

[COMMITTEE PRINT]

THE PENN CENTRAL FAILURE AND THE  
ROLE OF FINANCIAL INSTITUTIONS

PART V

TRADING IN PENN CENTRAL STOCK: FINANCIAL  
INSTITUTIONS AND PRIVILEGED INFORMATION

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STAFF REPORT OF THE  
COMMITTEE ON BANKING AND CURRENCY  
HOUSE OF REPRESENTATIVES

92d Congress, First Session



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## LETTER OF TRANSMITTAL

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*To the Members of the House Committee on Banking and Currency:*

On the morning of June 9, 1970, millions of Americans picked up their newspapers and discovered that the Nation's largest railroad and seventh largest corporation was in deep financial trouble. Even then, the magnitude of Penn Central's troubles was not revealed and there was no hint that the railroad was only days away from bankruptcy.

But a select few knew—and had known for some time—that the railroad was in dire straits. They were in a position to know that the giant corporation was very likely suffering from a terminal illness. The exact make-up of this select group is still unknown, but it did include the highest officials of the Nixon Administration, the directors, officers and key employees of Penn Central and the officers and directors of some of the nation's major banking and financial institutions.

The information at the disposal of the members of this select group was not ordinary corporate data. It was the kind of data that would either make or lose millions of dollars in the stock market before the company collapsed on June 21.

This report analyzes the trading in Penn Central stock during the critical period from April 1, 1970 to the bankruptcy on June 21. The analysis reveals highly unusual trading patterns by a number of institutional investors. Particularly significant are the heavy sales engaged in by Chase Manhattan National Bank, Morgan Guaranty Trust Company, Continental Illinois National Bank and Trust Company and the Alleghany group, which included the Investors Mutual, Inc. and Investors Diversified Services. Together, these four entities sold 1,751,225 shares of Penn Central stock between April 1, 1970 and June 19, 1970. This was almost one-third of all the Penn Central stock sold during the period.

The staff has compared the sales against various events affecting the corporation. Some of these events were generally known and were available equally to the investing public. But many others involved secret inside events and negotiations which had vital bearing on the most critical decisions concerning the future financial well-being of the corporation. These events were not known to the general public, but were available only to a highly select group of insiders.

Many of these critical events occurred from May 19 through May 27, 1970—a period in which the corporation was publicly silent about its financial condition and its future plans. The report singles out three major events—known only to the insiders—which occurred during this period May 19 through May 27:

1. On or about May 19, Stuart Saunders, chairman of the board of Penn Central, discussed the possibility of a Government guaranteed loan with Secretary of the Treasury David Kennedy.

2. On May 21, David Bevan, chief financial officer of the Penn Central, met with banking representatives. Discussion included PC's postponement of the \$100 million debenture offering and its intent to seek a Government guaranteed loan.

3. On May 27, the board of directors of the railroad met at 11:00 a.m. Directors were informed of the decision to postpone the debenture offer.

Significantly, Chase Manhattan Bank unloaded 262,300 shares of Penn Central stock from May 19 to May 27. The Allegheny Corporation and the two mutual funds it controls—Investors Mutual, Inc. and Investors Diversified Services—apparently had dumped all of its stock by the end of trading on May 27. The Allegheny group sold a total of 489,000 shares of Penn Central stock in the May 19–May 27 period.

The sales by Chase Manhattan, the Allegheny Corporation Group, and five other institutional investors studied by the staff accounted for 53 percent of the sales recorded on the stock exchanges in the May 19 to May 27 period. On two significant dates, May 19 and May 27, the sales by this handful of investors dominated the market in Penn Central stock. On May 19, 77 percent of all the sales recorded in Penn Central stock—over 142,000 shares—were made by the nine institutions studied in this report. On May 27, the transactions conducted by these institutions apparently accounted for all of the sales of Penn Central stock on that date—372,400 shares.

May 27 was a crucial date for Penn Central and the holders of its stock. At 11:00 a.m. on that date, the directors received the highly discouraging news that the corporation was unable to market \$100 million in debentures critically needed for the continued operation of the railroad. This was a private board of directors meeting and no announcement was made to the public about the failure of the debenture offering until 26 hours later, at 1:20 p.m. on May 28.

In addition, there were other periods on which vital nonpublic events occurred which had great impact on the stock of the Penn Central company. Many of these events—like the May 19 to May 27 period—are surrounded by unusual trading patterns by the institutional investors cited in this report.

It becomes apparent that the trust departments of such banking institutions as Chase Manhattan conducted their massive sales of Penn Central stock on the basis of either great clairvoyance or inside information.

It is also obvious that Chase Manhattan did not need to be clairvoyant to obtain crucial information about the railroad.

For example, Chase was a major creditor of Penn Central and at the time of the bankruptcy, the bank held \$50 million of the outstanding debt of the railroad and its various subsidiaries. In June of 1970, Penn Central and its subsidiaries had \$5 million on deposit at Chase and the bank was a member of the bank steering committee that represented the financial institutions which were attempting to participate in the proposed government-guaranteed loan. In addition, the man most acquainted with the operations of the railroad—its president, Stuart Saunders—was a member of the board of directors of Chase Manhattan throughout the period of time in question. It appears then, that Chase Manhattan "had friends at Penn Central".

Morgan Guaranty Trust Company, like Chase, maintained interlocking directorates with the railroad. And like Chase, Morgan Guaranty held about \$35 million of Penn Central's debt and was a member of the bank steering committee involved in the attempted government loan guarantee. The railroad also maintained deposits in excess of \$6 million with Morgan.

Continental Illinois National Bank did not have interlocking directorates with the railroad, but it had other close ties. The bank had more than \$23 million of the outstanding debt of the railroad and was a member of the bank steering committee which participated in critical meetings with Penn Central directors and high officials of the Treasury Department during the period June 10 to June 13. In the midst of these secret meetings—involving banks, Administration officials, and the hierarchy of Penn Central—Continental Illinois suddenly decided on June 12 to get rid of 108,950 shares of the railroad's stock. The sales apparently were based on an in-house memorandum to the trust investment division, marked "Flash" and warning "Recent events indicate that the likelihood of returning to a profitable basis appears quite distant . . ." The report also cites stock sales by the trust department of the Provident National Bank of Philadelphia, a bank which served through the years as more or less an "in house" financial institution for the railroad. David Bevan, the chief financial officer of Penn Central until June 8, 1970, was a director of Provident. John Seabrook, chairman of the board of International Utilities Corporation, was a director of both Penn Central and Provident National Bank. In addition, William Gerstnecker, a former Penn Central official, was vice-chairman of the board of Provident until his resignation in January, 1971.

Similar questions are raised concerning Allegheny Corporation, Investors Diversified Services, and Investors Mutual, Inc.—the so-called Allegheny group. In recent years, Allegheny Corporation has maintained director interlocks with Penn Central and until March, 1970, the chairman of the board and the president of Allegheny Corporation—Fred M. Kirby—was a member of the board of Penn Central. In addition, Allegheny Corporation has interlocks with Manufacturers Hanover Trust Company, which participated in the critical meetings with Penn Central and Administration officials in an attempt to arrange a government-guaranteed loan for the railroad. The bank also holds a large portion of the outstanding debt of the railroad.

This report will be transmitted to the appropriate Federal and State agencies. Special attention should be directed to the operations of the trust department of the Chase Manhattan Bank, National Association of New York. In view of the bank's director interlock with Penn Central, and its other close relationships with the railroad, the rapid disposal of 436,300 shares of Penn Central stock by the bank's trust department should not be minimized, particularly where these sales coincide so closely with events known only to a handful of insiders.

In conclusion, the Congress, the Securities and Exchange Commission, and other agencies charged with protecting the public interest should keep in mind that the 1,861,000 shares sold by these nine institutional investors were bought by someone. In many cases, if not most, the sales undoubtedly were made by Chase Manhattan and the other

institutional investors to unsophisticated and unsuspecting members of the investing public. Much of this public today holds Penn Central stock which is worth only a small fraction of its selling price in the spring of 1970. The purchasers of this stock can rightfully feel that they were victims of a massive shell-game carried on by financial entities in a position to know the innermost financial secrets of the Penn Central organization.

It appears that a number of private and public institutions failed the public miserably. For example:

- The Securities and Exchange Commission—The general investing public believes that the SEC is watching the markets closely for unusual trading patterns and is constantly collecting information which might have a bearing on the value of a public corporation's stock. There is no evidence that the SEC either collected or disseminated such information to the public which might have been in the market for Penn Central stock during the spring of 1970. SEC may well argue that it lacks the authority to carry out such a function, and if this is the case, the agency should seek an immediate change in its procedures and new legislation from the Congress. At a minimum, it seems essential that the people be made more aware of what the SEC can and will do to protect the public in such situations. With the increasing dominance of the institutional investor, the public has an even greater need for vigorous SEC scrutiny of the types of transactions related in this report.

- The Interstate Commerce Commission—The ICC was certainly in the best position to know the internal problems of Penn Central and to be aware of its close relationships with key institutional investors. If the ICC did not have such information about the largest single corporation under its regulation, the agency must be charged with gross incompetence. If it did have the information, but failed to act and failed to inform the public, it was sadly remiss—if not legally negligent—in carrying out its functions.

- The Nixon Administration—The highest officials of the Administration gained early knowledge of Penn Central's extreme financial difficulty and, in fact, Secretary of Transportation John Volpe participated in meetings with Penn Central officials as early as late April. Interspersed with meetings between the Administration and Penn Central were meetings between the hierarchy of Penn Central and a growing number of banks including some of the institutions cited in this report. On one occasion, more than 100 officials from several score commercial banks, representatives of Penn Central, Federal Reserve officials, and Under Secretary of the Treasury, Paul Volcker, gathered together to discuss the financial future of the now rapidly-declining railroad. These meetings created great opportunities for the transmission of the most vital inside information about the Penn Central complex. Despite these meetings and discussions, the members of the Administration made no attempt to warn the investing public about the true nature of Penn Central's condition. At the same time, it is obvious that

institutional investors holding hundreds of thousands of shares of Penn Central stock were given a complete rundown of Penn Central's finances and future prospects in these meetings.

● The Press—Most of the nonpublic events so critical to Penn Central's future went on under the noses of the largest concentration of financial and business writers in the world. Until just before the bankruptcy, the press had given little indication that Penn Central was in near-collapse or that the Federal Government had been engaged in long negotiations with banks and Penn Central officials. Since many of these meetings involved key officials from Washington, the top hierarchy of the Nation's banking establishment, and officials of the Nation's largest railroad, it is regrettable that the events went unnoticed by the press covering these areas of government and business. It seems possible that more vigorous and critical reporting on the financial pages might have given the public some indication of the grave nature of Penn Central's financial problems and prevented the loss of millions of dollars by unsuspecting investors.

The views and conclusions found in this staff report do not necessarily express the views of the Committee or any of its individual members.

A handwritten signature in cursive script, reading "Wright Patman". The signature is written in dark ink and is positioned above the printed name.

WRIGHT PATMAN, *Chairman.*

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# THE PENN CENTRAL FAILURE AND THE ROLE OF FINANCIAL INSTITUTIONS

## PART V

### TRADING IN PENN CENTRAL STOCK: FINANCIAL INSTITUTIONS AND PRIVILEGED INFORMATION

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#### INTRODUCTION

The first four parts of the staff report of the House Banking and Currency Committee, *The Penn Central Failure and the Role of Financial Institutions*, concerned themselves primarily with financial matters directly related to actions by the Penn Central management. This part of the report relates to another important aspect of the Penn Central collapse—trading in Penn Central common stock in the months and days immediately preceding the filing for reorganization on June 21, 1970. In analyzing the trading in Penn Central common stock, the Committee staff concentrated on what role domestic financial institutions played with respect to the subject trading.

#### TRADING IN PENN CENTRAL COMPANY COMMON STOCK

Trading in common stock of the Penn Central Company (PC) is done primarily on the New York Stock Exchange. PC common stock is also traded on other major exchanges, except the American Stock Exchange, as well as in the third market. In addition, some private trading in PC common stock occurs. Generally, trading on the Exchanges accounts for about 95% of the total trading in PC common stock.

There were approximately 24 million shares of Penn Central Company common stock outstanding in the months immediately preceding the filing for reorganization. Total monthly trading in the stock for the first three months of 1970 on the Exchanges averaged about 554,000 shares per month, as shown in Table 1 below.

TABLE 1.—Average monthly trading on Exchanges<sup>1</sup> in PC common stock for 1st quarter of 1970

Month	Total shares traded on exchanges	Breakdown of trading on exchanges	
		New York Exchange	Other exchanges
January-----	748, 239	597, 100	151, 139
February-----	443, 931	374, 700	69, 231
March-----	468, 926	436, 300	32, 626
Total-----	1, 661, 096	1, 408, 100	252, 996
Average monthly trading-----	553, 699		

<sup>1</sup> In addition, there were 144,096 shares traded in the third market during this 3-month period. However, there are no monthly breakdowns of this figure. Also, it is possible that there was some private trading in PC common stock during this 3-month period.

As shown in Table 2 below, beginning in April 1970 there was a significant increase in the number of shares of Penn Central common stock traded on the Exchanges—from 468,926 shares in March to 683,470 shares in April, an increase of about 46 percent. The increase was even more dramatic for May—from 683,470 shares in April to 2,758,426 shares in May, an increase of almost 304 percent. The accelerated rate of increase in sales of Penn Central common stock continued through the first 19 days of June—June 19 was the last trading date preceding the filing for reorganization on June 21, 1970.

TABLE 2.—Trading in Penn Central common stock on Exchanges<sup>1</sup> for period Apr. 1, 1970, through June 19, 1970

Time period	Total shares traded on exchanges	Breakdown of trading on exchanges	
		New York Exchange	Other exchanges
April-----	683, 470	598, 400	85, 070
May-----	2, 758, 426	2, 349, 100	409, 326
June 1 through June 19-----	2, 252, 730	2, 007, 200	245, 530
Total-----	5, 694, 626	4, 954, 700	739, 926

<sup>1</sup> During the months of April, May, and June 1970, there were 308,602 shares of PC common stock traded in the third market. There are no monthly breakdowns of this figure. Also, it is possible that there was some private trading in PC common stock during this period.

### Daily Trading in Penn Central Stock

Based on data provided by the Securities and Exchange Commission (SEC), it was possible to develop figures showing the daily trading on the Exchanges in Penn Central common stock for the period April 1 through June 19, as presented in Table 3 below.

As can be seen from Table 3, trading activity on the Exchanges in Penn Central common stock fluctuated greatly from day to day. The apparent causes of these fluctuations is explained in subsequent sections of this report.



tween April 1, 1970, and June 19, 1970, precise and vital information regarding the seriousness of the Company's deteriorating financial condition was not equally available to all segments of the investment population. Those inside the Company and various members of the financial community were obviously privileged to far more information than were the vast majority of the stockholders in the Company.

Between April 1, 1970, and June 19, 1970, numerous events occurred that could have had direct impact on trading in Penn Central common stock. Some of these events were of a public nature—public announcements, press releases, etc. Other events were of a non-public nature, with only a few institutions and individuals aware of their occurrence.

These events, both public and nonpublic, had varying degrees of effect on trading in Penn Central common stock. Although the significance of any one event can never really be measured, it is possible, as described below, to identify those events that were apparently the most significant.

#### *Significant Public Events*

The events contained in Table 4 below represent the public events that the SEC believes to be of significance with respect to their effect on trading in Penn Central common stock.

TABLE 4.—*Significant public events affecting trading in Penn Central common stock*

Date	Significant Public Events
April 22	The Penn Central Company (holding company) reports a consolidated loss of over \$17 million for first quarter of 1970. The reported loss for the Railroad (Penn Central Transportation Co.) for the first quarter of 1970 is \$62,709,000.
April 28	The Pennsylvania Company (the Railroad's wholly-owned subsidiary) announces a proposed offering in mid-May of \$100 million of debentures due in 1995. The Pennsylvania Co. will use the proceeds from the debentures to purchase certain securities from the Railroad.
May 15	Representatives of the underwriting group state that the Pennsylvania Company's \$100 million debenture offering, scheduled for June 2, 1970, is expected to have an interest rate of 10½ percent.
May 28	Penn Central announces postponement of the Pennsylvania Company's \$100 million debenture offering and indicates that alternative methods of financing are being considered. (Announcement came across the Dow Jones business wire in New York at 1:20 p.m.)
June 2	First National City Bank of New York heads a group of 73 banks applying for a Government guarantee of a \$225 million loan for Penn Central.
June 10	Government support indicated for a guarantee of a \$200 million loan for Penn Central.
June 19	Government withdraws support for loan guarantee to Penn Central. (Announcement occurred at approximately 5:00 p.m.)

### *Market Reaction to Significant Public Events*

In order to determine the reaction time of the stock market to significant public events, the Committee staff consulted with various market experts, including members of the financial community and Government officials.

The consensus of the experts is that the market usually reacts immediately to any significant public event. For example, market reaction to a morning announcement on a trading day generally would be reflected in the afternoon trading in the stock of the affected company. Market reaction to an announcement taking place after the market closed would generally be reflected in the next day's trading.

The reaction time of the market may vary slightly if the news is more complex and thus requires time to analyze and digest. Even in a case like this, however, market reaction would normally be complete within two or three days.

### *Significant Nonpublic Events*

Between April 1, 1970, and June 19, 1970, many significant nonpublic events relating to the Penn Central occurred. Most of these events consisted of meetings between Penn Central officials, representatives from various banks and financial institutions, U.S. Government officials and Congressional leaders. In general, these meetings concerned Penn Central's deteriorating financial condition, its attempts to obtain additional financing, and the attempt to get a Government loan guarantee.

By their very nature, these meetings required detailed discussions and the presentation of information regarding the financial condition of the Penn Central. However, the exact discussions that occurred at these meetings are unknown. In fact, many of these meetings were held in complete secrecy. For example, it was not until June 10, 1970, that the first newspaper articles appeared regarding the fact that meetings had been held between Penn Central and U.S. Government officials, even though such meetings had been taking place since early May.

Because of the secrecy surrounding many of the meetings, it was not possible to establish the exact date and nature of every meeting that took place. However, through discussions with various Penn Central officials and representatives from the financial community, it was possible to identify some of the more significant meetings that did occur.

Presented below in Table 5 is a detailed listing of those significant nonpublic events that the Committee staff was able to identify. In several instances, because of the lack of specific dates, approximations had to be used.

TABLE 5.—*Significant Nonpublic Events Affecting Trading in Penn Central Common Stock*

Date:	Significant Non-Public Events
Late April.....	Meeting between Penn Central (PC) and Department of Transportation (DOT) to discuss PC's financial problems. (A previous meeting between PC and DOT officials was held in early March.) Subsequent to the meeting, DOT Secretary Volpe meets with Treasury Secretary Kennedy to discuss PC.

TABLE 5.—*Significant Nonpublic Events Affecting Trading in Penn Central Common Stock—Continued*

Date:	Significant Non-Public Events
May 9 (Approximate) ..	Stuart Saunders, Chairman of the Board of PC, meets with Treasury Secretary Kennedy regarding PC's financial problems.
May 19 (Approximate) ..	Saunders meets with Secretary Kennedy to discuss possibility of Government loan guarantee.
May 21 .....	Chief Financial Officer of Penn Central, David Bevan, meets with representatives from Chemical Bank New York Trust Company and First National City Bank (FNCB). Meeting included discussion of (1) PC's financial condition, (2) postponement of the Pennsylvania Company's proposed \$100 million debenture offering, and (3) PC's intent to seek a \$225 million Government guaranteed loan.
May 26 .....	David Bevan and other PC officials meet with representatives from Chemical Bank, FNCB and counsel for the 53 banks participating in the \$300 million Revolving Credit agreement with PC. Discussion concerns preliminary plans for the Government guaranteed loan and the need for PC officials to meet with representatives from the 53 Revolving Credit Banks.
May 27 (11 a.m.) .....	Meeting of Board of Directors of Penn Central Transportation Company. Chairman informs Directors that (1) PC's proposed \$100 million debenture offering will be withdrawn, (2) first quarter deficit for Railroad exceeded projection by \$30 million, (3) Railroad would not market any more commercial paper, and (4) Railroad needs \$263 of additional cash to meet its requirements to the end of the year.
May 28 .....	David Bevan and other PC officials meet with officers of the 53 Revolving Credit Banks. Discussion concerns financial condition of PC and the status of its negotiations with Government officials for guaranteed loan.
May 29-June 4 .....	Meetings at FNCB between informal 5 member Bank Steering Committee representing the banks that plan to participate in the proposed Government guaranteed loan to PC, counsel for the banks and PC officials. Committee consists of FNCB, Chemical Bank, First National Bank of Chicago, Mellon National Bank, and Manufacturers Hanover Trust.
June 6 and 7 .....	Representatives from various banks meet with Federal Reserve and U.S. Government officials.
June 10 .....	Representatives from 64 banks that are creditors of the PC meet with Federal Reserve officials. Banks sign moratorium agreement in which they agree not to call a loan to the PC within the next 10 days.
June 10 .....	Meetings of the 10 member Bank Steering Committee representing the banks participating in the proposed Government guaranteed loan to the PC. Committee includes FNCB, Chemical Bank, First National Bank of Chicago, Mellon National Bank, Manufacturers Hanover, Continental Illinois National Bank & Trust Co., Bankers Trust Co., Irving Trust Co., Morgan Guaranty and Chase Manhattan.
June 11 .....	Summary of terms for the proposed Government guaranteed loan signed by 10 member Bank Steering Committee.
June 12 .....	First draft of proposed loan agreement completed.
June 15-18 .....	Meetings between PC officials, 10 member Bank Steering Committee, U.S. Government officials and Federal Reserve representatives.

## ANALYSIS OF TRADING IN PENN CENTRAL COMMON STOCK

As part of its Penn Central investigation, the SEC sent questionnaires to 250 brokers requesting information on trading in PC securities during the period April 1, 1970, to June 30, 1970. According to SEC officials, the 250 brokers were selected primarily because they represented the major dealers in PC securities,<sup>1</sup> and that these brokers probably accounted for at least 75 percent of all trading in PC common stock during the subject time period.

The Committee staff analyzed the data contained in the brokers' responses relating to the sales of PC common stock. The purpose of the staff's analysis was to ascertain which institutions or individuals were responsible for the increased sales of PC common stock during the period April 1, 1970, to June 19, 1970—the last trading date before the Railroad filed for reorganization.

In order to confirm the validity of the figures developed by the Committee staff in its analysis, similar data was requested from the SEC. The figures supplied by the SEC as a result of its analysis of the broker responses supported those developed by the Committee staff. Because the sales data was obtained from brokers' responses to the SEC trading questionnaires, the data is subject to the limitations inherent in the source of the information, and there is no assurance that the data will agree precisely with the records of the institutions themselves. In addition, the possibility exists that an institution may have traded through a broker who was not among the 250 brokers sent trading questionnaires by the SEC.

*Analysis of Trading Questionnaires*

The staff's analysis of the 250 trading questionnaires resulted in the identification of six domestic banking institutions that sold considerable shares of PC common stock—more than 30,000 shares each—during the period April 1, 1970, to June 19, 1970. In addition, the Committee staff identified three other domestic institutions, all closely interlocked to each other, that sold almost 600,000 shares of PC common stock during the subject time period.<sup>2</sup>

The institutions identified as heavy sellers of PC common stock and the number of shares they sold during the period April 1, 1970, through June 19, 1970, are set forth in Table 6 below.

<sup>1</sup> The brokers sent questionnaires include those trading on the New York Exchange, the other major Exchanges and in the third market.

<sup>2</sup> As discussed in the concluding section of this part of the report, the staff identified additional institutions that sold significant amounts of PC common stock during the subject time period.

TABLE 6.—Sales<sup>1</sup> of Penn Central common stock by nine institutions during period April 1, 1970, through June 19, 1970

Name of institution	Number of shares sold between Apr. 1 and June 19, 1970
Chase Manhattan Bank	436, 300
Morgan Guaranty Trust Co.	391, 575
Continental Illinois National Bank & Trust Co.	332, 550
Investors Mutual, Inc.	251, 600
Investors Diversified Services	243, 200
Alleghany Corp.	96, 000
Provident National Bank	43, 933
Security Pacific National Bank	36, 217
United States Trust Co.	30, 300
Total shares sold	1, 861, 675

<sup>1</sup> The shares sold include sales on the New York Exchange, other major Exchanges, and apparently some sales by the nine institutions in the third market. However, these nine institutions may have sold stock through brokers other than those included in the 260 brokers sent questionnaires by the SEC. In addition, the nine institutions may have participated in private sales of PC common stock.

#### Monthly Sales by Nine Institutions

On a monthly basis, the sales by the nine institutions are shown in Table 7 below.

TABLE 7.—Monthly sales<sup>1</sup> of PC common stock by nine institutions

Name of institution	PC shares sold between Apr. 1 and June 19, 1970	Breakdown of sales by month		
		Sales during April	Sales during May	Sales during period June 1 to June 19
Chase Manhattan Bank	436, 300	17, 400	309, 200	109, 700
Morgan Guaranty Trust Co.	391, 575	22, 200	57, 475	311, 900
Continental Illinois National B. & T. Co.	332, 550	6, 800	34, 300	291, 450
Investors Mutual, Inc.	251, 600	0	251, 600	0
Investors Diversified Services	243, 200	0	243, 200	0
Alleghany Corp.	96, 000	0	96, 000	0
Provident National Bank	43, 933	1, 700	18, 600	23, 633
Security Pacific National Bank	36, 217	12, 900	15, 617	7, 700
United States Trust Co.	30, 300	13, 500	2, 400	14, 400
Total shares sold	1, 861, 675	74, 500	1, 028, 392	758, 783

<sup>1</sup> The shares sold include sales on the New York Exchange, other major Exchanges, and apparently some sales by the nine institutions in the third market. However, these nine institutions may have sold stock through brokers other than those included in the 260 brokers sent questionnaires by the SEC. In addition, the nine institutions may have participated in private sales of PC common stock.

The monthly sales by the nine institutions were then compared to the total trading on the Exchanges for the same period. When compared to the total trading on the Exchanges, the sales by the nine institutions accounted for a very significant proportion of the sales of PC common stock for the period April 1, 1970, through June 19, 1970. This is especially true regarding the sales for the month of May and the first 19 days of June, as shown in Table 8 below.

TABLE 8.—*Monthly sales of PC common stock by nine institutions as a percentage of total sales on the Exchanges*

Time period	Total sales on exchanges <sup>1</sup>	Sales by 9 institutions <sup>2</sup>	Percentage of total exchange sales made by 9 institutions
April.....	683, 470	74, 500	11
May.....	2, 758, 426	1, 028, 392	37
June 1 to June 19.....	2, 252, 730	758, 783	34
Total.....	5, 694, 626	1, 861, 675	33

<sup>1</sup> Does not include sales in third market or private sales.

<sup>2</sup> Apparently includes some sales in third market. In addition, these institutions may have sold stock through brokers other than the 250 sent questionnaires by the SEC, and the institutions may have participated in private sales.

As shown in Table 8 above, the percentage of stock sales for the nine institutions increased dramatically from April to May—from 11 percent in April to 37 percent in May. For the first 19 days of June, the nine institutions accounted for 34% of the total stock sales on the Exchanges.

For the period April 1, 1970, through June 19, 1970, the stock sales by the nine institutions accounted for 33 percent of the total sales on the Exchanges. In short, one out of every three shares of PC common stock sold on the Exchanges during the subject period was sold by these nine institutions.

#### *Daily Sales by Nine Institutions*

On a daily basis, the sales by the nine institutions were as shown in Table 9 below. As the data demonstrates, the sales by the nine institutions, both in total and on an individual basis, fluctuated greatly from day to day. This was especially true for the daily sales in May and June.

TABLE 9.—Daily sales<sup>1</sup> of Penn Central common stock by nine institutions during period Apr. 1, 1970, to June 19, 1970

Date	Total sales by 9 institutions <sup>2</sup>	Chase Manhattan Bank	Morgan Guaranty Trust Co.	Continental Illinois National B & T Co.	Investors Mutual Inc.	Investors Diversified Services	Allegheny Corp.	Provident National Bank	Security Pacific National Bank	United States Trust Co.
April:										
1	0	0	0	0	0	0	0	0	0	0
2	3,100	0	1,100	2,000	0	0	0	0	0	0
3	800	0	0	400	0	0	0	0	400	0
4	(3)									
5	(4)									
6	6,800	0	6,800	0	0	0	0	100	0	6,000
7	6,100	0	0	0	0	0	0	0	0	0
8	0	0	0	300	0	0	0	0	0	0
9	2,800	0	2,500	0	0	0	0	0	0	0
10	0	0	0	0	0	0	0	0	0	0
11	(5)									
12	(4)									
13	300	0	300	0	0	0	0	0	0	0
14	100	0	0	0	0	0	0	0	100	0
15	500	300	0	200	0	0	0	0	0	0
16	700	200	0	500	0	0	0	0	0	0
17	8,300	7,000	0	0	0	0	0	0	1,300	0
18	(6)									
19	(4)									
20	400	0	0	400	0	0	0	0	0	0
21	1,700	100	0	0	0	0	0	0	1,600	0
22	0	0	0	0	0	0	0	0	0	0
23	13,700	6,800	0	300	0	0	0	1,600	0	5,000
24	2,800	6,300	0	0	0	0	0	0	0	2,500
25	(7)									
26	(8)									
27	12,700	0	10,000	2,700	0	0	0	0	0	0
28	5,900	0	1,500	0	0	0	0	0	4,400	0
29	400	0	0	0	0	0	0	0	400	0
30	7,400	2,700	0	0	0	0	0	0	4,700	0
May:										
1	6,200	0	0	0	0	0	0	6,200	0	0
2	(9)									
3	(8)									
4	0	0	0	0	0	0	0	0	0	0
5	100	100	0	0	0	0	0	0	0	0
6	23,700	10,500	1,000	0	4,600	6,900	0	0	700	0
7	10,600	0	0	0	4,600	6,000	0	0	0	0
8	8,600	0	0	500	4,700	2,000	0	0	1,400	0
9	(10)									
10	(9)									
June:										
1	45,940	12,100	28,500	0	0	0	0	0	5,340	0
2	36,416	0	25,900	0	0	0	0	2,716	0	7,800
3	24,400	0	24,200	0	0	0	0	200	0	0
4	49,600	3,000	40,600	0	0	0	0	800	5,200	0
5	31,952	100	31,000	0	0	0	0	752	100	0
6	(11)									
7	(10)									
8	4,900	0	0	0	0	0	0	4,900	0	0
9	98,100	0	96,500	0	0	0	0	1,600	0	0
10	47,825	0	44,100	500	0	0	0	1,725	0	1,500
11	13,700	0	8,400	0	0	0	0	500	2,300	2,500
12	201,150	90,700	0	108,950	0	0	0	1,500	0	0
13	(12)									
14	(11)									
15	57,100	0	0	56,100	0	0	0	1,000	0	0
16	39,500	0	0	37,700	0	0	0	700	0	1,100
17	45,900	500	0	44,200	0	0	0	700	0	500
18	38,800	1,500	11,600	24,600	0	0	0	0	100	1,000
19	23,500	1,800	1,100	19,400	0	0	0	1,200	0	0
Total	1,861,675	436,300	391,575	332,550	251,600	243,200	96,000	43,933	36,217	30,300

<sup>1</sup> Because the dates were taken from the brokers' responses to the SEC questionnaires, the dates may not agree exactly with the records of the institutions.  
<sup>2</sup> Apparently includes some sales in third market. In addition, these institutions may have sold stock through brokers other than the 250 sent questionnaires by the SEC, and the institutions may have participated in private sales.

<sup>3</sup> Saturday.  
<sup>4</sup> Sunday.

TABLE 10.—Daily sales of PC common stock by nine institutions as a percentage of total sales on the Exchanges—Continued

Date	Total daily sales on exchanges <sup>1</sup>	Total sales by 9 institutions <sup>2</sup>	Percentage of total exchange sales made by 9 institutions
May—Continued			
18	71, 541	200	0
19	183, 450	142, 000	77
20	91, 891	18, 075	20
21	154, 805	29, 700	19
22	419, 990	135, 000	32
23 (Saturday).			
24 (Sunday).			
25	157, 517	55, 800	35
26	115, 209	37, 100	32
27	<sup>1</sup> 360, 563	<sup>2</sup> 372, 400	<sup>2</sup> 103
28	250, 507	48, 100	19
29	212, 545	47, 000	22
30 (Saturday).			
31 (Sunday).			
June:			
1	117, 008	45, 940	39
2	151, 921	36, 416	24
3	119, 478	24, 400	20
4	126, 771	49, 600	39
5	113, 410	31, 952	28
6 (Saturday).			
7 (Sunday).			
8	48, 595	4, 900	10
9	253, 804	98, 100	39
10	258, 515	47, 825	18
11	117, 413	13, 700	12
12	399, 457	201, 150	50
13 (Saturday).			
14 (Sunday).			
15	151, 746	57, 100	38
16	114, 957	39, 500	34
17	113, 086	45, 900	36
18	88, 783	38, 800	44
19	77, 786	23, 500	30
Total	5, 694, 626	1, 861, 675	33

<sup>1</sup> Does not include sales in third market or private sales.

<sup>2</sup> Apparently includes some sales in third market. In addition, these institutions may have sold stock through brokers other than the 250 sent questionnaires by the SEC, and the institutions may have participated in private sales.

As the data in Table 10 above shows, there were few days during the period April 1 through May 18 on which the stock sales by the nine institutions accounted for a significant percentage of the total sales on the Exchanges. On many days during this period, the nine institutions had no stock sales at all.

Starting on May 19, however, the situation changed dramatically. On most days during the period May 19 through June 19, the stock sales by the nine institutions accounted for over 30% of the total sales on the Exchanges.

The daily sales by the nine institutions were then compared to the total daily trading on the Exchanges for the same period, as shown in Table 10 below.

TABLE 10.—Daily sales of PC common stock by nine institutions as a percentage of total sales on the Exchanges

Date	Total daily sales on exchanges <sup>1</sup>	Total sales by 9 institutions <sup>2</sup>	Percentage of total exchange sales made by 9 institutions
April:			
1-----	32, 093	0	0
2-----	29, 646	3, 100	10
3-----	22, 503	800	4
4 (Saturday).			
5 (Sunday).			
6-----	20, 937	6, 800	32
7-----	12, 070	6, 100	51
8-----	18, 938	0	0
9-----	12, 758	2, 800	22
10-----	12, 443	0	0
11 (Saturday).			
12 (Sunday).			
13-----	12, 584	300	2
14-----	24, 433	100	0
15-----	13, 835	500	4
16-----	19, 349	700	4
17-----	18, 033	8, 300	46
18 (Saturday).			
19 (Sunday).			
20-----	18, 578	400	2
21-----	17, 890	1, 700	10
22-----	49, 860	0	0
23-----	54, 817	13, 700	25
24-----	32, 978	2, 800	8
25 (Saturday).			
26 (Sunday).			
27-----	57, 278	12, 700	22
28-----	60, 917	5, 900	10
29-----	90, 982	400	0
30-----	50, 548	7, 400	15
May:			
1-----	28, 771	6, 200	22
2 (Saturday).			
3 (Sunday).			
4-----	28, 871	0	0
5-----	36, 555	100	0
6-----	56, 732	23, 700	42
7-----	37, 719	10, 600	28
8-----	21, 887	8, 600	39
9 (Saturday).			
10 (Sunday).			
11-----	25, 578	0	0
12-----	182, 353	15, 800	9
13-----	93, 649	1, 500	2
14-----	138, 573	69, 300	50
15-----	89, 720	7, 217	8
16 (Saturday).			
17 (Sunday).			

See footnotes at end of table, p. 13.

RELATIONSHIP OF STOCK SALES BY NINE INSTITUTIONS TO PUBLIC  
AND NONPUBLIC EVENTS

As shown in Tables 9 and 10 above, the daily sales of PC common stock by the nine institutions fluctuated markedly from day to day. These fluctuations raised questions as to the basis for the sales by the nine institutions.

Were all or some of the nine institutions selling their PC common stock on a systematic basis because of the Railroad's deteriorating financial condition? The vast fluctuations in the daily sales by the institutions appears to eliminate this thesis.

Were the nine institutions reacting solely to specific public announcements regarding the Railroad? Was there any connection between the nonpublic events and the stock sales by the nine institutions?

In an attempt to answer the above questions, the dates of the stock sales by the nine institutions were compared to the significant public and nonpublic events that occurred during the period April 1, 1970, through June 19, 1970. The results of these comparisons are discussed below.

*Relationship of Stock Sales to Public Events*

As noted previously, the stock market generally reacts quickly to any significant public event. In addition, market reaction to any significant public event is usually complete within two or three days. Accordingly, in comparing the stock sales of the nine institutions to the significant public events, generally three days was allotted for reaction time by the market—the day the event occurred, plus the two succeeding days.

The comparison of the stock sales by the nine institutions to the significant public events is presented in Table 11 below. The announcement on May 15, 1970, relating to the interest rate on the proposed debenture offering, has been excluded because the interest rate would have had little effect on sales of PC common stock by large institutional investors.

The May 28, 1970, announcement came across the Dow Jones wire at about 1:20 p.m. Because this was an extremely important announcement, the major market reaction would have been substantially completed by May 29, 1970—the last trading day of the week. Accordingly, the sales on Monday, June 1, 1970, were not included in the comparison.

The announcement on June 19, 1970, has been excluded because it occurred about 5:00 p.m., and therefore did not affect stock sales for that date—June 19, 1970, was the last trading day before the Railroad filed for reorganization.

TABLE 11.—Stock sales by nine institutions as related to significant public events

Significant public events	Dates of affected stock sales	Total sales by 9 institutions <sup>1</sup>	Breakdown by Institution											
			Chase Manhattan Bank	Morgan Guaranty Trust Co.	Continental Illinois National B&T Co.	Investors Mutual, Inc.	Investors Diversified Services	Allegheny Corp.	Provident National Bank	Security Pacific National Bank	United States Trust Co.			
April 22—Railroad and Holding Company announce losses for first quarter of 1970.	Apr. 22	0	0	0	0	0	0	0	0	0	0	0	0	0
	Apr. 23	13,700	6,800	0	0	300	0	0	0	0	0	1,600	0	5,000
	Apr. 24	2,800	300	0	0	0	0	0	0	0	0	0	0	2,500
April 28—Announcement of the Pennsylvania Company's proposed \$100 million debenture offering.	Apr. 28	5,900	0	1,500	0	0	0	0	0	0	0	0	4,400	0
	Apr. 29	400	0	0	0	0	0	0	0	0	0	0	400	0
	Apr. 30	7,400	2,700	0	0	0	0	0	0	0	0	0	4,700	0
May 28—PC announces postponement of Pennsylvania Company's proposed debenture offering.	May 28	48,100	35,300	0	0	10,000	0	0	0	0	0	1,200	1,600	0
	May 29	47,000	0	44,900	0	0	0	0	0	0	0	2,100	0	0
June 2—73 banks apply for Government guarantee of \$225 million loan for PC.	June 2	36,416	0	25,900	0	0	0	0	0	0	0	2,716	0	7,800
	June 3	24,400	0	24,200	0	0	0	0	0	0	0	200	0	0
	June 4	49,600	3,000	40,600	0	0	0	0	0	0	0	800	5,200	0
	June 10	47,825	0	44,100	500	0	0	0	0	0	0	1,725	0	1,500
June 10—Government support indicated for \$200 million loan for PC.	June 11	13,700	0	8,400	0	0	0	0	0	0	0	500	2,300	2,500
	June 12	201,150	90,700	0	108,950	0	0	0	0	0	0	1,500	0	0

<sup>1</sup> Apparently includes some sales in third market. In addition, these institutions may have sold stock through brokers other than the 250 sent questionnaires by the SEC, and the institutions may have participated in private sales.

As can be seen from Table 11<sup>r</sup> above, the stock sales for most of the institutions generally had very little relationship to the significant public events. Several of the institutions had no stock sales on any of the dates coinciding with the significant public events. For others, the sales on the subject dates were relatively insignificant. The one possible exception to the above observations was the June 12, 1970, stock sales by Chase Manhattan and Continental Illinois.

The general lack of any relationship between sales of PC common stock by the nine institutions and the significant public events becomes even more apparent from examining Table 12 below. Table 12 compares the stock sales by the nine institutions as a percentage of the total sales on the Exchanges for those dates coinciding with the significant public events.

TABLE 12.—Percentage relationship of stock sales by nine institutions to significant public events

Significant public event	Dates of affected stock sales	Total sales <sup>1</sup> on the exchanges	Total sales <sup>2</sup> by 9 institutions	Percentage of total exchange sales made by 9 institutions
April 22—Railroad & Holding Co. announce losses for 1st quarter of 1970.....	Apr. 22	49,860	0	0
	23	54,817	13,700	25
	24	32,978	2,800	8
	Apr. 28	60,917	5,900	10
April 28—Announcement of the Pennsylvania Co.'s proposed \$100 million debenture offering.....	Apr. 28	90,982	400	0
	30	50,548	7,400	15
	May 28	250,507	48,100	19
May 28—PC announces postponement of the Pennsylvania Company's proposed debenture offering.....	May 28	212,545	47,000	22
	June 2	151,921	36,416	24
June 2—73 banks apply for Government guarantee of \$225 million loan for PC.....	June 2	119,478	24,400	20
	3	126,771	49,600	39
	4	268,515	47,825	19
June 10—Government support indicated for guarantee of \$200 million loan for PC.....	June 10	117,413	13,700	12
	11	399,457	201,150	50
	12			
Totals.....		1,976,709	498,391	25

<sup>1</sup> Does not include sales in third market or private sales.

<sup>2</sup> Apparently includes some sales in third market. In addition, these institutions may have sold stock through brokers other than the 250 sent questionnaires by the SEC, and the institutions may have participated in private sales.

Table 12 above demonstrates quite clearly the lack of any measurable relationship between the stock sales by the nine institutions and the significant public events. For the period April 1, 1970, through June 19, 1970, stock sales by the nine institutions averaged about 33 percent of the total sales on the Exchanges (see Table 8). However, for the dates coinciding with the significant public events, the stock sales by the nine institutions exceeded 25 percent of the total sales on the Exchanges on only two days—June 4 and June 12. In both instances, the subject day was the second full day following the occurrence of the public event.

For all the dates coinciding with the significant public events, the stock sales by the nine institutions averaged about 25 percent of the total Exchange sales. Elimination of the stock sales on June 4 and June 12 reduces the average to about 17 percent—little more than half of the overall 33 percent average for the period April 1, 1970, through June 19, 1970 (see Table 8).

#### *Relationship of Stock Sales to Nonpublic Events*

Although the comparison of stock sales by the nine institutions to the listing of the public events failed to demonstrate any significant relationship as shown in Tables 11 and 12 above, a completely different picture emerged when the stock sales were compared to certain of the significant nonpublic events.

As shown in Table 5, there were a number of significant nonpublic events during the period April 1, 1970, through June 19, 1970. For many of these events, exact information as to what occurred is not available. In addition, there may have been other significant nonpublic events not included in Table 5. Accordingly, there is no precise method for comparing the stock sales by the nine institutions to the significant nonpublic events.

The Committee staff discussed the nonpublic events (Table 5) with various market experts to determine which events would have had the greatest impact on sales of Penn Central common stock. The experts expressed the opinion that those nonpublic events occurring during the period May 19, 1970, through May 27, 1970, were the most important, particularly those relating to the withdrawal of the debenture offer and the need for the Railroad to seek a Government guarantee in order to obtain additional financing from the banks.

During this period there were no major public events that could have affected sales of PC common stock—Penn Central's announcement of the withdrawal of the debenture offer did not take place until May 28, 1970. As regards nonpublic events, several important events occurred during this period, as noted below:

1. On or about May 19, Stuart Saunders, Chairman of the Board of Penn Central, discussed the possibility of a Government guaranteed loan with Secretary of the Treasury David Kennedy.
2. On May 21, David Bevan, chief financial officer of the Penn Central, met with banking representatives. Discussion included PC's postponement of the debenture offering and its intent to seek a Government guaranteed loan.
3. On May 27, the Board of Directors of the Railroad met at 11:00 a.m. Directors were informed of the decision to postpone debenture offer.

Table 13 below shows the stock sales by the nine institutions during the period May 19, 1970, through May 27, 1970.

TABLE 13.—Stock sales by nine institutions during period May 19 through May 27, 1970

Dates of affected stock sales	Total sales by 9 institutions <sup>1</sup>	Breakdown by institution								
		Chase Manhattan Bank	Morgan Guaranty Trust Co.	Continental Illinois National B. & T. Co.	Investors Mutual, Inc.	Investors Diversified Services	Allegheny Corp.	Provident National Bank	Security Pacific National Bank	United States Trust Co.
May 19	142,000	0	7,600	0	67,500	60,100	0	2,600	4,200	0
May 20	18,075	9,000	3,375	0	0	0	0	3,300	2,000	0
May 21	29,700	2,000	200	0	13,400	13,400	0	0	700	0
May 22	135,000	134,300	0	0	0	0	0	300	400	0
May 23 (Saturday)										
May 24 (Sunday)										
May 25	55,800	53,200	0	500	0	0	0	200	0	1,900
May 26	37,100	32,100	0	0	2,000	2,000	0	700	300	0
May 27	372,400	31,700	0	9,500	118,300	116,300	96,000	0	600	0
Total	790,075	262,300	11,575	10,000	201,200	191,800	96,000	7,100	8,200	1,900

<sup>1</sup> Apparently includes some sales in third market. In addition, these institutions may have sold stock through brokers other than the 250 sent questionnaires by the SEC, and the institutions may have participated in private sales.

As the data in Table 13 demonstrates, several of the nine institutions had large sales of stock during the subject time period, particularly Chase Manhattan Bank, Alleghany Corporation, Investors Mutual, Inc., and Investors Diversified Services. In order to put these sales in a better perspective, we compared them with the total sales on the Exchanges for the subject time period, as shown in Table 14 below.

TABLE 14.—*Percentage relationship of stock sales by nine institutions during period May 19 through May 27, 1970*

Dates of affected stock sales	Total sales on the exchanges <sup>1</sup>	Total sales by 9 institutions <sup>2</sup>	Percentage of total exchange sales made by 9 institutions
May:			
19-----	183, 450	142, 000	77
20-----	91, 891	18, 075	20
21-----	154, 805	29, 700	19
22-----	419, 990	135, 000	32
23 (Saturday).			
24 (Sunday).			
25-----	157, 517	55, 800	35
26-----	115, 209	37, 100	32
27-----	<sup>1</sup> 360, 563	<sup>2</sup> 372, 400	<sup>2</sup> 103
Total-----	1, 483, 425	790, 075	53

<sup>1</sup> Does not include sales in third market or private sales.

<sup>2</sup> Apparently includes some sales in third market. In addition, these institutions may have sold stock through brokers other than the 250 sent questionnaires by the SEC, and the institutions may have participated in private sales.

The data in Table 14 raises serious questions about the basis for the stock sales by several of the nine institutions during the period May 19 through May 27, 1970, particularly the stock sales by Chase Manhattan, Alleghany Corporation, Investors Diversified Services, and Investors Mutual, Inc. The sales of PC common stock by the nine institutions during the period May 19, 1970, through May 27, 1970, accounted for more than 53 percent of the total stock sales on the Exchanges. More than one out of every two shares sold by all investors during the subject time period was sold by these nine institutions.

The vast proportion of the stock sales by the nine institutions between May 19 and May 27 were made by Chase Manhattan, Alleghany Corporation, Investors Diversified Services, and Investors Mutual, Inc. For example, on May 25, Chase Manhattan accounted for over 95% of the total stock sales by the nine institutions, and almost 34% of the total stock sales on the Exchanges. In short, more than one out of every three shares sold on the Exchanges on May 25, 1970, was sold by Chase Manhattan Bank. (This aspect of the stock sales by the nine institutions is discussed in more detail in the following section of this part of the report.)

In addition to the May 19-27 period, there were several periods in June—prior to the filing for reorganization on June 21, 1970—when sales of PC common stock could have been affected by the nonpublic events. However, because of the numerous nonpublic events occurring in June, particularly the many meetings between PC officials, members of the financial community, and Government representatives, it was

not feasible to highlight any specific time periods. However, a comparison of the data developed in Tables 7, 9, and 10 regarding the stock sales in June with the significant nonpublic events occurring in June (see Table 5), raises serious questions concerning the basis for some of the stock sales by certain other of the nine institutions.

The information developed above raises the strong possibility that some of the nine institutions were reacting to nonpublic events as the basis for their sales of PC common stock. It is impossible to dismiss the timing of the stock sales by certain of the nine institutions during the subject time periods in May and June 1970 as mere coincidence.

#### ADDITIONAL ANALYSIS OF STOCK SALES BY NINE INSTITUTIONS

As noted above, sales of PC common stock by some of the nine institutions during May and June 1970 appear to have been based on certain nonpublic events that occurred during this time period. Further analysis of the stock sales by the institutions and evaluation of the institutions' relationships to Penn Central strengthens the above conclusion.

When the Committee staff first began its investigation of the Penn Central collapse, various financial institutions were subpoenaed for additional information regarding their transactions with the Penn Central. The selection of the financial institutions was based on an evaluation of preliminary data by the Committee staff showing certain relationships between the financial institutions and Penn Central.

The analysis of the stock sales as discussed in this report took place several months after the selection occurred of the financial institutions that were subpoenaed. As a result, only five of the nine institutions included in this analysis were among those from whom additional information has been received—Chase Manhattan, Morgan Guaranty, Continental Illinois, Provident National, and United States Trust. Additional information was available from other sources regarding three of the remaining four financial institutions—Allegheny Corporation, Investors Diversified Services, and Investors Mutual, Inc. Additional information regarding Penn Central stock transactions was not readily available for only one of the nine financial institutions—Security Pacific National Bank.

#### *Chase Manhattan Bank*

In addition to its transactions involving Penn Central common stock, Chase Manhattan had other significant relationships with the Company. Stuart Saunders, Chairman of the Board of Penn Central, was a Director of Chase Manhattan. In addition, Chase Manhattan was a major creditor of the Penn Central—as of July 1970, Chase held about \$50 million of the outstanding debt of the Railroad and various of its subsidiaries. At June 1970, Penn Central and certain subsidiaries had about \$5 million on deposit in various accounts at Chase. Chase Manhattan was also a member of the 10-member Bank Steering Committee that represented the banks participating in the proposed Government guaranteed loan in May and June 1970 (see Table 5).

As shown in Table 7, Chase Manhattan sold 436,300 shares of PC common stock during the period April 1, 1970, through June 19, 1970—17,400 shares in April, 309,200 shares in May, and 109,700 shares in the first 19 days of June. Of the total of 436,300 shares sold,

262,300 were sold during the period May 19 through May 27 (see Table 13). The sales on these seven trading days accounted for over 60 percent of the total shares sold by Chase during the period April 1, 1970, through June 19, 1970.

Further analysis shows that Chase sold 251,300 of these shares between May 22 and May 27—May 22 was the first trading day following David Bevan's meeting with banking representatives (see Table 5). The sales of PC common stock by Chase Manhattan on these four trading days—May 22, 25, 26 and 27—accounted for almost 58 percent of the total shares sold by Chase during the period April 1, 1970, through June 19, 1970.

As noted previously, Chase Manhattan's sales of PC common stock on certain days accounted for almost the entire total sales by the nine institutions, and also represented a significant proportion of the total sales on the Exchanges for the subject days. On May 22, 25, and 26, Chase Manhattan's sales of PC common stock accounted for 99, 95 and 87 percent, respectively, of the total sales for the nine institutions on those dates. Even more significant is the fact that Chase's sales of PC common stock on these three same days accounted for 32, 34, and 28 percent, respectively, of the total sales of this security sold on the Exchanges—an average of about one out of every three shares sold.

Information supplied the Committee by Chase Manhattan shows that almost all the shares of PC common stock sold came from Chase's discretionary trust accounts. There were almost no sales from Chase's non-discretionary trust accounts.<sup>3</sup> Between April and June 30, 1970, Chase reduced its holdings of PC common stock in its discretionary trust accounts by almost 570,000 shares—from 638,686 shares to 70,663. For its non-discretionary trust accounts, Chase's holdings of PC common stock for the same period remained about the same—275,997 shares in April as compared to 276,198 shares at June 30, 1970.

#### *Morgan Guaranty Trust Co.*

John T. Dorrance, Chairman of the Board of the Campbell Soup Company, and Thomas L. Perkins, Counsel with Perkins, Daniels and McCormick, were directors both of Morgan Guaranty and Penn Central. At July 1, 1970, Morgan Guaranty held about \$35 million of Penn Central's various debt obligations. As of June 1970, PC had total deposits in excess of \$6 million in various accounts at Morgan Guaranty. In addition, Morgan was a member of the 10-member Bank Steering Committee.

As shown in Table 9, Morgan Guaranty sold most of its shares during the period May 29 through June 10. On June 9, for example, Morgan's sales of PC common stock accounted for over 98 percent of the total sales of the nine institutions, and over 38 percent of the total stock sales on the Exchanges for that day. For the entire period May 29 through June 10, Morgan Guaranty sold 335,700 shares, or almost 86 percent of its total sales during the period April 1, 1970, through June 19, 1970.

The material submitted by Morgan Guaranty does not explain the basis for its heavy sales of PC common stock during the period May 29, 1970, through June 10, 1970. Neither does the material show whether these sales were made from discretionary or non-discretionary trust

<sup>3</sup> Generally speaking, discretionary trust accounts represent those trust accounts over which the trustee exercises complete control regarding investment decisions. For non-discretionary trust accounts, there are usually certain restrictions on the trustee's investment authority, ranging from the necessity to consult with others before investment decisions are made to the playing of no substantial role in the investment decisions.

accounts. The material does show, however, that most of the sales during this period were ratified after the sales occurred rather than being approved beforehand by the Bank's Committee on Trust Matters. This was quite different from the Committee's prior practice of approving the sales before they were made. No explanation was contained in the Morgan submission regarding this change in procedure.

*Continental Illinois National Bank and Trust Co.*

At July 31, 1970, Continental held more than \$23 million of the outstanding debt of the Railroad. As of this same date, the Railroad's deposits at Continental totaled about \$4 million. Continental was also a member of the 10-member Bank Steering Committee and attended the meetings that took place during the period June 10-13 (see Table 5).

Table 9 shows that the majority of Continental's sales occurred during the period June 12 through June 19. On June 12, Continental sold 108,950 shares, over 32 percent of the total shares sold on the Exchanges that day. Continental's sales of PC common stock on June 15, 16 and 17 accounted for over 96 percent of the total sales by the nine institutions for these three days, and for more than 35 percent of the total sales on the Exchanges for these three days. For the entire period June 12 through June 19, Continental sold 290,950 shares, or almost 87 percent of its total sales of PC common stock for the period April 1, 1970, through June 19, 1970.

The apparent basis for Continental's heavy sales of stock during June is a memorandum dated June 12, 1970, from the Stock Selection Committee to the Trust Investment Division. The document has the word "FLASH" across the top and the subject matter is labeled "RECOMMENDATION CHANGE". The document concludes with the following sections:

Conclusion: The Stock Selection Committee recommends the sale of the common stock in all accounts.

Commentary: Recent events indicate that the likelihood of returning to a profitable basis appears quite distant at this point in time. Despite the possibility of government aid in securing additional financing, the basic operational problems of the railroad company will still remain and it is doubtful that substantial losses can be avoided for the foreseeable future.

The memorandum does not indicate the source data for the Bank's analysis regarding the Railroad's problems.

*Allegheny Corporation, Investors Diversified Services and Investors Mutual, Inc.*

Until March 1970, the Chairman of the Board and President of Allegheny Corporation—Fred M. Kirby—was a member of the Board of Penn Central. Allegheny Corporation controls Investors Diversified Services (IDS) and Fred Kirby is Chairman of the Board of IDS. Investors Mutual, Inc., pays an investment advisory and services fee to IDS, which comprises the entire management and operating expense of Investors Mutual, Inc.

In recent years, Allegheny Corp. also had other director interlocks with Penn Central and certain of its subsidiaries. In addition, Allegheny Corp. is interlocked with Manufacturers Hanover Trust Co., a member of the Informal 5-member Bank Steering Committee and the 10-member Bank Steering Committee (see Table 5).

As shown in Table 7, all of the sales of PC common stock by Alleghany Corp., IDS, and Investors Mutual, Inc., during the period April 1, 1970, through June 19, 1970, occurred in the month of May. The stock sales during May 1970 by these three institutions totaled 590,800 shares: Alleghany Corporation—96,000; IDS—243,200; and Investors Mutual, Inc.—251,600.

Table 9 shows that the majority of these sales occurred on May 27, 1970—the day before Penn Central publicly announced withdrawal of the Pennsylvania Company's proposed debenture offering. On May 27, the three institutions sold 330,600 shares—almost 92 percent of the total shares sold on the Exchanges for that day—Alleghany Corp.—96,000; IDS—116,300; and Investors Mutual, Inc.—118,300. The sales on May 27 represented almost 56 percent of the three institutions' total sales for the period April 1, 1970, through June 19, 1970.

On May 19, IDS and Investors Mutual sold a total of 127,600 shares, almost 70 percent of the total shares sold on the Exchanges that day. The two institutions also had heavy sales of PC common stock on May 14 and May 21.

The dates of the stock sales by these three institutions during May 1970 raise serious questions regarding the basis for these sales, particularly the sales on May 19, 21, and 27. On May 27, the Railroad's Board held a meeting at 11:00 a.m., at which time the Directors were informed that the debenture offer was being withdrawn. Penn Central did not make this decision public, however, until the afternoon of the next day, May 28, 1970 (see Table 5).

Another interesting factor is that the stock sales by the three Alleghany-related companies on May 27, 1970, apparently completely depleted the PC common stock holdings of the three institutions. The institutions had no more sales of PC common stock during the period May 28, 1970, through June 19, 1970. A listing of PC common stockholders as of June 26, 1970, does not show any holdings for Alleghany Corp., IDS or Investors Mutual, Inc.

#### *Provident National Bank*

David Bevan, Chief Financial Officer of the Penn Central until June 8, 1970, was a director of Provident. John Seabrook, Chairman of the Board of International Utilities Corp., was in the spring of 1970 and still is a director both of the Penn Central Company and Provident National Bank. In addition, William Gerstnecker, a former PC official, was Vice Chairman of the Board of Provident until his resignation in January 1971. Provident held over \$10 million of various PC debt obligations at September 10, 1970. At June 30, 1970, PC had total deposits of about \$4 million at Provident.

As shown in Tables 7 and 9, the majority of Provident's sales of PC common stock occurred in May and June. The sales by Provident, which took place on many different dates during the subject time period, do not appear to follow any set pattern.

Documentation supplied by Provident shows that the decision to dispose of its PC common stock holdings was made on May 28, 1970. As the data in Table 9 shows, however, Provident had already disposed of 17,000 shares prior to May 28, all but 1,700 of which were sold during the period May 1 through May 27, 1970. These 17,000 shares represented almost 39 percent of Provident's total sales during the period April 1, 1970, through June 19, 1970.

### *Security Pacific National Bank*

As noted previously, Security Pacific was the only one of the six commercial banks included in this study whose records were not subpoenaed, because research of available information at the time the Committee approved the issuance of subpoenas failed to disclose any significant relationships between Penn Central and Security Pacific.

Table 7 shows that Security Pacific's sales of PC common stock were mostly in April and May. The specific dates of these sales, as shown in Table 9, do not indicate any apparently noticeable relationships between Security Pacific's sales and the significant nonpublic events. Security Pacific was not a member of the Bank Steering Committees, nor did it apparently hold any substantial amounts of PC debt.

### *United States Trust Company*

U.S. Trust Company was the sixth domestic banking institution to sell more than 30,000 shares during the period April 1, 1970, through June 19, 1970. As in the case with Security Pacific, however, there does not appear to be any relationship between the stock sales and the significant nonpublic events that occurred during this time period.

Evaluation of the U.S. Trust Co. submission to the Committee failed to disclose any director relationships between Penn Central and U.S. Trust Co. Penn Central and its subsidiaries had no deposits in U.S. Trust nor did U.S. Trust hold any debt of the subject companies during the period January 1, 1963, through August 28, 1970. In addition, U.S. Trust Co. was not a member of the Bank Steering Committees.

The U.S. Trust Co. submission shows a net increase of about 2,500 shares in its trust department's holdings of PC common stock between dates in April 1970 and June 1970—from 128,404 shares as of April 2 to 131,170 shares as of June 23. The submission by U.S. Trust did not indicate which holdings were in discretionary accounts and which were in non-discretionary accounts.

### CONCLUSION

As discussed in detail above, there is a strong possibility that some of the nine institutions included in the analysis were selling shares of PC common stock on the basis of certain nonpublic events. This is particularly true with respect to the stock sales by Chase Manhattan Bank, Alleghany Corp., Investors Diversified Services and Investors Mutual, Inc. The dates of the stock sales by these four institutions coincide so closely with the occurrence of certain highly significant nonpublic events that the possibility of "pure coincidence" appears extremely remote.

In addition, there appear to be serious questions regarding certain stock sales by Continental Illinois National Bank and Trust Co., Morgan Guaranty Trust Co., and possibly Provident National Bank. The exact bases for some of the stock sales by these three institutions is not discernible from the available information. However, the probability that some of these sales by the three institutions were related to certain nonpublic events cannot be dismissed.

The trading in stock of a company on the basis of nonpublic events involves very serious legal and ethical questions that must be resolved.

Accordingly, it is recommended that those Federal agencies and congressional committees charged with overseeing the securities laws investigate the propriety of all sales of PC common stock by the subject institutions.

#### OTHER INSTITUTIONS SELLING LARGE AMOUNTS OF PC COMMON STOCK

Analysis of the broker responses to the SEC trading questionnaires disclosed the identity of other institutions that sold large amounts of PC common stock during the period April 1, 1970, through June 19, 1970, as shown below. The institutions and their stock sales are being presented in the hope that the Federal agencies and congressional committees charged with overseeing the securities laws will investigate to determine the propriety of the subject sales by these institutions.

1. *Commonwealth International Leverage Fund, Ltd.* (Canada)—Sold 80,000 shares on June 10, 1970.

2. *Second Alliance Trust Co., Ltd.*—Sold 18,000 shares on May 22, 1970.

3. *Hamilton Funds, Inc., Series HDA*—Sold 18,000 shares on June 9, 1970 and 18,000 shares on June 12, 1970.

4. *Elfun Trusts*<sup>4</sup>—Sold 60,800 shares on May 22, 1970.

5. *Deltec Banking Corp., Nassau, Bahamas*—Sold 22,600 shares on May 13, 1970.

6. *Deltec Securities Corp.*—Sold 17,800 shares on May 14, 1970 and sold 9,800 shares on May 20, 1970.

7. *Butcher and Sherrerd*—Between April 1, 1970, and June 19, 1970, this firm sold approximately 150,000 shares for its own account and for the accounts of individuals directly involved with the firm.

<sup>4</sup> A senior Vice President of First National City Bank, Conrad F. Ahrens, is a Trustee of Elfun Trusts. FNCB was one of the key banks involved in the negotiations for a Government guaranteed loan for the Penn Central (see Table 5).

TABLE 15.—Daily Closing Prices of Penn Central Common Stock on New York Stock Exchange from April 1—June 22, 1970

Date	Closing price	Date	Closing price
April:		May—Continued	
1.....	23 $\frac{3}{8}$	13.....	15 $\frac{3}{4}$
2.....	22 $\frac{3}{4}$	14.....	15 $\frac{1}{4}$
3.....	22 $\frac{7}{8}$	15.....	15 $\frac{5}{8}$
4 (Saturday).....	-----	16 (Saturday).....	-----
5 (Sunday).....	-----	17 (Sunday).....	-----
6.....	23 $\frac{1}{8}$	18.....	15 $\frac{1}{4}$
7.....	23 $\frac{1}{4}$	19.....	14
8.....	22 $\frac{7}{8}$	20.....	13 $\frac{5}{8}$
9.....	22 $\frac{5}{8}$	21.....	13 $\frac{3}{8}$
10.....	22 $\frac{3}{4}$	22.....	11 $\frac{3}{4}$
11 (Saturday).....	-----	23 (Saturday).....	-----
12 (Sunday).....	-----	24 (Sunday).....	-----
13.....	22 $\frac{1}{4}$	25.....	12
14.....	22 $\frac{1}{8}$	26.....	12 $\frac{3}{4}$
15.....	21 $\frac{3}{4}$	27.....	13 $\frac{3}{8}$
16.....	21 $\frac{1}{2}$	28.....	13 $\frac{1}{4}$
17.....	21 $\frac{1}{4}$	29.....	12 $\frac{5}{8}$
18 (Saturday).....	-----	30 (Saturday).....	-----
19 (Sunday).....	-----	31 (Sunday).....	-----
20.....	21 $\frac{5}{8}$	June:	
21.....	21 $\frac{1}{4}$	1.....	13 $\frac{1}{4}$
22.....	20	2.....	13 $\frac{1}{4}$
23.....	19	3.....	14
24.....	19	4.....	13 $\frac{3}{8}$
25 (Saturday).....	-----	5.....	12 $\frac{1}{2}$
26 (Sunday).....	-----	6 (Saturday).....	-----
27.....	17 $\frac{7}{8}$	7 (Sunday).....	-----
28.....	17 $\frac{1}{2}$	8.....	13 $\frac{1}{4}$
29.....	18 $\frac{1}{2}$	9.....	14
30.....	18	10.....	12 $\frac{1}{2}$
May:		11.....	12 $\frac{3}{8}$
1.....	18 $\frac{5}{8}$	12.....	11 $\frac{1}{8}$
2 (Saturday).....	-----	13 (Saturday).....	-----
3 (Sunday).....	-----	14 (Sunday).....	-----
4.....	18	15.....	10 $\frac{5}{8}$
5.....	17 $\frac{1}{2}$	16.....	11
6.....	18	17.....	11 $\frac{3}{4}$
7.....	18 $\frac{1}{2}$	18.....	11 $\frac{1}{8}$
8.....	18 $\frac{5}{8}$	19.....	11 $\frac{1}{8}$
9 (Saturday).....	-----	20 (Saturday).....	-----
10 (Sunday).....	-----	21 (Sunday).....	-----
11.....	17 $\frac{3}{4}$	22.....	6 $\frac{1}{2}$
12.....	15 $\frac{1}{4}$		

Source: ISL Daily Stock Price Index, New York Stock Exchange, April, May, June 1970.