


**SECURITIES AND
EXCHANGE COMMISSION**

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REMARKS BY CHAIRMAN HAROLD M. WILLIAMS
AT THE DEDICATION OF THE NEW HEADQUARTERS
OF THE NEW YORK SOCIETY OF SECURITIES ANALYSTS

February 2, 1979
New York, New York

I am delighted that I am able to participate in the formal opening of the new headquarters of the New York Society of Security Analysts. Your profession plays a vital role in the capital market system, and these new quarters are more in keeping with the Society's prestige and will enable it to perform its role in greater comfort, and, perhaps, even more efficiently.

This occasion also provides an excellent opportunity for all of us who have an interest in the process of capital formation in this country to focus on the significant contributions which securities analysts have made to the system, and the even greater contributions I believe we should expect of you in the future.

In the early days of security analysis, some 50 years ago, while Gerald Loeb and Ben Graham were already hard at it, the analyst was regarded largely as merely a statistician whose interest was limited to daily stock price movements, and whose tools of analysis -- other than the stock prices themselves -- were basically descriptive in nature. However, with the increased availability of detailed corporate information -- descriptive and statistical -- particularly after the passage of the federal securities laws in the thirties, the explosion in the number of individual and institutional investors, the great increase in the number of public companies,

and the advent of modern computer technology, security analysis has become increasingly sophisticated, and increasingly important in sorting through the myriad investment opportunities which face today's investor.

In addition, security analysts have become increasingly professional. You are a young profession still, but are well on the way to a self-regulatory system in which high standards of competence and conduct are the rule. The development of a Chartered Financial Analyst examination, and the adoption of a Code of Ethics and Standards of Professional conduct are major advances in the professionalization of security analysis. You are to be commended for how far you have come in so short a time.

The New York Society of Security Analysts, in particular, has played a leading role in elevating the educational standards of your profession. The Financial Analysts Journal, the leading professional journal in the field, was founded by your Society in 1945, and your commitment to improved educational and professional standards has characterized your organization over the years.

The Financial Analysts Federation's Code of Ethics explains that "the profession of financial analysis

has evolved because of the increasing public need for competent, objective and trustworthy advice with regard to investments and financial management."

You are thus "interpretive intermediaries" between the issuer and the investor, translating information into investment values for the benefit of those on whose confidence in the capital market system we depend for continued economic prosperity.

While your Society is the largest member of the FAF, in the past you have looked to the FAF to serve as the vehicle through which public comment on issues of concern to analysts has been made. While institutional views are important, they can also tend to homogenize potentially important differences of opinion, and also make it difficult to gauge the breadth and depth of constituent concern.

I understand that in the future, the Society has determined to speak more directly on such issues, adding its own voice and the particular expertise of its members to that of the FAF. I applaud this initiative, and I welcome the insights I know you will bring to the dialogue.

Because of the prestige of your Society, and the expertise of its membership, we need your involvement -- individually as well as collectively -- in addressing the

critical issues facing the Commission, the securities industry, and the corporate community at large. This afternoon, I want to address two areas in which you have the opportunity and, in my judgment, the responsibility to be more fully involved.

The first area is the Commission's own rulemaking process in relation to disclosure, in which your greater involvement can help us assess both situations in which users of financial and other information need more disclosure, and those where disclosures currently required are not useful. The second area is that of corporate accountability, where you can be helpful to the Commission in its review process and to investors in providing information material to their investment decisions and to their actions as shareholders/owners.

Before I begin, let me warn you in advance that some of what I am about to say may strike you as provocative or controversial. To the extent that you either agree or disagree with my views, I invite you to send me your comments. Indeed, I would welcome not only your insights on my talk today, but also your views on any other issue of mutual concern.

Commission Rulemaking Proceedings

This is perhaps a good way to introduce the first area

in which I believe you can make a greater contribution, for it also involves a call for your views. During my tenure at the Commission, I have been struck by the limited representation of the analyst's viewpoint on many of the important issues faced by the Commission in its rulemaking process.

For example, in our extended corporate governance hearings, there was only one analyst contribution -- the FAF's testimony. The FAF's presentation, prepared in consultation with local Society presidents, was thoughtful and most helpful. Surely, however, the views of all of the member societies and all 14,000 individual members of the FAF on issues as complex as corporate governance cannot be adequately reflected by one voice.

Historically, those participating in the Commission's comment process regarding disclosure rules have primarily been issuers and those aligned with issuer interests. We have had relatively little comment from users.

This is perhaps understandable, for it is upon issuers that Commission-mandated disclosure obligations have the most immediate impact. But it is for users that the disclosure obligations are imposed. Limited user response results in the Commission serving as a surrogate for users of disclosure data. This is a function which is of

course preferably performed by users themselves -- ideally by those users with the knowledge, sophistication and practical know-how to provide meaningful, comprehensive guidance to the Commission.

Thus, the Commission and its staff need to be made more fully aware of the kinds of information which users of Commission-mandated disclosure consider to be useful, or conversely, to be useless and not worth the cost. To a large degree, the ultimate effectiveness of our work in this area will rest on how well the users of this information communicate their needs to us.

Analysts play a vital role in disseminating to investors information and opinions based on the disclosure elicited by our rules. Investors often will not be apprised of such disclosure or its significance unless it makes its way through the analysts' apparatus for appraising and evaluating information pertaining to corporate developments. Analysts are thus constantly analyzing and weighing corporate data in terms of its significance to the ultimate users and beneficiaries of corporate information -- the investing public.

Further, it is part of the analysts' responsibility, as an intermediary and as a user of information, to make judgments on the adequacy of the information available.

As a result, you are in a unique position to comment on Commission rulemaking proposals involving disclosure policy. Your input is not only valuable in weighing the need for additional disclosure, but also in saving reporting companies and the Commission from costs incurred by an unnecessary regulatory burden should certain disclosures under consideration not have significant benefits.

The Society and its members -- again, as "interpretive intermediaries," -- thus have a responsibility to participate in the comment process.

I am aware of the contribution which you have made through the FAF and in discussions and meetings with the Commission's staff on such issues as the use of inside information, safe harbors for management projections of future economic performance and the public disclosure function of press attendance at analysts' meetings. However, I would stir you to even greater individual involvement in the formulation of the Commission's disclosure requirements.

One area in which you can be of immediate help is in the development of industry disclosure guidelines, a project on which the Commission is currently embarked. Such guidelines must, of course, reflect the particular characteristics of the industry in question. As analysts, you have a particular expertise in the industries which you follow, and by sharing your

in-depth knowledge with us, the Commission will be able to better develop comprehensive disclosure requirements to elicit information which will improve the usefulness to analysts and investors generally of the generic disclosure required by the Commission's forms.

You have already been of some assistance with respect to industry disclosure guidelines relating to electric and gas utility companies which will soon be published for comment. I urge you to respond to this request for comments. We contemplate developing guidelines for several additional industries during the coming months, and look forward to your increased participation in that process, as well.

Only a very few analysts commented on our recent proposals regarding oil and gas accounting. We have included analysts on our oil and gas advisory committee, which met for the first time just this week. However, our program for development of Reserve Recognition Accounting needs your continued attention and comment.

Another area in which your greater input would be helpful is in commenting on the recommendations of the Advisory Committee on Corporate Disclosure. As you know, we have put out for comment proposed revisions to Form 10-K recommended by the Advisory Committee. While the comment period has expired, we would still welcome your views and would consider them.

Moreover, we will no doubt be turning to other Advisory Committee recommendations in the future, and I would hope that you would participate in this process.

For the same reasons as I have advocated an increased role in the Commission's rulemaking process, greater analyst input into the deliberations of the Financial Accounting Standards Board would also appear appropriate. I know that the FAF comments on all FASB proposals in detail and appears regularly at their public hearings. But again, I believe that the diversity of analyst views, and their intensity, would be better presented if there was additional input.

I would think, for example, that there would be widespread analyst interest in the FASB's current review of FAS No. 8, involving the reporting of foreign currency transactions. I would also expect there would be particular interest in the FASB's conceptual framework project, which involves a comprehensive rethinking of financial reporting in general. The Board has said that the framework will embrace "financial information," and not merely "financial statements." The focus will be on users and their interest in evaluating future performance. The impact of this project on the work of the analyst will be enormous, and I should think you would want to have as much input into the FASB's work as you possibly can.

Promoting Corporate Governance

The second major area I want to talk about today is that of corporate accountability. As all of you are no doubt aware, corporate accountability is one of the major issues under review at the Commission. In my view, analysts can make a valuable contribution to the process of shareholder participation in corporate accountability.

I believe your role in the process can be three-fold. First, of course, we need to hear your views on any proposals we put out for comment. As I have indicated, we have had some analyst comment on issues affecting corporate accountability, but not nearly enough.

Second, but of equal importance, is your involvement in disseminating information regarding corporate accountability to your clients. In this regard, we have recently adopted amended proxy rules calling for substantially enhanced disclosure relating to composition and functioning of boards of directors. We have also adopted amended rules requiring increased disclosure of management remuneration.

The FAF commentary at our corporate governance hearings encouraged us to believe that analysts consider issues such as management remuneration and board structure to be of significance

in their analysis. */ If analysts are of this view, why is so little commentary on your assessment of issues affecting corporate accountability -- such as board structure and composition, the membership and responsibilities of board committees, and compensation of directors and management -- included in your research reports?

Another related question is the extent to which the existence of anti-takeover provisions in a corporation's charter or by-laws might be relevant to your analysis. I understand that you do not generally consider such matters now, but that there is some feeling among analysts, at least on a theoretical basis, that anti-takeover amendments may impair the upside potential value of the equity securities involved and perhaps the aggressiveness of management. To the extent this is of concern, perhaps your clients should be made aware of the potential implications.

There is, finally, a third way in which analysts could use their unique perspective to further the cause of corporate accountability. Comments received by the Commission in the corporate governance proceedings indicated that institutional investors are beginning to rethink their traditional adherence to the so-called "Wall

*/ Testimony of Robert E. Greeley, October 19, 1977.

Street Rule," -- either vote with management or sell one's shares. Many institutions seem to be recognizing a responsibility as shareholders to vote on the merits with respect to many issues, without necessarily concluding that it is also appropriate to liquidate their investment.

Logically, such institutions might appropriately look to the analyst, on whose buy or sell recommendation they rely regarding the company in question, for advice on how to vote their proxies. Analysts are almost by definition uniquely knowledgeable regarding the affairs of the companies they follow. Analysts could thus serve as a valuable resource for those determining how to vote their shares on proxy proposals -- particularly for institutional clients.

If analysts consider information regarding issues such as board membership and structure, management remuneration, shareholder proposals, and anti-takeover charter amendments to be important, institutional clients should be aware that you have opinions in those areas.

Any assistance of this sort which analysts provide must, of course, be made in a manner which does not violate the Commission's proxy rules. Under existing rules and interpretations, the rendering of unsolicited third-party proxy voting advice would constitute a "solicitation". Therefore, such advice would generally be subject

to filing and other requirements under the proxy rules. An exemption is provided, however, for solicitations to ten or fewer persons. **/ Further, as the proscription only applies to "third-party" advice, in-house analysts would also be exempt.

Accordingly, in my judgment, it would be consistent with the requirements of the proxy rules for the Society to urge its members to notify their institutional clients that they are available to provide advice on proxy voting matters to those institutions that request it. In addition, members may affirmatively contact ten or fewer institutional clients. By urging its members to take a more active role, the Society may help to develop the proxy into a more useful tool for both management and shareholders to employ in gauging corporate accountability and corporate sensitivity to economic and social responsibilities and for shareholders to discharge their ownership objectives.

In connection with the corporate governance hearings, the Commission's staff is currently considering the development of proposed amendments to the proxy rules which, among other things, would permit more participation of this sort. During the hearings, and in response to my

**/ Rule 14a-2, 17 C.F.R. 240.14a-2.

probing, several commentators indicated that the 10 person limitation severely restricts the analysts's opportunity to communicate concerning proxy voting and other issues respecting an issuer. Some suggested that 25 might be a more appropriate threshold. Others suggested that persons be permitted to contact an unlimited number of institutional investors in addition to the 10 persons currently permitted by the Rule. These commentators pointed out that, as a practical matter, highly sophisticated institutional investors may not need the elaborate protections of the proxy rules to the same extent as do less sophisticated public investors. Further, they noted that the Commission has in the past drawn similar distinctions in determining the practical need for the safeguards and protections provided by the federal securities laws. The staff will be considering these suggestions and others in formulating recommendations to the Commission, and your views will be important in shaping the form this initiative will ultimately take.

Conclusion

The securities analyst is an essential link in the Commission's efforts to ensure that decisions regarding investment and the discharge of duties of corporate ownership occur in an environment of full and fair disclosure. The quality of formal disclosure, its dissemination to

investors and the improvement of corporate accountability mechanisms rest to a significant degree on the analyst's commitment to the disclosure process, and on the responsibility the analyst assumes in assuring its effectiveness. That commitment has to some extent been demonstrated in the past, but I would urge that an even deeper commitment must be forthcoming to meet the challenges I have posed today.

Thank you.