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SEC Charge Dropped

Report on Fraud Case Against ITT

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Washington

A proposed charge of fraud against the International Telephone and Telegraph Corp. was deleted from a Securities and Exchange Commission draft complaint last year, even though it had been recommended by the agency's top staff officials, according to government sources.

William J. Casey, then chairman of the SEC and now an undersecretary of State, took the lead in advocating the deletion, but the comission's decision was unanimous, according to sources on Capitol Hill and in regulatory agencies.

The charge revolved around the failure of ITT to make known to the SEC and to the investing public details of a controversial sale of stock to an Italian bank.

The complex transaction made possible ITT's $1.5 billion merger with the Hartford Fire Insurance.

Attempts to reach Casey yesterday in South America, where he is accompanying Secretary of State William P. Rogers on a tour, were unsuccesful.

However, an SEC commissioner, Hugh F. Owens, said in a telephone interview that he recalled that all five commissioners had voted to delete the fraud charge because there were insufficient facts to sustain it.

He said he recalled that Casey had led the consideration and debate of the charges, but added: "I'm inclined to think that he didn't ram this down our throats."

Casey's role at the SEC has recently been called into question in another matter, where references to a secret $200,000 contribution to the Nixon re-election campaign by Robert L. Vesco, a New Jersey financier, were deleted from an SEC complaint against Vesco. Casey has denied that he had knowledge of any wrongdoing in this case.

G. Bradford Cook, who succeeded Casey as chairman of the SEC, resigned in the wake of that disclosure, although Casey was his boss at the time of the controversial deletion.

Government sources said the deletion of the fraud charge against ITT was made even though the charge was supported by the agency's two top enforcement officials, Stanley Sporkin and Irving Pollack, and by Cook, who was then serving as the commission's general counsel.

Congressional investigators say they are looking

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into the complex deal, in which ITT sold a large bloc of Hartford Fire stock to Mediobanca, an Italian bank, in order to qualify for a tax-free merger.

In effect, ITT had to dispose of the Hartford stock it already owned before it was allowed to make an offer to Hartford shareholders to buy their stock and take control of the company.

PROXY

Although the disposition of stock by ITT was supposed to be an "arms-length" transaction, investigators say ITT retained an "irrevocable proxy" that gave it the right to vote the Hartford shares.

The same transaction has come under fire by the Internal Revenue Service office in New York, which recently questioned the tax-free ruling given ITT and recommended that it be reconsidered.

The entire matter is scheduled for review this week by the investigations subcommittee of the House Commerce Committee.

Cook has been called to testify today and it is expected that Casey also will be called to testify.

DRAFT

Government sources said the SEC staff completed its lengthy investigation into ITT in midMay, 1972, and forwarded its draft recommendations to Casey and the rest of the commissioners about May 24. When the complaint was filed in U.S. District Court three weeks later, the fraud charge was missing.

The final formal complaint alleged that two ITT officials sold some of their ITT stock at a time when they knew — but the public did not — that an antitrust was about to be settled. The officials were Howard J. Aibel, general counsel, and John J. Navin, corporate secretary.

The defendants agreed to settle the suit by consent decree, which imposed no penalties but forbade similar actions in the future.