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S.E.C. Release No.

*1 Accounting and Auditing Enforcement Act

SECURITIES AND EXCHANGE COMMISSION v. BANK OF NEW ENGLAND CORPORATION, United
States District Court for the District of Columbia, Civil Action No. 90-3102
SS.

December 21, 1990

The Securities and Exchange Commission ("Commission") today announced the filing of a Complaint in the United States District Court for the District of Columbia, seeking a permanent injunction against Bank of New England Corporation ("BNEC"), alleging that BNEC violated the antifraud, periodic reporting, books and records, and internal accounting controls provisions of the federal securities laws. Simultaneous with the filing of the Commission's Complaint, BNEC, without admitting or denying the Commission's allegations, consented to the entry of a final judgment permanently enjoining it from violations of Sections 10(b), 13(a), and 13(b)(2)(A) and (B) of the Securities Exchange Act of 1934 and Rules 10b-5, 12b-20, and 13a-13 thereunder and Section 17(a)(2) and (3) of the Securities Act of 1933. BNEC also agreed to restate its financial statements for its third quarter of 1989; to have its independent accountants conduct a review of its internal accounting controls, practices, and procedures in accordance with the provisions of the Statement on Auditing Standards ("SAS") No. 30, and adopt recommendations made as a result thereof; and to have its independent accountants review BNEC's quarterly financial statements in accordance with the provisions of SAS No. 36 and issue an accountant's report each quarter as provided for by SAS No. 36, for a period of two years.

BNEC is a bank holding company with its principal office in Boston, Massachusetts, with five federally chartered bank subsidiaries. The common stock of BNEC is registered with the Commission pursuant to Section 12(b) of the Exchange Act and is traded on the New York Stock Exchange.

The Complaint alleges that BNEC knowingly and recklessly understated the allowance for loan and lease losses ("ALLL") and related provision for loan and lease losses ("provision") contained in the financial statements for BNEC's third quarter ended September 30, 1989, contrary to generally accepted accounting principles. Specifically, the allocated portion of BNEC's ALLL was inadequate as a result of BNEC's failure to identify and quantify accurately the probable loss in individual loans within its portfolio. Moreover, the unallocated portion of BNEC's ALLL was inadequate as a result of, among other things, BNEC's failure to give adequate consideration to certain existing negative trends, including deterioration in BNEC's asset quality and in the New England real estate market. Consequently, BNEC's ALLL at September 30, 1989 was understated, resulting in the material overstatement of BNEC's net income for the third quarter of 1989, and thus rendering BNEC's Form 10-Q for the third quarter of 1989 materially false and misleading.

The Complaint also alleges that BNEC failed to disclose, in the Management's Discussion and Analysis of Financial Results ("MD & A") section or elsewhere in

BNEC's quarterly report on Form 10-Q for the second quarter of 1989, and in the MD & A or elsewhere in a September 1, 1989 Registration Statement, that certain adverse trends indicating a deterioration in the New England real estate market as well as in BNEC's loan portfolio were reasonably likely to have material adverse effects on BNEC's future ALLLs and related provisions and net income. As a result of this failure, BNEC's Form 10-Q for the second quarter of 1989 and its September 1, 1989 registration statement were materially inaccurate.

Litigation Release No. 12743, Release No. AE - 286, 47 S.E.C. Docket 1327, 1990 WL 322587 (S.E.C. Release No.)

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