).
- ⁸³*Report on Mutual Fund Fees and Expenses*, Division of Investment Management, U.S. Securities and Exchange Commission (December 2000).

⁸⁴Letter to W. Thomas Conner, Vice President and General Counsel, National Association for Variable Annuities, *et al.* from Susan Nash, Associate Director, Division of Investment Management (June 19, 2001).

⁸⁵Willkie Farr & Gallagher (pub. avail. Oct. 23, 2000).

⁸⁶H.E.B. Investment and Retirement Plan (pub. avail. May 18, 2001).

⁸⁷Comdisco, Inc. (pub. avail. Oct. 25, 2000).

⁸⁸Fidelity Advisor Korea Fund, Inc. (pub. avail. Mar. 7, 2001).

⁸⁹Nationwide Life Insurance Company, *et al.* (pub. avail. Mar. 16, 2001).

⁹⁰Release No. IC-24991, IA-1945 (May 24, 2001), 66 FR 29224 (May 30, 2001) (adopting release), 66 FR 30311 (June 6, 2001) (correction).

⁹¹Release No. 35-27256 (Oct. 19, 2000).

⁹²Release No. 35-27285 (Dec. 1, 2000).

⁹³Release No. 35-27363 (Mar. 23, 2001).

⁹⁴Release No. 35-27342 (Feb. 1, 2001), 66 FR 9247 (Feb. 7, 2001) (re-proposing release).

⁹⁵Release Nos. 35-27357 (Mar. 19, 2001), 66 FR 16158 (Mar. 23, 2001) (proposing release); 35-27404 (May 24, 2001), 66 FR 29471 (May 31, 2001) (adopting release).

⁹⁶Release No. 33-7943 (Jan. 26, 2001), 66 FR 8887 (Feb. 5, 2001).

⁹⁷Release No. 33-7944 (Jan. 26, 2001), 66 FR 8732 (Feb. 1, 2001).

⁹⁸Release No. 33-8016 (Sept. 28, 2001), 66 FR 50744 (Oct. 4, 2001).

⁹⁹Release No. 33-7983 (June 15, 2001), 66 FR 32538 (June 15, 2001).

¹⁰⁰Options Repricing Exchange Offer Exemption (Mar. 21, 2001).

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¹⁰²Release No. 34-44791 (Sept. 14, 2001), 66 FR 48494 (Sept. 20, 2001).

¹⁰³Release No. 33-8005A (Sept. 21, 2001), 66 FR 49273 (Sept. 27, 2001).

¹⁰⁴Financial Reporting Release No. 56 (Nov. 15, 2000), 65 FR 76008 (Dec. 5, 2000).

¹⁰⁵Financial Reporting Release No. 50A (Aug. 22, 2001), 66 FR 38149 (July 23, 2001).

¹⁰⁶Financial Reporting Release No. 57 (Sept. 14, 2001), 66 FR 48335 (Sept. 20, 2001).

¹⁰⁷Federal Reserve Board, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, and Office of Thrift Supervision.

¹⁰⁸Staff Accounting Bulletin No. 102 (July 6, 2001), 66 FR 36457 (July 12, 2001).

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¹¹⁰Statement of Financial Accounting Standards No. 141, *Business Combinations* (June 2001) and Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (June 2001).

¹¹¹Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* (Aug. 2001).

¹¹²Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets* (Aug. 2001).

¹¹³Statement of Financial Accounting Standards No. 121, *Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed of* and Accounting Principles Board Opinion No. 30, *Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual, and Infrequently Occurring Events and Transactions*, respectively.

¹¹⁴FASB Preliminary Views, *Reporting Financial Instruments and Certain Related Assets and Liabilities at Fair Value* (Dec. 14, 1999).

¹¹⁵FASB Special Project, *Financial Instruments and Similar Items* (Dec. 2000).

- ¹¹⁶Statement of Financial Accounting Standards No. 133, *Accounting for Derivatives and Similar Financial Instruments and for Hedging Activities* (June 1998).
- ¹¹⁷*Improving Business Reporting: Insight into Enhancing Voluntary Disclosures*, issued by the Steering Committee of the FASB Business Reporting Research Project (Jan. 2001).
- ¹¹⁸*Strengthening Financial Markets: Do Investors Have the Information They Need?* (May 2001).
- ¹¹⁹Statement of Position 00-3, *Accounting by Insurance Enterprises for Demutualizations and Formations of Mutual Insurance Holding Companies and for Certain Long-Duration Participating Contracts* (Dec. 15, 2000).
- ¹²⁰*Audits of Investment Companies (with Conforming Changes as of December 1, 2000)*.
- ¹²¹Exposure Draft of Proposed Statement of Position, *Accounting for Certain Costs and Activities Related to Property, Plant, and Equipment* (June 29, 2001).
- ¹²²The Panel on Audit Effectiveness, *Report and Recommendations* (Aug. 31, 2000).
- ¹²³Statement on Auditing Standards No. 94, *The Effect of Information Technology on the Auditor's Consideration of Internal Control in a Financial Statement Audit* (May 2001).
- ¹²⁴Release No. 33-7801 (Feb. 16, 2000), 65 FR 8896 (Feb. 23, 2000).
- ¹²⁵121 S. Ct. 1776 (2001).
- ¹²⁶(U.S. July 24, 2001) (No. 01-147), *cert. granted*, 122 S. Ct. 510 (2001)
- ¹²⁷238 F.3d 559 (4th Cir. 2001).
- ¹²⁸404 U.S. 6 (1971).
- ¹²⁹692 F.2d 1262 (9th Cir. 1982), *cert. denied*, 461 U.S. 914 (1983).
- ¹³⁰254 F.3d 852 (9th Cir. 2001).
- ¹³¹257 F.3d 226 (2d Cir. 2001).
- ¹³²No. 01-1226 (7th Cir.).
- ¹³³265 F.3d 42 (1st Cir. 2001).
- ¹³⁴No. 01-7545 (2d Cir.).

- ¹³⁵262 F.3d 923 (9th Cir. 2001).
- ¹³⁶No. 01-7207 (2d Cir.).
- ¹³⁷No. 99-Civ. 0952 (S.D.N.Y.).
- ¹³⁸01-7371 (2d Cir.).
- ¹³⁹No. 00-0543-CIV (S.D. Fla.).
- ¹⁴⁰No. 00-3728 (3d Cir.).
- ¹⁴¹No. 01-1369 (8th Cir.).
- ¹⁴²No. 3:00-1145-17 (D.S.C.).
- ¹⁴³249 F.3d 115 (2nd Cir. 2001).
- ¹⁴⁴263 F.3d 10 (2nd Cir. 2001).
- ¹⁴⁵No. 01-4049 (10th Cir.).
- ¹⁴⁶264 F.3d 201 (3d Cir. 2001).
- ¹⁴⁷No. 01-1369 MN (8th Cir.); No. 01-8011 (2d Cir.); No. 00-12398-REK (D. Mass.).
- ¹⁴⁸251 F.3d 101 (2d Cir. 2001).
- ¹⁴⁹258 F.3d 939 (9th Cir. 2001).
- ¹⁵⁰No. 3:99-CV-7591(N.D. Ohio July 26, 2001) (unpublished opinion).
- ¹⁵¹No. 3:97-CV-0001 (M.D. Pa.).
- ¹⁵²No. 00-6376 (2d Cir., argued October 11, 2001).
- ¹⁵³No. 1:99CV01793 (D.D.C.).
- ¹⁵⁴*Marc N. Geman*, Release No. 34-43963 (Feb. 14, 2001), 74 SEC Docket 999, *appeal pending*, No. 01-9512 (10th Cir.).
- ¹⁵⁵*Abraham and Sons Capital, Inc.*, Release No. 34-44624 (July 31, 2001), 75 SEC Docket 1481.
- ¹⁵⁶*D. E. Wine Investments, Inc.*, Release No. 34-43929 (Feb. 6, 2001), 74 SEC Docket 2573.
- ¹⁵⁷*KPMG Peat Marwick LLP*, Release No. 34-43862, AAE Release 1360 (Jan. 19, 2001). 74 SEC Docket 384, rehearing denied, Release No. 34-44050, AAE Release No. 1374 (Mar. 8, 2001), 74 SEC Docket 135, *appeal pending*, No. 01-1131 (D.C. Cir.). KPMG LLP was formerly known as KPMG Peat Marwick LLP.

Table 1
 ENFORCEMENT CASES INITIATED BY THE COMMISSION
 DURING FISCAL YEAR 2001 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. The number of defendants and respondents is noted parenthetically.)

Program Area in Which a Civil Action or Administrative Proceeding Was Initiated	Civil Actions	Administrative Proceedings	Total	% of Total Cases
Securities Offering Cases	56 (258)	39 (57)	95 (315)	20%
Broker-dealer Cases				
(a) Fraud Against Customer	6 (8)	26 (47)	32 (55)	7%
(b) Failure to Supervise	0 (0)	6 (8)	6 (8)	1%
(c) Government/Municipal Securities	3 (15)	1 (1)	4 (16)	1%
(d) Books & Records	1 (1)	5 (6)	6 (7)	1%
(e) Other	3 (12)	14 (31)	17 (43)	4%
Total Broker-dealer Cases	<u>13 (36)</u>	<u>52 (93)</u>	<u>65 (129)</u>	<u>13%</u>
Issuer Financial Statement and Reporting Cases				
(a) Issuer Financial Disclosure	38 (106)	65 (77)	103 (183)	21%
(b) Issuer Reporting Other	3 (7)	6 (10)	9 (17)	2%
Total Issuer Financial Statement and Reporting Cases	<u>41 (113)</u>	<u>71 (87)</u>	<u>112 (200)</u>	<u>23%</u>
Other Regulated Entity Cases				
(a) Investment Advisers	10 (17)	28 (35)	38 (52)	8%
(b) Investment Companies	1 (1)	2 (2)	3 (3)	1%
(c) Transfer Agent	2 (3)	3 (5)	5 (8)	1%
Total Other Regulated Entity Cases	<u>13 (21)</u>	<u>33 (42)</u>	<u>46 (63)</u>	<u>9%</u>
Insider Trading Cases	47 (101)	10 (14)	57 (115)	12%
Market Manipulation Cases	17 (60)	23 (44)	40 (104)	8%
Delinquent Filings				
(a) Issuer Reporting	3 (3)	3 (3)	6 (6)	1%
(b) Forms 3&4	2 (2)	6 (7)	8 (9)	2%
Total Delinquent Filings Cases	<u>5 (5)</u>	<u>9 (10)</u>	<u>14 (15)</u>	<u>3%</u>
Contempt Proceedings	31 (41)	0 (0)	31 (41)	6%
Touting	9 (22)	11 (16)	20 (38)	4%
Miscellaneous Cases	2 (5)	1 (2)	3 (7)	1%
Fraud Against Regulated Entities	1 (1)	0 (0)	1 (1)	0%
Corporate Control	1 (1)	0 (0)	1 (1)	0%
GRAND TOTAL	<u>236 (664)</u>	<u>249 (365)</u>	<u>485 (1029)</u>	<u>100%</u>

Table 2
FISCAL 2001 ENFORCEMENT CASES
LISTED BY PROGRAM AREA

<u>Name of Case</u>	<u>Release Number</u>	<u>Date Filed</u>
Broker-Dealer: Books & Records		
In the Matter of First Union Securities, Inc.	34-43478	10/24/2000
In the Matter of Vincent Deuschel, et al.	34-43760	12/21/2000
SEC v. Terry Don Rader	LR-16982	04/24/2001
In the Matter of Weber Investment Corporation	34-44225	04/26/2001
In the Matter of Dennis E. Ward	34-44312	05/17/2001
In the Matter of Carolyn Birch Noonan	34-44313	05/17/2001
Broker-Dealer: Failure to Supervise		
In the Matter of Howard M. Brenner	34-43960	02/14/2001
In the Matter of George M. Lintz	34-43961	02/14/2001
In the Matter of Guy P. Wyser-Pratte, et al.	34-44283	05/09/2001
In the Matter John K. Boyd, III	34-44650	08/03/2001
In the Matter of ABN Amro Incorporated	34-44677	08/10/2001
In the Matter of W.J. Nolan & Co., et al.	33-8006	09/24/2001
Broker-Dealer: Fraud Against Customer		
In the Matter of Leslie E. Rossello	33-7922	12/01/2000
SEC v. Richard T. Hammack	LR-16868	12/05/2000
In the Matter of Robin R. McEachin	34-43722	12/13/2000
SEC v. William H. Clark	LR-16876	01/18/2001
In the Matter of Michael Schuchard	34-43881	01/24/2001
In the Matter of Regals B. Smith	34-43890	01/26/2001
In the Matter of Prudential Securities Inc., et al.	33-7945	01/29/2001
SEC v. Stephen G. Donahue, et al.	LR-16909	02/28/2001
SEC v. Frank L. Harris, III	LR-16954	04/06/2001
In the Matter of Abraham Weitz	34-44252	05/03/2001
In the Matter of Van R. Lewis, III	34-44253	05/03/2001
In the Matter of Sunpoint Securities, Inc.	34-44255	05/03/2001
In the Matter of Mary Ellen Wilder	34-44254	05/03/2001
In the Matter of Richard S. Chancis, et al.	34-44261	05/04/2001
In the Matter of Eugene J. Filippino	34-44262	05/04/2001
In the Matter of Jeffrey A. Mansfield	34-44263	05/04/2001

<u>Name of Case</u>	<u>Release Number</u>	<u>Date Filed</u>
In the Matter of Richard A. Preisig, Jr.	34-44266	05/04/2001
In the Matter of Glenn E. Lavender	34-44267	05/04/2001
In the Matter of Roger Myatt	34-44275	05/08/2001
In the Matter of Larry W. Tyler	34-44314	05/17/2001
In the Matter of Christopher J. Branc	34-44358	05/29/2001
In the Matter of Paul E. Colontino	34-44359	05/29/2001
In the Matter of Michael P. Cilmi	34-44360	05/29/2001
In the Matter of Vito Michael Randazzo	34-44361	05/29/2001
In the Matter of Richard T. Hammack	34-44496	06/29/2001
In the Matter of Stephen G. Donahue	34-44578	07/19/2001
SEC v. Daniel L. Zessinger	LR-17096	08/02/2001
In the Matter of Harvey M. Burstein, et al.	34-44650	08/03/2001
In the Matter of Charles F. Morgan	34-44805	09/17/2001
In the Matter of Thomas A. Carey, et al.	NONE	09/28/2001
In the Matter of Edward Bracken, et al.	NONE	09/28/2001
SEC v. Richard M. Eisenmenger, et al.	LR-17162	09/28/2001

Broker-Dealer: Government Securities

SEC v. Paul J. Silvester, et al.	LR-16759	10/10/2000
SEC v. David Fitzgerald, et al.	LR-16854	01/04/2001
SEC v. Steven T. Snyder	LR-16967	04/17/2001
In the Matter of Rauscher Pierce Refsnes, Inc., now known as Dain Rauscher Incorporated	33-8013	09/27/2001

Broker-Dealer: Other

In the Matter of Edward R. Cox, et al.	34-43466	10/20/2000
In the Matter of Bearcat, Inc., et al.	34-43669	12/05/2000
In the Matter of David Blech	34-43693	12/08/2000
In the Matter of Michael T. Fearnow, et al.	34-43713	12/12/2000
In the Matter of James K. McKillop, et al.	34-43712	12/12/2000
In the Matter of Sidney J. Golub, et al.	34-43711	12/12/2000
In the Matter of John B. Longman, et al.	34-43710	12/12/2000
In the Matter of Kevin H. Kading, et al.	34-43709	12/12/2000
SEC v. Anthony Dong-Yin Shen, et al.	LR-16937	03/22/2001
In the Matter of Edward E. Bao	34-44274	05/08/2001
In the Matter of Paul Nortman	34-44350	05/24/2001
In the Matter of Jeffrey Ramson	34-44412	06/13/2001
In the Matter of JPR Capital Corp., et al.	34-44413	06/13/2001
In the Matter of Patrick J. Rooney, et al.	34-44414	06/13/2001

<u>Name of Case</u>	<u>Release Number</u>	<u>Date Filed</u>
SEC v. Linville Group, LLC, et al.	LR-17037	06/14/2001
SEC v. Ilan Arbel, et al.	LR-17114	08/30/2001
In the Matter of Kyle R. Kirkland	IA-8019	09/28/2001

Civil Contempt

SEC v. Robert F. Moore	LR-16776	10/17/2000
SEC v. Mark May, et al.	NONE	10/24/2000
SEC v. John C. Matthews	NONE	10/26/2000
SEC v. Eugene G. Chusid, et al.	NONE	11/01/2000
SEC v. Terry A. Lurie	NONE	11/09/2000
SEC v. Silvana Bartoli	NONE	11/14/2000
SEC v. Michael R. Reilly	NONE	11/28/2000
SEC v. Arthur Graves	NONE	12/07/2000
SEC v. ACC Capital Consultants, Inc., et al.	NONE	12/14/2000
SEC v. Robert H. Alberding	NONE	01/21/2001
SEC v. Harold Bailey Gallison, Jr.	NONE	01/25/2001
SEC v. Ellsworth Wayne McLaws	NONE	02/05/2001
SEC v. Alan Clagg, et al.	NONE	02/05/2001
SEC v. Boris Chusid	NONE	02/06/2001
SEC v. Peter J. Buzanis	NONE	02/23/2001
SEC v. Charles E. Dickerson	NONE	02/28/2001
SEC v. David Morgenstern, et al.	NONE	03/02/2001
SEC v. Fred Carter	NONE	03/26/2001
SEC v. James Russell Cleveland, et al.	NONE	04/15/2001
SEC v. Donald Allen English	NONE	04/17/2001
SEC v. John A. Hickey Brokerage	NONE	04/24/2001
SEC v. John A. Hickey	NONE	04/24/2001
SEC v. Sara Gomez DeFerro	NONE	05/02/2001
SEC v. Raymond G. Parr	NONE	05/14/2001
SEC v. Stanley H. Van Etten	LR-17020	05/25/2001
SEC v. Brown Cummins & Brown Co., L.P.A.	NONE	07/12/2001
SEC v. William H. B. Chan	NONE	09/14/2001
SEC v. First Union Securities, Inc.	NONE	09/20/2001
SEC v. Alvis Colin Smith, Jr., et al.	NONE	09/24/2001
SEC v. Gary J. Bentz	LR-17152	09/26/2001
SEC v. Kay Cahil	NONE	05/03/2011

Corporate Control

SEC v. Jack S. Silver	LR-17059	06/25/2001
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<u>Name of Case</u>	<u>Release Number</u>	<u>Date Filed</u>
Delinquent Filings: Forms 3/4/5		
SEC v. Dean W. Rowell	LR-16859	01/09/2001
In the Matter of Dean W. Rowell, et al.	34-43828	01/10/2001
SEC v. Ralph Glasgal	LR-16871	01/22/2001
In the Matter of Ralph Glasgal	34-43878	01/24/2001
In the Matter of M. Mahmud Awan	34-43942	02/08/2001
In the Matter of William H. Channell, Jr.	34-44015	02/28/2001
In the Matter of Scott N. Draime	34-44384	06/04/2001
In the Matter of Mary E. Blake	34-44387	06/04/2001

Delinquent Filings: Issuer Reporting

SEC v. Biosonics, Inc.	LR-16891	02/07/2001
SEC v. Heartland Group, Inc.	LR-16938	03/22/2001
SEC v. Pacific Biometrics, Inc.	LR-17000	05/10/2001
In the Matter of Prime Capital Corporation	AAER 1399	05/24/2001
In the Matter of Uniquest, Inc.	34-44531	07/10/2001
In the Matter of Jonathan Aerospace Materials Corp.	NONE	09/25/2001

Fraud Against Regulated Entity

SEC v. Edward R. Voccola	LR-17091	08/06/2001
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Insider Trading

SEC v. Marc B. Nogid	LR-16746	10/03/2000
SEC v. Robert D. Happ	LR-16755	10/05/2000
SEC v. Michael Andrew Petrescu-Commene	LR-16765	10/13/2000
SEC v. Jerome Alpin, et al.	LR-16774	10/18/2000
In the Matter of Marc B. Nogid	34-43472	10/23/2000
SEC v. Jerome J. Nell, et al.	LR-16790	11/03/2000
SEC v. Richard A. Svoboda, et al.	LR-16791	11/07/2000
SEC v. Robert C. Schuster	LR-16806	11/20/2000
SEC v. Stephen J. Cowley	LR-16812	11/28/2000
SEC v. Leslye R. Schaefer, et al.	LR-16815	12/01/2000
In the Matter of Brett S. Henderson	34-43681	12/06/2000
SEC v. Harold W. Andrews, et al.	LR-16844	12/28/2000
SEC v. Colleen M. Millsap	LR-16850	01/03/2001
SEC v. Steven Eichenholz	LR-16853	01/03/2001
SEC v. Midpoint Trading Corp., et al.	LR-16862	01/17/2001

<u>Name of Case</u>	<u>Release Number</u>	<u>Date Filed</u>
SEC v. Alan Myles Dornfeld	LR-16869	01/23/2001
SEC v. Keith J. Kim, et al.	LR-16872	01/29/2001
SEC v. David M. Bonrouhi	LR-16880	01/31/2001
In the Matter of Daniel M. Porush	34-43937	02/07/2001
In the Matter of Alan M. Stricoff	34-43936	02/07/2001
SEC v. David M. Brooks	LR-16893	02/08/2001
SEC v. Joanne M. Moore, et al.	LR-16899	02/14/2001
SEC v. Maria Iacovelli, et al.	LR-16901	02/15/2001
In the Matter of David M. Bonrouhi	34-43967	02/15/2001
SEC v. Daniel J. Lagermeier	LR-16903	02/21/2001
In the Matter of Allan G. Schaefer	34-43997	02/23/2001
SEC v. Aaron C. Finch	LR-16933	03/15/2001
SEC v. Robert P. Oliver, et al.	LR-16949	04/02/2001
SEC v. Melissa K. Quizenbeury	LR-16959	04/10/2001
SEC v. Matthew Joel Mesplou	LR-16956	04/10/2001
SEC v. Malcolm B. Wittenberg	LR-16970	04/18/2001
In the Matter of Cristan Kinnard Blackman, et al.	34-44204	04/19/2001
SEC v. J. Van Oliver	LR-16971	04/19/2001
SEC v. Robert K. Gasper, et al.	LR-16972	04/23/2001
SEC v. Daniel R. Dugan	LR-16987	05/02/2001
SEC v. Jorge Eduardo Ballesteros Franco, et al.	LR-16991	05/08/2001
SEC v. Alejandro Duclaud Gonzalez de Castilla, et al.	LR-16997	05/11/2001
In the Matter of Michael Andrew Petrescu-Comnene	34-44310	05/16/2001
SEC v. W. Blake Brock, et al.	LR-17005	05/16/2001
SEC v. Steve Madden	LR-17015	05/23/2001
SEC v. Henry T. Pietraszek	LR-17022	05/31/2001
SEC v. Thomas Houck, et al.	LR-17029	06/06/2001
In the Matter of Ricardo Ballesteros Gutierrez	34-44420	06/13/2001
SEC v. George F. Brandt	LR-17161	07/02/2001
SEC v. Steven G. Thanhauser	LR-17077	07/23/2001
SEC v. James A. Anderson	LR-17103	07/26/2001
SEC v. Vincent Napolitano	LR-17107	08/21/2001
SEC v. Robert Breed	LR-17107	08/21/2001
SEC v. Shewak Vashdev Banchant	LR-17128	09/05/2001
SEC v. Harry Parker Daily, et al.	LR-17124	09/10/2001
SEC v. Patrick Joseph Danaher, et al.	LR-17125	09/10/2001
SEC v. Randall D. Martin, et al.	LR-17141	09/19/2001
SEC v. Dennis Ciccone	LR-17143	09/20/2001
SEC v. Devin A. Danehy	LR-17150	09/21/2001
SEC v. David Kenneth Tomney	LR-17153	09/27/2001

<u>Name of Case</u>	<u>Release Number</u>	<u>Date Filed</u>
SEC v. Brendan J. Sterne, et al.	LR-17154	09/27/2001
In the Matter of Robert Bruce Lohmann	NONE	09/28/2001
Investment Adviser		
SEC v. Evelyn Litwok, et al.	LR-16843	12/27/2000
In the Matter of Robert N. Young	34-43903	01/30/2001
SEC v. Barry J. Goodman, et al.	LR-16875	01/30/2001
SEC v. Alexis A. Arlett, et al.	LR-16894	02/08/2001
SEC v. Gordon J. Rollert	LR-16896	02/08/2001
In the Matter of Stephen John Green	34-43990	02/21/2001
In the Matter of Todd J. Lascola	34-44230	02/22/2001
In the Matter of James F. Vigue, et al.	34-44016	02/28/2001
In the Matter of Jeremiah J. Hegarty, et al.	34-44187	04/17/2001
SEC v. Stevin R. Hoover, et al.	LR-16983	05/02/2001
In the Matter of Joel R. Mogy Investment Counsel, Inc., et al.	34-44268	05/07/2001
SEC v. Reed E. Slatkin	LR-16998	05/11/2001
In the Matter of Valentin L. Manglapus, II	IA-1946	05/24/2001
In the Matter of Michael T. Higgins	IA 1947	06/01/2001
SEC v. Edward Thomas Jung, et al.	LR-17041	06/19/2001
SEC v. David Clark Stewart	LR-17071	07/17/2001
In the Matter of Sage Advisory Services, LLC, et al.	IA-1954	07/27/2001
In the Matter of Dana C. Giacchetto, et al.	IA-1957	07/31/2001
In the Matter of Donna L. Wood	IA-1959	08/03/2001
SEC v. Craig Scanlon, et al.	LR-17088	08/03/2001
In the Matter of Barclay L. Grayson	IA-1962	08/10/2001
In the Matter of Capital Consultants, LLC.	IA-1963	08/10/2001
In the Matter of Jeffrey L. Grayson	IA-1964	08/10/2001
In the Matter of David Clark Stewart	IA-1965	08/10/2001
In the Matter of Oechsle International Advisors, LLC.	IA-1966	08/10/2001
In the Matter of Andrew S. Parlin	IA-1967	08/10/2001
In the Matter of James S. Saltzman	IA-1976	09/27/2001
In the Matter of Merrimac Advisors Company, et al.	NONE	09/27/2001
In the Matter of Performance Analytics, Inc., et al.	IA-1978	09/27/2001
In the Matter of David F. Bellet	IA-1979	09/28/2001
In the Matter of Trudie D. Whitehead	IA-1981	09/28/2001
In the Matter Wayne C. Stevens	IA-1983	09/28/2001
In the Matter of Duff & Phelps Investment Management Co., Inc.	IA-1984	09/28/2001
In the Matter of Chris Woessner	NONE	09/28/2001
In the Matter of Benefit Concepts Group, Inc., et al.	NONE	09/28/2001

<u>Name of Case</u>	<u>Release Number</u>	<u>Date Filed</u>
SEC v. Western Asset Management Co.	IA-1980	09/28/2001
SEC v. Michael L. Smirlock, et al.	LR-16838	12/21/2001

Investment Company

In the Matter of John Wellington Bagwell	33-7969	04/10/2001
SEC v. Redneck Foods, Inc.	LR-17030	06/07/2001
In the Matter of Lawrence P. Grady	IC-25201	09/28/2001

Issuer Financial Disclosure

In the Matter of Engineering Animations, Inc., et al.	34-43416	10/05/2000
SEC v. Michael J. Jablo	LR-16753	10/05/2000
SEC v. Walter Konigseder	AAER-1330	10/05/2000
In the Matter of Victor Douenias	AAER-1334	10/16/2000
In the Matter of Robert G. Herndon	AAER-1336	10/16/2000
In the Matter of Horton & Company, et al.	AAER-1339	10/31/2000
In the Matter of Pat A. Rossetti, et al.	AAER-1338	10/31/2000
SEC v. Aviation Distributors, Inc., et al.	AAER-1340	11/07/2000
In the Matter of Luis R. Hidalgo, Jr., CPA.	AAER-1341	11/08/2000
In the Matter of Donald E. Studer	AAER-1342	11/08/2000
In the Matter of James Steele Douglass	AAER-1345	11/16/2000
In the Matter of Glen Donald Lang	AAER-1344	11/16/2000
In the Matter of Per-Se Technologies, Inc.	AAER-1343	11/16/2000
In the Matter of Detour Magazine, Inc.	AAER-1347	11/22/2000
In the Matter of Barry H. Peterson-Ross	AAER-1346	11/22/2000
In the Matter of Monarch Investment Properties, Inc., et al.	AAER-1349	12/06/2000
SEC v. Michael Jerry Saylor, et al.	AAER-1352	12/14/2000
In the Matter of Microstrategy, Inc.	AAER-1350	12/14/2000
In the Matter of Antoinette A. Parsons, et al.	AAER-1351	12/14/2000
In the Matter of Saf T Lok, Inc.	34-43753	12/20/2000
SEC v. Franklin W. Brooks, et al.	AAER-1354	12/20/2000
In the Matter of International Business Machines Corp.	AAER-1355	12/21/2000
SEC v. International Business Machines Corp.	LR-16839	12/21/2000
In the Matter of Transcript International, Inc.	AAER-1358	01/04/2001
In the Matter of Mark Steven Lynch, CPA	AAER-1359	01/17/2001
SEC v. Aurora Foods Inc., et al.	AAER-1361	01/23/2001
In the Matter of Linda Mueller	AAER-1362	01/24/2001
In the Matter of Swart, Baumruk & Co., LLP., et al.	AAER-1363	01/25/2001
In the Matter of Charles P. Morrison, CPA	AAER-1364	01/31/2001
SEC v. Jeffrey L. Fuller, et al.	AAER-1367	02/05/2001
In the Matter of Computron Software, Inc.	AAER-1370	02/14/2001

<u>Name of Case</u>	<u>Release Number</u>	<u>Date Filed</u>
SEC v. Walter A. Forbes, et al.	LR-16910	02/28/2001
SEC v. Amazon Natural Treasures, Inc., et al.	LR-16924	03/02/2001
In the Matter of Kevin E. Orton, CPA	AAER-1376	03/12/2001
In the Matter of National Steel Corp.	AAER-1378	03/29/2001
In the Matter of Carl M. Apel	AAER-1379	03/30/2001
SEC v. John N. Brincat, Sr., et al.	LR-16962	04/16/2001
In the Matter of Bruce J. Kingdon, et al.	34-44193	04/18/2001
SEC v. Nunzio P. DeSantis	LR-16985	05/01/2001
In the Matter of Craig R. Clark	AAER-1391	05/07/2001
SEC v. Albert J. Dunlap, et al.	AAER-1395	05/15/2001
In the Matter of Sunbeam Corp.	AAER-1393	05/15/2001
In the Matter of David C. Fannin	AAER-1394	05/15/2001
SEC v. Allan Boren, et al.	LR-17002	05/15/2001
In the Matter of Microtest, Inc.	AAER-1397	05/16/2001
SEC v. Richard P. Smyth, et al.	AAER-1466	05/25/2001
In the Matter of Am-Pac International, Inc.	AAER 1401	06/05/2001
SEC v. Am-Pac International, Inc., et al.	AAER-1403	06/05/2001
In the Matter of James Thomas McCurdy, CPA	NONE	06/14/2001
SEC v. Ron Messenger, et al.	AAER-1411	06/18/2001
In the Matter of Arthur Andersen LLP	AAAER 1405	06/19/2001
In the Matter of Edward G. Maier, CPA	AAER 1407	06/19/2001
In the Matter of Robert E. Allgyer, CPA	AAER 1406	06/19/2001
In the Matter of Walter Cercavski, CPA	AAER 1408	06/19/2001
In the Matter of Robert G. Kutsenda, CPA	AAER 1409	06/19/2001
SEC v. Arthur Andersen, LLP, et al.	AAER 1410	06/19/2001
In the Matter of Michael J. Becker	AAER 1412	06/21/2001
In the Matter of J. Allen Seymour, CPA	AAER 1413	06/21/2001
In the Matter of American Classic Voyages Co.	AAER 1416	06/25/2001
In the Matter of Scott K. Barton, CPA	AAER 1417	07/02/2001
In the Matter of James T. Rush	AAER 1418	07/02/2001
In the Matter of American Bank Note Holographics, Inc.	AAER 1422	07/18/2001
In the Matter of John Lerlo	AAER 1423	07/18/2001
In the Matter of Mark Goldberg, CPA	AAER 1424	07/18/2001
SEC v. Morris Weissman, et al.	AAER-1425	07/18/2001
SEC v. American Banknote Corp.	AAER-1425	07/18/2001
SEC v. American Bank Note Holographics, Inc.	AAER-1425	07/18/2001
SEC v. Richard Macchiarulo	AAER-1425	07/18/2001
SEC v. Antonio Accornero, et al.	AAER-1425	07/18/2001
In the Matter of Richard P. Macchiarulo, CPA	AAER 1426	07/20/2001
SEC v. Edward J. Kiley, et al.	AAER-1427	07/23/2001
In the Matter of BankAmerica Corp.	AAER-1429	07/30/2001

<u>Name of Case</u>	<u>Release Number</u>	<u>Date Filed</u>
In the Matter of Max Internet Communications, Inc.	AAER-1430	08/01/2001
SEC v. Larry Biggs, Jr., et al.	AAER-1432	08/01/2001
SEC v. William Buettner, et al.	AAER-1431	08/01/2001
In the Matter of Leslie D. Crone, CPA	AAER-1434	08/16/2001
In the Matter of Salvatore T. Marino, CPA	AAER-1435	09/04/2001
In the Matter of Indus International, Inc.	AAER-1437	09/05/2001
In the Matter of Carl Albano	AAER-1438	09/05/2001
SEC v. William Grabske, et al.	AAER-1439	09/05/2001
In the Matter of Walter T. Reeder	AAER-1441	09/10/2001
In the Matter of George Kelly Moore, CPA	AAER-1442	09/10/2001
SEC v. Patrick L. Swisher, et al.	NONE	09/10/2001
SEC v. KPMG Siddharta Siddharta & Harsono, et al.	AAER-1446	09/11/2001
SEC v. Eric L. Mattson, et al.	AAER-1445	09/11/2001
In the Matter of Baker Hughes Incorporated	AAER-1444	09/12/2001
In the Matter of Robert M. Fuller	NONE	09/17/2001
In the Matter of Madera International, Inc.	NONE	09/19/2001
In the Matter of Regina Fernandez	AAER-1450	09/19/2001
In the Matter of Ralph Sanchez, CPA	AAER-1451	09/19/2001
In the Matter of Harlan & Boettger, LLP, et al.	AAER-1452	09/19/2001
SEC v. Madera International, Inc., et al.	AAER 1453	09/19/2001
SEC v. Regina Fernandez	AAER 1453	09/19/2001
In the Matter of Gunther International, Ltd.	AAER-1454	09/25/2001
Sec v. TELnetgo2000, Inc., et al.	LR-17160	09/26/2001
In the Matter of Joseph H. Kiser	AAER-1457	09/27/2001
In the Matter of Charles K. Springer, CPA, et al.	AAER-1456	09/27/2001
In the Matter of Paul S. Jurewicz	AAER-1459	09/27/2001
SEC v. Stephen L. Holden, et al.	AAER-1458	09/27/2001
SEC v. Vari-L Company, Inc., et al.	AAER-1460	09/27/2001
SEC v. Jay Lapine	AAER-1467	09/27/2001
SEC v. Michael Smeraski, et al.	AAER-1467	09/27/2001
SEC v. Trans Energy, Inc., et al.	LR-17159	09/28/2001

Issuer Reporting: Other

In the Matter of Brandmakers, Inc., et al.	34-44856	09/27/2001
In the Matter of US Diagnostic Inc., et al.	33-7928	12/20/2000
SEC v. Keith Greenberg, et al.	LR-16836	12/20/2000
SEC v. Timothy S. Vasko, et al.	LR-16855	12/29/2000
In the Matter of Autolend Group, Inc.	34-44202	04/19/2001
In the Matter of James M. Cassidy, et al.	AAER 1402	06/04/2001
SEC v. TPG Capital Corp., et al.	LR-17023	06/04/2001

<u>Name of Case</u>	<u>Release Number</u>	<u>Date Filed</u>
In the Matter of Trans-Global Holdings, Inc., et al.	34-44439	06/18/2001
In the Matter of China Food & Beverage	34-44440	06/18/2001
Market Manipulation		
In the Matter of Shamrock Partners, Ltd., et al.	33-7909	10/10/2000
In the Matter of Gregg A. Thaler	34-43432	10/11/2000
In the Matter of Victor M. Wang	34-43433	10/11/2000
SEC v. Elliot Lavigne	LR-16788	11/02/2000
SEC v. Nemdaco, Inc., et al.	LR-16795	11/07/2000
In the Matter of Steven Eugene Scott	33-7923	12/01/2000
In the Matter of Stanley Schulman	34-43649	12/01/2000
In the Matter of David S. Coleman	34-43661	12/04/2000
In the Matter of William J. Nordvik, et al.	34-43673	12/05/2000
SEC v. Marco G. Fiore, et al.	LR-16823	12/12/2000
In the Matter of Jeffrey S. Honigman	34-43708	12/12/2000
SEC v. Lawrence Principato, et al.	LR-16958	01/08/2001
SEC v. Arash Molayem	LR-16867	01/23/2001
SEC v. Jerome E. Rosen, et al.	LR-16881	01/30/2001
SEC v. Wall Street Management Group, et al.	LR-16881	01/30/2001
SEC v. Ari Parnes, et al.	LR-16877	01/31/2001
In the Matter of William Goodhue	34-44029	03/02/2001
In the Matter of Thermotek International, Inc., et al.	33-7962	03/06/2001
SEC v. Lloyd E. Wollmershauser	LR-16926	03/07/2001
In the Matter of Hunter Adams, et al.	33-7963	03/08/2001
In the Matter of Lloyd E. Wollmershauser	34-44056	03/09/2001
In the Matter of Jerome M. Wenger	34-44105	03/27/2001
In the Matter of Sean T. Healey	34-44170	04/10/2001
In the Matter of John Romano	34-44241	05/01/2001
In the Matter of Dudley Mihran Freeland	34-44242	05/01/2001
SEC v. Robert J. Monski	LR-16986	05/03/2001
In the Matter of Robert J. Monski	34-44250	05/03/2001
SEC v. Burton G. Friedlander, et al.	LR-17021	05/31/2001
SEC v. Tradamax Group, Inc., et al.	LR-17046	06/21/2001
In the Matter of Leonard B. Greer	34-44587	07/24/2001
In the Matter of Judah Wernick	34-44587	07/24/2001
SEC v. Ives Health Company, Inc., et al.	LR-17081	07/30/2001
SEC v. Harris Dempsey Ballow, et al.	LR-17097	08/09/2001
In the Matter of Angelo Iannone	34-44678	08/10/2001
In the Matter of Richard H. Steinberg	34-44684	08/13/2001
In the Matter of Roger M. Taft	34-44685	08/13/2001
SEC v. American Healthcare Providers, Inc., et al.	LR-17104	08/16/2001

<u>Name of Case</u>	<u>Release Number</u>	<u>Date Filed</u>
SEC v. Robert C. Ingardia	LR-17117	09/06/2001
SEC v. Donald John Christensen, II, et al.	LR-17144	09/20/2001
In the Matter of Rajiv Vohra	NONE	09/28/2001

Miscellaneous

SEC v. Sunset Investment Group, Inc., et al.	LR-16913	02/28/2001
In the Matter of Wallstreet Prophet, et al.	34-44024	02/28/2001
SEC v. Sean Edward St. Heart	LR-16947	03/29/2001

Offering Violations

SEC v. Carl Robinson, et al.	LR-16752	10/03/2000
SEC v. TLC Investments & Trade Co., et al.	LR-16754	10/05/2000
SEC v. Robert F. Moore	LR-16758	10/06/2000
SEC v. Ashbury Capital Partners, L.P., et al.	LR-16770	10/17/2000
In the Matter of David W. Brenner	34-43486	10/27/2000
In the Matter of Dean C. Turner	34-43560	10/31/2000
SEC v. United American International, Inc., et al.	LR-16793	11/08/2000
SEC v. Net World Marketing, Inc., et al.	LR-16794	11/08/2000
SEC v. Jerry A. Womack	LR-16798	11/14/2000
SEC v. Internet Capital Holdings, Inc., et al.	LR-16803	11/17/2000
SEC v. Brian Jackson, et al.	LR-16804	11/17/2000
In the Matter of Stephen V. Burns	34-43578	11/17/2000
SEC v. Perennial Fund I LP, et al.	LR-16821	11/20/2000
SEC v. Jeffrey L. Leach, et al.	LR-16807	11/21/2000
SEC v. Concord Capital Enterprise, et al.	LR-16809	11/21/2000
SEC v. Linktel Communications, Inc., et al.	LR-16816	12/01/2000
SEC v. Topz 3, LLC, et al.	LR-16819	12/06/2000
In the Matter of Vincent Polisenio	34-43702	12/11/2000
SEC v. Robert N. Young	LR-16832	12/18/2000
In the Matter of Christopher A. Lowry	IA-1915	12/19/2000
SEC v. Phillip H. Ezell, et al.	LR-16833	12/19/2000
In the Matter of Jon F. Williams	34-43764	12/21/2000
SEC v. Kultivar, Inc., et al.	LR-16837	12/21/2000
In the Matter of Claude Cossu	34-43772	12/26/2000
SEC v. Web Hosting Headquarters Partnership, et al.	LR-16846	12/28/2000
In the Matter of Nicholas Lobue	34-43845	01/16/2001
In the Matter of John A. Blount, III	34-43891	01/26/2001
SEC v. Benny L. Judah, et al.	LR-16882	01/31/2001

<u>Name of Case</u>	<u>Release Number</u>	<u>Date Filed</u>
SEC v. E-Biz Ventures, et al.	LR-16886	01/31/2001
SEC v. Advance Local Development Corp., et al.	LR-16902	02/16/2001
SEC v. Edward Gurin, et al.	LR-16908	02/26/2001
SEC v. John E. Brinker, et al.	LR-16915	02/28/2001
SEC v. Smart-Mart, Inc., et al.	LR-16917	02/28/2001
SEC v. Chidwhite Enterprises, Inc., et al.	LR-16918	02/28/2001
SEC v. Families On Line Corp., et al.	LR-16930	03/09/2001
SEC v. Global Telelink Services, et al.	LR-16929	03/09/2001
In the Matter of Bill J. Short, II	34-44074	03/14/2001
In the Matter of Richard C. Reining, et al.	34-44075	03/14/2001
In the Matter of Ronald L. Gaiser	34-44080	03/15/2001
In the Matter of David J. Naughton	34-44081	03/15/2001
SEC v. Hawa Corporation, et al.	LR-16935	03/16/2001
SEC v. Pinnfund USA, Inc., et al.	LR-16941	03/21/2001
SEC v. Earl A. Abbott, et al.	LR-16940	03/22/2001
In the Matter of Kenzie, Inc., et al.	33-7965	03/28/2001
In the Matter of Michael P. Keating, et al.	34-44132	03/29/2001
In the Matter of Mark R. Avila, et al.	34-44137	03/30/2001
SEC v. Steven E. Thorn, et al.	LR-16950	04/02/2001
In the Matter of Mark E. Gould, et al.	33-7966	04/03/2001
In the Matter of Garry P. Isaacs	33-7967	04/03/2001
SEC v. First Americap Corp., et al.	LR-16960	04/06/2001
SEC v. Eric E. Resteiner, et al.	LR-16963	04/16/2001
SEC v. Sunstate FX Inc., et al.	LR-16981	04/18/2001
SEC v. Richard Jay Collins, et al.	LR-16979	04/30/2001
In the Matter of Douglas E. Mallach	34-44284	05/09/2001
SEC v. Paul Shingledecker	LR-17007	05/16/2001
SEC v. Lindsey Paul Vinson, et al.	LR-17011	05/17/2001
SEC v. Ian Renert, et al.	LR-17031	06/06/2001
SEC v. William J. Tishman, et al.	LR-17027	06/06/2001
SEC v. World Homes, Inc., et al.	LR-17032	06/08/2001
SEC v. Michael I. Nnebe, et al.	LR-17034	06/12/2001
In the Matter of Charles F. Hagemann	34-44421	06/13/2001
In the Matter of Frank J. Fasano, et al.	NONE	06/18/2001
In the Matter of W. Scott Long, III	34-44456	06/20/2001
In the Matter of Victor M. Wilson	IA 1949	06/22/2001
In the Matter of Jeffrey A. DeVille	34-44474	06/26/2001
In the Matter of Peter J. Esposito	34-44486	06/28/2001
In the Matter of James L. Binge, et al.	NONE	06/28/2001
SEC v. Garry W. Stroud, et al.	LR-17057	06/28/2001
SEC v. William L. Brotherton, et al.	LR-17067	07/13/2001

<u>Name of Case</u>	<u>Release Number</u>	<u>Date Filed</u>
In the Matter of Ellsworth Wayne McLaws, et al.	NONE	07/19/2001
SEC v. William E. Kraemer, et al.	LR-17080	07/30/2001
SEC v. Packetswitch.com, et al.	LR-17065	07/30/2001
In the Matter of John E. Brinker, Jr., et al.	34-44671	08/09/2001
In the Matter of Joan L. Fleener, et al.	33-8000	08/14/2001
SEC v. Kirk I.Koskella, et al.	LR-17102	08/14/2001
SEC v. Alpha Telcom, Inc., et al.	LR-17108	08/27/2001
In the Matter of Alvis Colin Smith, Jr.	34-44751	08/29/2001
SEC v. Morgan Financial Services, Inc., et al.	LR-17130	09/04/2001
SEC v. Ronald K. Randolph, et al.	LR-17120	09/06/2001
In the Matter of John Telford Snipes	34-44773	09/07/2001
In the Matter of D. Dean Pearson	34-44774	09/07/2001
In the Matter of John Martin Carlson et al.	IA-1973	09/07/2001
SEC v. James R. Harrold, et al.	LR-17132	09/07/2001
SEC v. Tri-West Investment Club, et al.	LR-17121	09/07/2001
In the Matter of Glen T. Vittor	34-44782	09/10/2001
In the Matter of Raffi T. King	NONE	09/12/2001
In the Matter of Adam E. Peck	34-44786	09/12/2001
SEC v. J&K Global Marketing Corp., et al.	LR-16961	09/13/2001
In the Matter of John F. Smart	NONE	09/26/2001
In the Matter of Enrico Cortesano	33-8017	09/28/2001
In the Matter of George T. Helm, Jr.	34-44873	09/28/2001
SEC v. Mark Sendo, et al.	LR-17166	09/28/2001
SEC v. Global Asset Partners, Ltd., et al.	LR-17173	09/28/2001
SEC v. Gilbert Merrell Wynne, et al.	LR-17164	09/28/2001
SEC v. 21st Century Satellite Communications, Inc., et al.	LR-17183	09/28/2001

Touting

SEC v. John Westergaard, et al.	LR-16842	12/27/2000
In the Matter of Dominic Roelandt	34-43800	01/04/2001
In the Matter of Stephen B. Marek	34-43801	01/04/2001
In the Matter of Marketing Direct Concepts, Inc., et al.	33-7952	02/14/2001
SEC v. Kenneth W. Schilling	LR-16914	02/28/2001
SEC v. Internet Solutions for Business, Inc., et al.	LR-16916	02/28/2001
SEC v. Pinkmonkey.com, Inc., et al.	LR-16919	02/28/2001
SEC v. Rumorsearch.com, Inc., et al.	LR-16920	02/28/2001
In the Matter of iBIZ Technology Corp.	34-44022	02/28/2001
In the Matter of Log Point Technologies, Inc., et al.	34-44023	02/28/2001
In the Matter of Stuart Bockler, et al.	33-7956	02/28/2001
SEC v. Jared Ray Leisek, et al.	LR-16921	03/01/2001

<u>Name of Case</u>	<u>Release Number</u>	<u>Date Filed</u>
SEC v. Market Traders LLC, et al.	LR-16993	05/09/2001
In the Matter of Troy W. Justus	34-44323	05/18/2001
In the Matter of Rockport Healthcare Group, Inc., et al.	34-44379	06/01/2001
Sec v. M&A West, Inc., et al.	AAER-1440	09/06/2001
In the Matter of Louis P. Reames, Sr.	SA-8002	09/10/2001
In the Matter of Michael A. Furr	NONE	09/20/2001
SEC v. Big Play Stocks.com, Inc., et al.	LR-17147	09/21/2001
In the Matter of Daniel J. Murphy	34-44881	09/28/2001

Transfer Agent

SEC v. Interstate Transfer Co., et al.	LR-16814	11/29/2000
In the Matter of United Stock Transfer, Inc., et al.	34-44380	12/07/2000
In the Matter of Alpha Tech Stock Transfer, et al.	34-44192	04/17/2001
In the Matter of The Chase Manhattan Bank	34-44835	09/24/2001
SEC v. The Chase Manhattan Bank	LR-17149	09/24/2001

Table 3
 INVESTIGATIONS OF POSSIBLE VIOLATIONS OF THE ACTS
 ADMINISTERED BY THE COMMISSION

Pending as of October 1, 2001	2,240
Opened in Fiscal Year 2001	570
Total	2,810
Closed in Fiscal Year 2001	409
Pending as of September 30, 2001	2,401
Formal Orders of Investigation	
Issued in Fiscal Year 2001	324

Right to Financial Privacy

Section 21(h) 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)(2)] 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 for judicial orders pursuant to Section 21(h)(2).

Section 1104 (Customer Authorizations)	5
Section 1105 (Administrative Subpoenas)	480
Section 1107 (Judicial Subpoenas)	7

Corporate Reorganizations

During 2001, the Commission entered its appearance in 56 new reorganization cases filed under Chapter 11 of the Bankruptcy Code involving companies with approximately \$63 billion in assets and 170,000 public investors. Adding these new cases, the Commission was a party in a total of 168 Chapter 11 cases during the year, involving companies with approximately \$113 billion in assets and about 700,000 public investors. During the year, 31 cases were concluded through confirmation of a plan, dismissal, or liquidation, leaving 137 cases in which the Commission was a party at year-end.

Table 4
REORGANIZATION PROCEEDINGS UNDER CHAPTER 11
OF THE BANKRUPTCY CODE IN WHICH
THE SEC ENTERED APPEARANCE

Debtor	District	FY Opened	FY Closed
2Xtreme Performance, Inc.	D. CO	1999	
Acme Metals Inc.	D. DE	1999	
Action Auto Rental, Inc.	D. OH	1993	
Aileen, Inc.	S.D. NY	1994	
Alliance Entertainment Corp.	D. NY	1997	
Allied Products Corp.	N.D. IL	2001	
American Homestar Corp.	S.D. TX	2001	
American Microtel, Inc.	D. NV	1995	
American Pad & Paper Co.	D. DE	2000	
American Rice, Inc.	S.D. TX	1998	
AMRESKO, Inc.	N.D. TX	2001	
Apparel America, Inc.	S.D. NY	1998	

Table 4 (cont'd)
REORGANIZATION PROCEEDINGS UNDER CHAPTER 11
OF THE BANKRUPTCY CODE IN WHICH
THE SEC ENTERED APPEARANCE

Debtor	District		FY Opened	FY Closed
APS Holdings, Inc.	D.	DE	1998	
Armstrong World Industries, Inc.	D.	DE	2001	
Audre Recognition Systems, Inc. <u>1/</u>	S.D.	CA	1997	2001
Autoinfo, Inc.	S.D.	NY	2000	
Autolend Group, Inc.	D.	NM	1997	
Baldwin Piano & Organ Co.	S.D.	OH	2001	
Baptist Foundation of Arizona <u>1/</u>	D.	AZ	2000	2001
BDI Systems, Inc. <u>3/</u>	N.D.	TX	1999	2001
B-E Holdings, Inc.	E.D.	WI	1994	
Ben Franklin Retail Stores, Inc.	N.D.	IL	1996	
BK Entertainment, Inc.	D.	M	2001	
Bradlees, Inc.	S.D.	NY	1996	
Brazos Sportswear, Inc. <u>1/</u>	D.	DE	1999	2001
Breed Technologies, Inc.	D.	DE	1999	
Brunos, Inc.	D.	DE	1998	
Cable & Co. Worldwide, Inc.	S.D.	NY	1998	
Cardiac Control Systems, Inc. <u>1/</u>	M.D.	FL	2001	2001
Carter Hawley Hale Stores, Inc.	C.D.	CA	1991	
Chimneyville Invest. Group, Inc.	S.D.	MS	1998	
CinemaStar Luxury Theaters, Inc.	S.D.	CA	2001	
Circuit Systems, Inc.	N.D.	IL	2000	
Cityscape Financial Corp.	S.D.	NY	1999	
CML Group, Inc.	D.	DE	1999	
Coho Energy, Inc.	N.D.	TX	1999	

Table 4 (cont'd)
REORGANIZATION PROCEEDINGS UNDER CHAPTER 11
OF THE BANKRUPTCY CODE IN WHICH
THE SEC ENTERED APPEARANCE

Debtor	District	FY Opened	FY Closed
Comdisco, Inc.	N.D. IL	2001	
Concord Energy, Inc.	D. DE	1999	
Cooker Restaurant Corp.	S.D. OH	2001	
Costilla Energy, Inc.	W.D. TX	1999	
County Seat Stores, Inc.	S.D. NY	1999	
Coyote Energy, Inc.	D. CO	1999	
Craig Consumer Electronics, Inc.	C.D. CA	1997	
CRIIMI MAE, Inc. <u>1/</u>	D. MD	1999	2001
DeVlieg-Bullard, Inc.	N.D. OH	1999	
Diagnostic Health Services, Inc.	N.D. TX	2000	
Digital Lighthouse Corp.	D. CO	2001	
Digital Technologies Media Group, Inc. <u>1/</u>	C.D. CA	1999	2001
Discovery Zone, Inc. <u>2/</u>	D. DE	1999	2001
Drug Emporium, Inc.	N.D. OH	2001	
Drypers Corp.	S.D. OH	2001	
Eagle Food Centers, Inc. <u>1/</u>	D. DE	2000	2001
ERLY Industries Inc.	S.D. TX	1999	
Excelsior-Henderson Motorcycle Manufacturing	D. MN	2000	
Factory Card Outlet, Inc.	D. DE	1999	
Flooring America, Inc.	N.D. GA	2000	

Table 4 (cont'd)
REORGANIZATION PROCEEDINGS UNDER CHAPTER 11
OF THE BANKRUPTCY CODE IN WHICH
THE SEC ENTERED APPEARANCE

Debtor	District	FY Opened	FY Closed
Friede Goldman Halter, Inc.	S.D. MS	2001	
Fruit of the Loom, Ltd.	D. DE	2000	
Futurenet, Inc.	C.D. CA	2001	
FWT, Inc.	N.D. TX	1999	
Gander Mountain, Inc.	E.D. WI	1996	
Garden Botanika, Inc.	W.D. WA	1999	
Geneva Steel Company, Inc. ^{1/}	D. UT	2001	2001
Graham-Field Health Prod., Inc.	D. DE	2000	
Great American Recreation, Inc.	D. NJ	1996	
Guy F. Atkinson Co. of Calif.	N.D. CA	1998	
Harnischfeger Industries, Inc.	S.D. DE	1999	
Heilig-Meyers Company	E.D. VA	2000	
Homeland Holding Corp.	W.D. OK	2001	
Horizon Pharmacies, Inc.	N.D. TX	2001	
ICO Global Communications (Holdings) Limited	D. DE	1999	
Imperial Sugar Co.	D. DE	2001	
Integrated Health Services, Inc.	D. DE	2000	
Intile Designs, Inc.	S.D. TX	1999	

Table 4 (cont'd)
REORGANIZATION PROCEEDINGS UNDER CHAPTER 11
OF THE BANKRUPTCY CODE IN WHICH
THE SEC ENTERED APPEARANCE

Debtor	District	FY Opened	FY Closed
KCS Energy, Inc. <u>1/</u>	D. DE	2000	2001
Kevco, Inc.	N.D. TX	2001	
Key Plastics, LLC	E.D. MI	2000	
Kitty Hawk, Inc.	N.D. TX	2000	
KNF Corp.	M.D. PA	2001	
Laclede Steel Co. <u>1/</u>	E.D. M	1999	2001
Lifeone, Inc.	W.D. LA	1998	
Livent, Inc.	S.D. NY	1999	
Loehmann's, Inc.	D. DE	1999	
Loewen Group, Inc.	D. DE	1999	
LTV Steel Co., et al.	N.D. OH	2001	
Manhattan Bagel Co., Inc.	D. NJ	1998	
Mariner Post Acute Network, Inc.	D. DE	2000	
Marker International	D. DE	1999	
Marketing Specialists Corp.	E.D. TX	2001	
Media Vision Technology, Inc.	N.D. CA	1994	
MEDIQ Inc. <u>1/</u>	D. DE	2001	2001
Medtrak Electronics, Inc. <u>1/</u>	C.D. CA	2001	2001
Michael Petroleum Corp.	W.D. TX	2000	
MicroAge, Inc.	D. AZ	2001	
Molten Metals Technology, Inc.	D. MA	2001	

Table 4 (cont'd)
REORGANIZATION PROCEEDINGS UNDER CHAPTER 11
OF THE BANKRUPTCY CODE IN WHICH
THE SEC ENTERED APPEARANCE

Debtor	District	FY Opened	FY Closed
Nantucket Industries, Inc.	S.D. NY	2001	
National Energy Group, Inc.	N.D. TX	1999	
Northwestern Steel and Wire Company	N.D. IL	2001	
Nu-Kote Holding, Inc. <u>1/</u>	M.D. TN	1999	2001
Omega Environmental, Inc.	W.D. WA	1997	
Organik Technologies, Inc. <u>3/</u>	C.D. CA	1999	2001
Orion Financial Ltd. <u>3/</u>	D. CO	2000	2001
Owens Corning, Corp.	D. DE	2001	
PacificAmerica Money Center, Inc. <u>2/</u>	C.D. CA	2000	2001
Pacific Gas and Electric Company	N.D. CA	2001	
Pacific Northwest Housing, Inc.	D. OR	1998	
Paracelsus Healthcare Corp.	S.D. TX	2001	
Paul Harris Stores, Inc.	S.D. IN	2001	
Payless Cashways, Inc.	W.D. MO	2001	
PCA Industries, Inc.	E.D. WI	1997	
Penn Pacific Corp.	E.D. OK	1994	
Philip Services, Inc.	D. DE	1999	
PHP Healthcare Corp.	D. DE	1999	

Table 4 (cont'd)
REORGANIZATION PROCEEDINGS UNDER CHAPTER 11
OF THE BANKRUPTCY CODE IN WHICH
THE SEC ENTERED APPEARANCE

Debtor	District	FY Opened	FY Closed
Physicians Resource Corp. Inc. <u>1/</u>	N.D. TX	2000	2001
Pillowtex Corporation	D. DE	2001	
Pioneer Companies, Inc.	S.D. TX	2001	
Ponder Industries	S.D. TX	1999	
Precept Business Services, Inc.	N.D. TX	2001	
Pride Companies, L.P.	N.D. TX	2001	
ProMedCo Management Co.	N.D. TX	2001	
Purina Mills, Inc. <u>1/</u>	D. DE	2000	2001
Rankin Automotive Group, Inc.	S.D. TX	2001	
RDM Sports Group, Inc.	N.D. GA	1997	
Recycling Industries, Inc. <u>3/</u>	D. CO	1999	2001
Reddie Brake Supply Co., Inc.	C.D. CA	1998	
Roberds, Inc.	D. DE	2000	
Rymer Foods, Inc.	N.D. IL	1993	
Sabratek Corp. <u>1/</u>	D. DE	2000	2001
Safety-Kleen Corp.	D. DE	2000	
Salant Corp.	S.D. NY	1999	
Shaman Pharmaceuticals, Inc.	N.D. CA	2001	
Sierra-Rockies Corp. <u>3/</u>	C.D. CA	1998	2001
SmarTalk Teleservices, Inc.	D. DE	1999	
Southern Mineral Co. <u>1/</u>	S.D. TX	2000	2001

Table 4 (cont'd)
REORGANIZATION PROCEEDINGS UNDER CHAPTER 11
OF THE BANKRUPTCY CODE IN WHICH
THE SEC ENTERED APPEARANCE

Debtor	District	FY Opened	FY Closed
Stage Stores, Inc.	S.D. TX	2000	
Sterling Optical Corp.	S.D. NY	1992	
Stone & Webster, Inc.	D. DE	2000	
Styling Technology Corp.	D. AZ	2001	
Sun Healthcare Group, Inc.	D. DE	2000	
Sunterra Corp.	D. MD	2000	
Synchronys Softcorp. <u>2/</u>	C.D. CA	1999	2001
Telehub Communications, Corp.	N.D. IL	2000	
Tradetech Americas, Inc.	N.D. IL	1998	
Transportation Components Inc.	S.D. TX	2001	
TransTexas Gas, Corp. <u>1/</u>	S.D. TX	1999	2001
Trans World Airlines, Inc.	D. DE	2001	
Unidigital, Inc.	D. DE	2001	2001
Uniprime Capitol Acceptance, Inc.	D. AZ	2001	
United Artist Theatre Company	D. DE	2001	
United Companies Financial Corp.	D. DE	1999	
United Video, Inc.	D. DE	2000	
Universal Seismic Assoc., Inc.	S.D. TX	1999	
USG Corp.	D. DE	2001	
Value Software, Inc. <u>2/</u>	D. NV	1999	2001

Table 4 (cont'd)
 REORGANIZATION PROCEEDINGS UNDER CHAPTER 11
 OF THE BANKRUPTCY CODE IN WHICH
 THE SEC ENTERED APPEARANCE

Debtor	District	FY Opened	FY Closed
Vencor, Inc. <u>1/</u>	D. DE	1999	2001
Viatel, Inc.	D. DE	2001	
Vitech American, Inc.	S.D. FL	2001	
Waste Systems, Int'l, Inc.	D. DE	2001	
Weblink Wirelss, Inc.	N.D. TX	2001	
Winco Corp.	C.D. CA	1998	
Wiz Technology, Inc. <u>2/</u>	C.D. CA	1998	2001
World Access, Inc.	N.D. IL	2001	
Worldtex, Inc.	D. DE	2001	
World Wide Direct, Inc. <u>1/</u>	D. DE	1999	2001
Worldwide Xceed Group, Inc.	N.D. IL	2001	
W.R. Grace & Co.	D. DE	2001	
WRT Energy Corp.	W.D. LA	1996	
Xpeditor Incorporated	N.D. IL	2001	

Total Cases Opened (FY 2001): 56

Total Cases Closed (FY 2001): 31

1/ Chapter 11 plan confirmed.

2/ Debtor liquidated under Chapter 7.

3/ Case dismissed.

Table 5
UNCONSOLIDATED FINANCIAL INFORMATION FOR BROKER-DEALERS
1996 – 2000 ^{1/}
(\$ in Millions)

	1996	1997	1998	1999	2000
Revenues					
Securities Commissions	\$ 27,865.6	\$ 32,662.2	\$ 36,695.9	\$ 45,937.4	\$ 54,106.7
Gains (Losses) in Trading and Investment Accounts	30,768.2	35,957.7	32,754.0	55,464.3	70,777.7
Profits (Losses) from Underwriting and Selling Groups	12,613.3	14,611.0	16,237.1	17,781.5	18,717.6
Margin Interest	7,386.0	10,630.4	12,732.5	15,246.7	24,546.9
Revenues from Sale of Investment Company Shares	10,081.1	12,422.1	14,845.0	16,687.6	19,394.9
All Other Revenues	83,697.2	100,961.2	121,699.9	115,692.0	161,949.4
Total Revenues	\$ 172,411.5	\$ 207,244.7	\$ 234,964.4	\$ 266,809.4	\$ 349,493.3
Expenses					
Registered Representatives' Compensation (Part II Only) ^{2/}	\$ 18,734.2	\$ 22,132.0	\$ 24,974.1	\$ 29,048.7	\$ 33,191.0
Other Employee Compensation and Benefits	27,901.7	31,404.9	34,954.5	47,950.6	55,307.3
Compensation to Partners and Voting Stockholder Officers	4,396.7	5,020.6	5,098.0	4,737.7	6,707.8
Commissions and Clearance Paid to Other Brokers	7,364.2	8,864.1	10,326.5	13,488.3	15,522.7
Interest Expenses	64,698.5	80,659.4	98,095.4	87,508.3	131,877.2
Regulatory Fees and Expenses	672.9	828.5	896.3	1,040.8	1,366.7
All Other Expenses ^{2/}	31,664.9	38,371.2	43,435.4	53,918.6	66,417.3
Total Expenses	\$ 155,433.0	\$ 187,280.7	\$ 217,780.2	\$ 237,693.1	\$ 310,390.0
Income and Profitability					
Pre-tax Income	\$ 16,978.5	\$ 19,964.0	\$ 17,184.2	\$ 29,116.3	\$ 39,103.3
Pre-tax Profit Margin	9.8%	9.6%	7.3%	10.9%	11.2%
Pre-tax Return on Equity	27.3%	27.1%	19.4%	27.8%	31.1%
Assets, Liabilities and Capital					
Total Assets	\$1,747,647.1	\$2,078,740.1	\$2,186,942.5	\$2,536,616.6	\$2,865,721.0
Liabilities					
(a) Unsubordinated Liabilities	1,645,303.5	1,949,026.3	2,037,162.4	2,363,222.6	2,663,758.3
(b) Subordinated Liabilities	36,577.4	47,877.6	54,447.1	59,425.0	64,362.3
(c) Total Liabilities	1,681,880.9	1,996,904.0	2,091,609.5	2,422,647.6	2,728,120.6
Ownership Equity	\$ 65,766.2	\$ 81,836.1	\$ 95,333.0	\$ 113,969.1	\$ 137,600.4
Number of Firms	7,774	7,796	7,685	7,461	7,258

Figures may not add due to rounding.

^{1/} Calendar, rather than fiscal, year data is reported in this table.

^{2/} Registered representatives' compensation for firms that neither carry nor clear is included in "other expenses" as this expense item is not reported separately on Part IIA of the FOCUS Report.

Source: FOCUS Report

Table 6
UNCONSOLIDATED ANNUAL REVENUES AND EXPENSES FOR BROKER-DEALERS
DOING A PUBLIC BUSINESS
1996 – 2000 ^{1/}
(\$ in Millions)

	1996	1997	1998	1999	2000
<u>Revenues</u>					
Securities Commissions	\$ 27,245.1	\$ 31,858.6	\$ 35,847.4	\$45,094.5	\$ 53,160.6
Gains (Losses) in Trading and Investment Accounts	28,322.0	31,802.8	28,978.9	48,917.9	60,720.3
Profits (Losses) from Underwriting and Selling Groups	12,613.3	14,612.2	16,237.1	17,780.7	18,718.0
Margin Interest	7,353.8	10,497.9	12,552.0	15,032.8	24,274.0
Revenues from Sale of Investment Company Shares	10,081.1	12,423.7	14,844.2	16,687.6	19,394.9
All Other Revenues	82,689.7	99,581.2	119,143.6	113,101.7	154,836.1
Total Revenues	\$168,305.0	\$200,776.4	\$227,603.3	\$256,615.2	\$331,103.9
<u>Expenses</u>					
Registered Representatives' Compensation (Part II only) ^{2/}	\$ 18,646.0	\$ 22,046.4	\$ 24,872.2	\$ 29,007.2	\$ 33,162.0
Other Employee Compensation and Benefits	27,416.8	30,798.8	34,180.3	46,856.4	53,356.7
Compensation to Partners and Voting Stockholder Officers	4,121.9	4,730.8	4,841.5	4,369.0	5,450.3
Commissions and Clearance Paid to Other Brokers	7,099.3	8,421.0	9,831.7	12,899.7	14,719.0
Interest Expenses	63,595.3	78,689.2	95,627.0	84,713.8	127,211.5
Regulatory Fees and Expenses	622.3	771.7	835.8	945.0	1,204.6
All Other Expenses ^{2/}	30,983.6	37,477.0	42,359.8	52,486.8	64,429.5
Total Expenses	\$152,485.2	\$182,934.8	\$212,548.4	\$231,277.9	\$299,533.6
<u>Income and Profitability</u>					
Pre-tax Income	\$ 15,819.8	\$ 17,841.6	\$ 15,054.9	\$ 25,337.3	\$ 31,570.3
Pre-tax Profit Margin	9.4%	8.9%	6.6%	9.9%	9.5%
Pre-tax Return on Equity	26.8%	25.7%	18.2%	26.1%	27.5%
Number of Firms	5,395	5,465	5,453	5,480	5,568

Figures may not add due to rounding.

^{1/} Calendar, rather than fiscal, year data is reported in this table.

^{2/} Registered representatives' compensation for firms that neither carry nor clear is included in "other expenses" as this expense item is not reported separately on Part IIA of the FOCUS Report.

Source: FOCUS Report

Table 7
**UNCONSOLIDATED BALANCE SHEET FOR BROKER-DEALERS
DOING A PUBLIC BUSINESS**
YEAR-END, 1996 – 2000 ^{1/}
(\$ in Millions)

	1996	1997	1998	1999	2000
Assets					
Cash	\$ 16,824.7	\$ 23,309.3	\$ 27,219.1	\$30,915.7	\$ 33,472.4
Receivables from Other					
Broker-dealers	477,645.9	590,731.7	713,732.3	828,208.0	974,675.6
Receivables from Customers	87,064.8	118,185.0	135,249.8	205,904.5	203,704.3
Receivables from Non-customers	7,080.4	11,852.2	16,814.2	21,277.9	31,411.0
Long Positions in Securities and Commodities	448,069.1	495,217.4	469,526.9	529,931.2	614,927.6
Securities and Investments not Readily Marketable	5,453.8	8,026.5	8,651.0	10,566.6	9,845.9
Securities Purchased Under Agreements to Resell (Part II only) ^{2/}	624,210.7	715,948.9	638,655.5	682,466.4	724,666.3
Exchange Membership	460.2	541.5	562.1	580.8	588.6
Other Assets ^{2/}	36,234.1	46,786.7	84,060.9	79,596.8	120,788.9
Total Assets	\$1,703,043.7	\$2,010,599.3	\$2,094,471.8	\$2,389,447.9	\$2,714,080.5
Liabilities and Equity Capital					
Bank Loans Payable	\$ 38,165.7	\$ 38,298.1	\$ 46,524.7	\$58,190.5	\$80,745.4
Payables to Other Broker-dealers	207,726.7	263,879.7	314,940.5	415,101.0	473,215.1
Payables to Non-customers	18,124.7	26,334.0	36,306.8	40,916.5	50,748.0
Payables to Customers	143,517.0	187,839.5	238,677.3	282,996.0	359,818.6
Short Positions in Securities and Commodities	236,586.2	246,437.4	222,526.7	287,946.6	286,545.8
Securities Sold Under Repurchase Agreements (Part II only) ^{2/}	852,523.9	991,752.6	923,300.4	973,524.9	1,092,436.3
Other Non-subordinated Liabilities ^{2/}	107,867.5	132,295.6	169,472.6	166,699.4	182,476.9
Subordinated Liabilities	36,229.5	47,422.6	53,913.5	58,813.2	63,436.1
Total Liabilities	\$1,640,741.1	\$1,934,259.4	\$2,005,662.4	\$2,284,188.2	\$2,589,422.2
Equity Capital	\$ 62,302.5	\$ 76,339.9	\$ 88,809.4	\$ 105,259.7	\$ 124,658.3
 Number of firms	 5,395	 5,465	 5,453	 5,480	 5,568

Figures may not add due to rounding.

^{1/} Calendar, rather than fiscal, year data is reported in this table.

^{2/} Resale agreements and repurchase agreements for firms that neither carry nor clear are included in "other assets" and "other non-subordinated liabilities," respectively, as these items are not reported separately on Part IIA of the FOCUS Report.

Source: FOCUS Report

Table 8
UNCONSOLIDATED REVENUES AND EXPENSES FOR
CARRYING/CLEARING BROKER-DEALERS 1/
(\$ in Millions)

	1999		2000		Percent Change 1999-2000
	Dollars	Percent of Total Revenues	Dollars	Percent of Total Revenues	
<u>Revenues</u>					
Securities Commissions	\$ 32,057.3	15.2%	\$ 36,814.6	13.5%	14.8%
Gains (Losses) in Trading and Investment Accounts	42,101.2	19.9%	50,172.3	18.3	19.2
Profits (Losses) from Under- writing and Selling Groups	16,869.3	8.0	17,406.0	6.4	3.2
Margin Interest	15,032.8	7.1	24,274.0	8.9	61.5
Revenues from Sale of Invest- ment Company Shares	9,528.4	4.5	10,810.3	4.0	13.5
Miscellaneous Fees	13,270.1	6.3	16,770.7	6.1	26.4
Revenues from Research	145.7	0.1	252.9	0.1	73.6
Other Securities Related Revenues	78,379.5	37.1	109,888.7	40.2	40.2
Commodities Revenues	-7,229.5	-3.4	- 8,912.2	-3.3	NA
All Other Revenues	11,328.8	5.4	16,161.4	5.9	42.7
Total Revenues	\$211,483.6	100.0%	\$273,638.7	100.0%	29.4%
<u>Expenses</u>					
Registered Representatives' Compensation	\$ 29,007.2	13.7%	\$ 33,162.0	12.1%	14.3%
Other Employee Compensation and Benefits	36,590.2	17.3	40,755.3	14.9	11.4
Compensation to Partners and Voting Stockholder Officers	2,208.1	1.0	2,587.5	0.9	17.2
Commissions and Clearance Paid to Other Brokers	6,039.5	2.9	6,441.7	2.4	6.7
Communications	5,093.9	2.4	5,891.9	2.2	15.7
Occupancy and Equipment Costs	6,128.3	2.9	7,441.7	2.7	21.4
Data Processing Costs	2,957.0	1.4	3,664.4	1.3	23.9
Interest Expenses	83,128.8	39.3	124,453.3	45.5	49.7
Regulatory Fees and Expenses	729.4	0.3	907.0	0.3	24.3
Losses in Error Accounts and Bad Debts	708.3	0.3	923.9	0.3	30.4
All Other Expenses	21,046.7	10.0	25,041.2	9.2	19.0
Total Expenses	\$193,637.4	91.6%	\$251,269.9	91.8%	29.8%
<u>Income and Profitability</u>					
Pre-tax Income	\$ 17,846.2	8.4%	\$ 22,368.9	8.2%	25.3%
Pre-tax Profit Margin	8.4%		8.2%		
Pre-tax Return on Equity	23.5%		25.0%		
Number of Firms	691		660		

Figures may not add due to rounding.

1/ Calendar, rather than fiscal, year data is reported in this table.

Note: Includes information for firms doing a public business that carry customer accounts or clear securities transactions.

Source: FOCUS Report

Table 9
UNCONSOLIDATED BALANCE SHEET FOR CARRYING/CLEARING
BROKER-DEALERS 1/
(\$ in Millions)

	1999		2000		Percent Change 1999-2000
	Dollars	Percent of Total Assets	Dollars	Percent of Total Assets	
Assets					
Cash	\$ 28,525.0	1.2%	\$ 30,180.4	1.2%	5.8%
Receivables from Other Broker-dealers	805,622.3	34.8	943,974.2	36.1	17.2
(a) Securities Failed to Deliver	11,363.9	0.5	19,228.4	0.7	69.2
(b) Securities Borrowed	763,648.7	33.0	876,204.6	33.5	14.7
(c) Other	30,609.7	1.3	48,541.2	1.9	58.6
Receivables from Customers	205,904.5	8.9	203,704.3	7.8	-1.1
Receivables from Non-customers	20,389.5	0.9	30,422.0	1.2	49.2
Long Positions in Securities and Commodities	491,936.3	21.2	563,132.6	21.5	14.5
(a) Bankers Acceptances, Certificates of Deposit and Commercial Paper	25,031.2	1.1	38,015.0	1.5	51.9
(b) U.S. and Canadian Government Obligations	271,803.7	11.7	296,305.5	11.3	9.0
(c) State and Municipal Government Obligations	11,947.1	0.5	11,287.8	0.4	-5.5
(d) Corporate Obligations	80,724.3	3.5	96,972.4	3.7	20.1
(e) Stocks and Warrants	65,740.1	2.8	74,400.9	2.8	13.2
(f) Options	19,160.1	0.8	15,747.1	0.6	-17.8
(g) Arbitrage	13,412.5	0.6	22,817.6	0.9	70.1
(h) Other Securities	4,073.7	0.2	7,578.3	0.3	86.0
(i) Spot Commodities	43.8	0.0	8.1	0.0	-81.5
Securities and Investments Not Readily Marketable	8,961.7	0.4	8,687.6	0.3	-3.1
Securities Purchased Under Agreements to Resell	682,466.4	29.5	724,666.3	27.7	6.2
Exchange Membership	498.5	0.0	504.5	0.0	1.2
Other Assets	72,266.7	3.1	109,060.2	4.2	50.9
Total Assets	\$ 2,316,570.9	100.0%	\$ 2,614,332.1	100.0%	12.9%
Liabilities and Equity Capital					
Bank Loans Payable	\$ 57,985.4	2.5%	\$ 80,639.8	3.1%	39.1%
Payables to Other Broker-dealers	398,396.5	17.2	448,502.9	17.2	12.6
(a) Securities Failed to Receive	13,053.6	0.6	17,570.6	0.7	34.6
(b) Securities Loaned	366,473.7	15.8	395,508.1	15.1	7.9
(c) Other	18,869.3	0.8	35,424.2	1.4	87.7
Payables to Non-customers	40,272.0	1.7	49,835.4	1.9	23.7
Payables to Customers	282,966.0	12.2	359,818.6	13.8	27.1
Short Positions in Securities and Commodities	260,585.3	11.2	249,676.0	9.6	-4.2
Securities Sold Under Repurchase Agreements	973,524.9	42.0	1,092,436.3	41.8	12.2
Other Non-subordinated Liabilities	162,330.0	7.0	177,031.1	6.8	9.1
Subordinated Liabilities	57,196.0	2.5	61,015.0	2.3	6.7
Total Liabilities	\$ 2,233,286.1	96.4%	\$ 2,518,955.1	96.4%	12.8%
Equity Capital	\$ 83,284.8	3.6%	\$ 95,377.0	3.6%	14.5%
Number of Firms	691		660		

Figures may not add due to rounding.

1/ Calendar, rather than fiscal, year data is reported in this table.

Note: Includes information for firms doing a public business that carry customer accounts or clear securities transactions.

Source: FOCUS Report

Table 10
MARKET VALUE OF EQUITY/OPTIONS SALES ON U.S. EXCHANGES ^{1/}
(\$ in Thousands)

	Total Market Value	Stocks ^{2/}	Warrants	Rights	Equity Options		Non-Equity Options ^{3/}	
					Traded	Exercised		
All Registered Exchanges for Past Six Years								
Calendar Year:	1995	3,678,326,943	3,506,785,001	970,523	235,647	50,802,752	51,461,348	68,071,671
	1996	4,719,336,203	4,510,874,989	869,986	34,861	67,861,575	59,451,448	80,243,345
	1997	6,855,461,663	6,559,348,106	616,256	27,363	104,535,151	76,475,307	114,459,480
	1998	8,662,523,260	8,307,341,289	740,879	73,341	140,260,828	85,290,488	128,816,435
	1999	11,131,739,431	10,680,428,325	677,469	256,984	260,293,772	56,857,793	133,225,088
	2000	14,341,711,034	13,690,731,156	488,103	122,822	481,440,134	23,268,706	145,660,113
Breakdown of 2000 Data by Registered Exchanges								
All Registered Exchanges								
Exchanges:	AMEX	914,545,341	757,455,829	51,232	355	134,873,237	14,108,185	8,056,504
	BSE	256,705,388	256,705,388	0	0	0	0	0
	CHX	1,038,394,731	1,038,394,731	0	0	0	0	0
	CSE	172,954,583	172,954,583	0	0	0	0	0
	NYSE	11,216,963,098	11,216,406,312	434,318	122,468	0	0	0
	PSE	247,669,023	163,303,373	2,540	0	82,524,069	1,818,445	20,595
	PHLX	164,796,441	85,510,939	13	0	70,740,558	2,100,563	6,444,368
	CBOE	329,682,429	0	0	0	193,302,270	5,241,513	131,138,646

Figures may not sum due to rounding.

^{1/} Data on the value and volume of equity security sales is 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. It covers odd-lot as well as round-lot transactions.

^{2/} Includes voting trust certificates, certificate of deposit for stocks, and American Depositary Receipts for stocks but excludes rights and warrants.

^{3/} Includes all exchange trades of call and put options in stock indices, interest rates, and foreign currencies.

Source: SEC Form R-31 and Options Clearing Corporation Statistical Report.

Table 11
VOLUME OF EQUITY/OPTIONS SALES ON U.S. SECURITIES EXCHANGES 1/
(Data in Thousands)

		Stocks 2/ (Shares)	Warrants (Units)	Rights (Units)	Equity Options		Non-Equity Options 3/ (Contracts)
					Traded (Contracts)	Exercised (Contracts)	
All Registered Exchanges for Past Six Years							
Calendar Year:	1995	106,392,534	405,123	271,999	174,380	11,779	112,917
	1996	125,746,598	136,314	39,666	199,117	12,446	95,680
	1997	159,712,233	87,153	57,288	272,999	15,901	80,824
	1998	206,425,002	66,041	329,502	329,642	14,603	76,701
	1999	244,137,857	52,485	30,610	444,765	12,219	63,126
	2000	317,698,364	28,204	21,377	665,306	4,597	53,856
Breakdown of 1999 Data by Registered Exchanges							
All Registered Exchanges							
Exchanges:	AMEX*	11,926,758	11,711	273	205,716	1,994	1,998
	BSE*	5,644,651	0	0	0	0	0
	CHX	24,091,975	0	0	0	0	0
	CSE*	4,031,434	0	0	0	0	0
	NYSE*	265,713,349	16,096	21,104	0	0	0
	PSE	4,066,216	395	0	108,534	475	5
	PHLX*	2,223,980	2	0	72,135	588	4,415
	CBOE*	0	0	0	278,920	1,540	47,439

Figures may not sum due to rounding.

* Data of those exchanges marked with asterisk covers transactions cleared during the calendar month; clearance usually occurs within five days of the execution of a trade. Data of other exchanges covers transactions effected on trade dates falling within the reporting month.

1/ Data on the value and volume of equity security sales is 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. It covers odd-lot as well as round-lot transactions.

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

3/ Includes all exchange trades of call and put options in stock indices, interest rates, and foreign currencies.

Source: SEC Form R-31 and Options Clearing Corporation Statistical Report.

Table 12
SHARE VOLUME BY EXCHANGES ^{1/}
(In Percentages)

Year	Total Share Volume (in Thousands)	NYSE	AMEX	CHX	PSE	PHLX	BSE	CSE	Others ^{2/}
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
1965	2,671,012	69.90	22.53	2.63	2.33	0.81	0.26	0.05	1.49
1970	4,834,887	71.28	19.03	3.16	3.68	1.63	0.51	0.02	0.69
1975	6,376,094	80.99	8.97	3.97	3.26	1.54	0.85	0.13	0.29
1980	15,587,986	79.94	10.78	3.84	2.80	1.54	0.57	0.32	0.21
1985	37,187,567	81.52	5.78	6.12	3.66	1.47	1.27	0.15	0.03
1990	53,746,087	81.86	6.23	4.68	3.16	1.82	1.71	0.53	0.01
1991	58,290,641	82.01	5.52	4.66	3.59	1.60	1.77	0.86	0.01
1992	65,705,037	81.34	5.74	4.62	3.19	1.72	1.57	1.83	0.01
1993	83,056,237	82.90	5.53	4.57	2.81	1.55	1.47	1.17	0.00
1994	90,786,603	84.55	4.96	3.88	2.37	1.42	1.39	1.42	0.01
1995	107,069,656	84.49	4.78	3.67	2.56	1.39	1.45	1.66	0.00
1996	125,922,577	85.95	4.29	3.37	2.40	1.28	1.29	1.42	0.00
1997	159,856,674	86.85	3.88	3.75	2.01	1.09	1.24	1.18	0.00
1998	206,820,545	86.67	3.71	4.57	1.92	0.79	1.52	0.82	0.00
1999	244,220,952	85.07	3.55	5.89	2.01	0.72	1.80	0.96	0.00
2000	317,747,944	83.64	3.76	7.58	1.28	0.70	1.78	1.27	0.00

^{1/} Share volume for exchanges includes stocks, rights, and warrants; calendar, rather than fiscal, year data is reported in this table.

^{2/} Includes all exchanges not listed individually.

Source: SEC Form R-31

Table 13
DOLLAR VOLUME BY EXCHANGES 1/
(In Percentages)

Year	Total Dollar Volume (in Thousands)	NYSE	AMEX	CHX	PSE	PHLX	BSE	CSE	Others 2/
1945	\$ 16,284,552	82.75	0.81	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
1965	89,549,093	81.78	9.91	3.44	2.43	1.12	0.42	0.08	0.82
1970	131,707,946	78.44	11.11	3.76	3.81	1.99	0.67	0.03	0.19
1975	157,256,676	85.20	3.67	4.64	3.26	1.73	1.19	0.17	0.14
1980	476,500,688	83.53	7.33	4.33	2.27	1.61	0.52	0.40	0.01
1985	1,200,127,848	85.25	2.23	6.59	3.06	1.49	1.20	0.18	0.00
1990	1,616,798,075	86.15	2.33	4.58	2.77	1.79	1.63	0.74	0.00
1991	1,778,154,074	86.20	2.31	4.34	3.05	1.54	1.72	0.83	0.01
1992	2,032,684,135	86.47	2.07	4.28	2.87	1.70	1.52	1.09	0.00
1993	2,610,504,390	87.21	2.08	4.10	2.38	1.52	1.35	1.37	0.00
1994	2,817,671,150	88.08	2.01	3.49	2.09	1.34	1.31	1.68	0.00
1995	3,507,991,171	87.71	2.10	3.26	2.24	1.27	1.43	1.99	0.00
1996	4,511,779,836	88.91	1.91	3.01	2.03	1.19	1.32	1.63	0.00
1997	6,559,991,725	89.13	2.13	3.25	1.87	1.01	1.23	1.38	0.00
1998	8,308,155,509	87.57	3.37	3.93	1.79	0.79	1.58	0.98	0.00
1999	10,681,362,778	85.08	4.18	5.06	1.93	0.65	2.04	1.06	0.00
2000	13,691,342,081	81.93	5.53	7.58	1.19	0.62	1.87	1.26	0.01

1/ Dollar volume for exchanges includes stocks, rights, and warrants; calendar, rather than fiscal, year data is reported in this table.

2/ Includes all exchanges not listed individually.

Source: SEC Form R-31

Table 14
SECURITIES LISTED ON EXCHANGES 1/
December 31, 2000

EXCHANGE	COMMON		PREFERRED		BONDS		TOTAL SECURITIES	
	Market Value		Market Value		Value 2/		Value	
Registered:	Number	(in Millions)	Number	(in Millions)	Number	(in Millions)	Number	(in Millions)
Domestic Securities								
American	671	90,016	72	4,375	485	0	1,228	94,391
Boston	80	1,644	0	0	0	0	80	1,644
Cincinnati	0	0	0	0	0	0	0	0
Chicago	9	233	0	0	0	0	9	233
New York	2,101	11,594,001	378	38,882	1,419	2	3,898	11,632,885
Pacific	32	2,621	2	71	3	45	37	2,737
Philadelphia	2	164	5	31	0	0	7	195
Total	2,895	11,688,679	457	43,359	1,907	47	5,259	11,732,085
Includes Foreign Stocks:								
New York	533	718,890	60	20,531	208	0	801	739,421
American	50	34,909	0	0	2	0	52	34,909
Boston	8	150	0	0	0	0	8	150
Chicago	0	0	0	0	0	0	0	0
Pacific	3	109	0	0	0	0	3	109
Philadelphia	0	0	0	0	0	0	0	0
Total	594	754,058	60	20,531	210	0.01	864	774,589

Figures may not sum due to rounding

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

2/ Principal value for all exchanges, except Philadelphia (PHLX). PHLX could provide only market value. The American and New York exchanges no longer can provide market values for bonds.

Source: SEC Form 1392

Table 15
 VALUE OF STOCKS LISTED ON EXCHANGES
 (\$ in Billions)

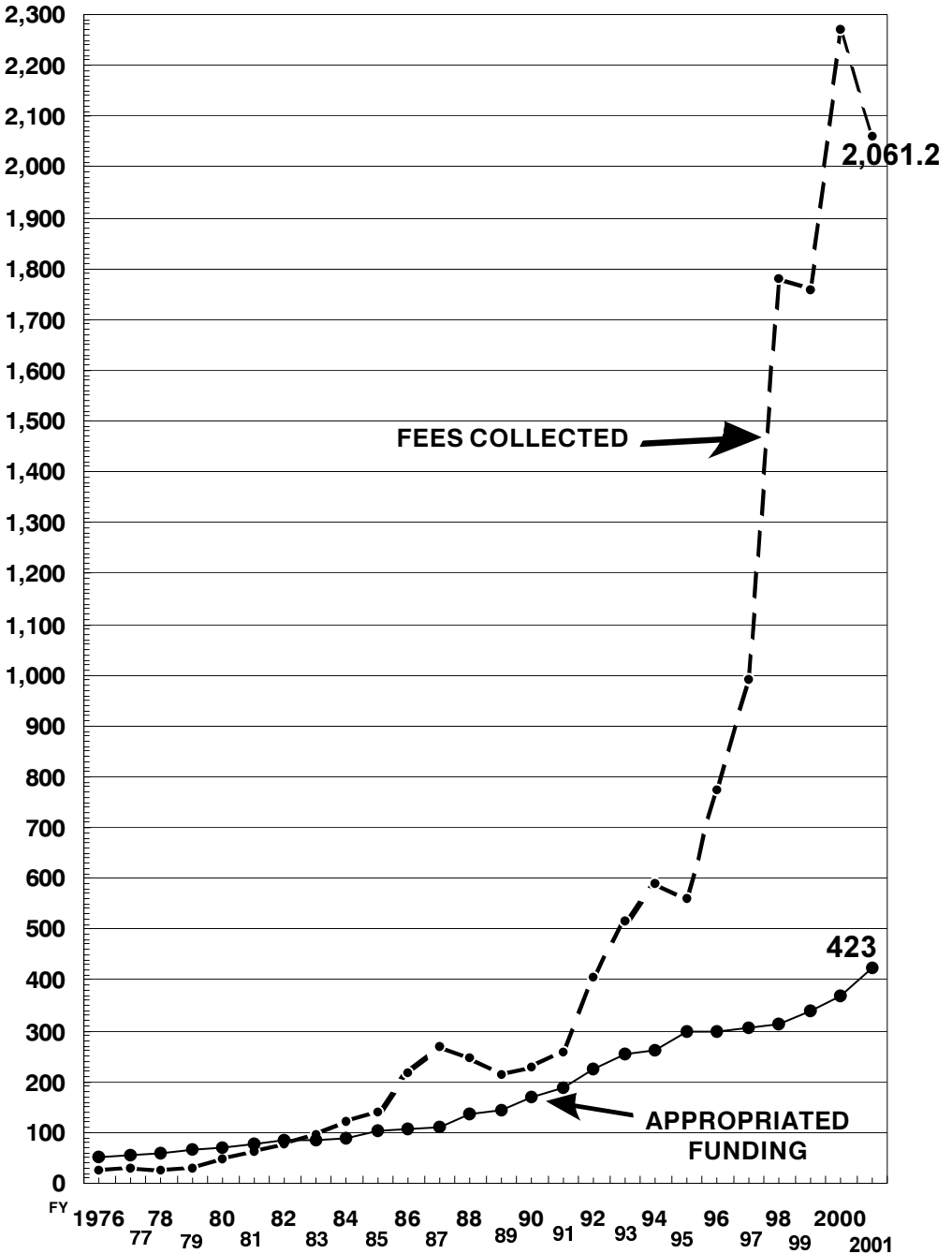
As of Dec 31	New York Stock Exchange	American Stock Exchange	Exclusively On Other Exchanges	Total
1940	\$ 46.5	\$ 10.1	\$	\$ 56.6
1945	73.8	14.4	.....	88.2
1950	93.8	13.9	3.3	111.0
1955	207.7	27.1	4.0	238.8
1960	307.0	24.2	4.1	335.3
1965	537.5	30.9	4.7	573.1
1970	636.4	39.5	4.8	680.7
1975	685.1	29.3	4.3	718.7
1980	1,242.8	103.5	2.9	1,349.2
1985	1,882.7	63.2	5.9	1,951.8
1990	2,692.1	69.9	3.9	2,765.9
1991	3,547.5	90.3	4.3	3,642.1
1992	3,877.9	86.4	5.9	3,970.2
1993	4,314.9	98.1	7.2	4,420.2
1994	4,240.8	86.5	4.7	4,332.0
1995	5,755.5	113.3	6.8	5,875.6
1996	6,947.7	106.2	5.7	7,059.6
1997	9,413.1	131.3	3.6	9,548.0
1998r	10,384.8	149.7	4.7	10,539.2
1999	11,556.2	82.5	6.7	11,645.4
2000	11,633.0	94.4	4.7	11,732.1

r=revised

Source: SEC Form 1392

Table 16
 APPROPRIATED FUNDS vs FEES* COLLECTED

\$ Millions



* Excludes disgorgements from fraud actions.

Table 17
BUDGET ESTIMATES AND APPROPRIATIONS

Action	Fiscal 1997		Fiscal 1998		Fiscal 1999		Fiscal 2000		Fiscal 2001	
	Positions	\$000	Positions	\$000	Positions	\$000	Positions	\$000	Positions	\$000
Estimate Submitted to the Office of Management and Budget	3,039	\$317,294	3,039	\$317,412	2,827	\$339,098	2,946	\$367,800	3,296	\$430,600
Action by the Office of Management and Budget	...	-9,105	...	...	...	+2,000	+197	-7,000	-11	-7,800
President's Request	3,039	\$308,189	3,039	317,412	2,827	341,098	3,143	360,800	3,285	422,800
Action by the House of Representatives	...	-11,168	...	-2,412	...	-17,098	...	-36,800	-50	-30,176
Subtotal	3,039	297,021	3,039	315,000	2,827	324,000	3,143	324,000	3,235	392,624
Action by the Senate	...	+9,379	...	+2,412	+274	+17,098	...	+46,800	+50	+97,028
Subtotal	3,039	306,400	3,039	317,412	3,101	341,098	3,143	370,800	3,285	489,652
Action by Conferees	...	-1,000	...	2,412	...	-11,098	+50	-3,000	...	-66,852
Annual Appropriation	3,039	305,400	3,039	315,000	3,101	330,000	3,193	367,800	3,285	422,800
Supplemental Appropriation	...	...	...	...	...	+8,175	...	+500	...	...
Sequestration / Other	...	...	...	...	...	-458	...	...	...	...
Use of Prior Year Unobligated Balances	...	+5,700	...	+5,100 ^{1/}	...	+18,357 ^{2/}	+42	+14,100 ^{3/}	...	+4,472 ^{1/}
Total Funding Level	3,039	311,100	3,039	320,100	3,101	356,074	3,235	382,400	3,285	427,272

^{1/} Represents spending authority for 3-year EDGAR modernization.

^{2/} Includes \$14,500 for 3-year EDGAR modernization and \$3,857 from prior year recoveries.

^{3/} Includes \$5,400 for 3-year EDGAR modernization and \$8,700 reprogramming.

U.S. Securities and Exchange Commission

