

Practicing Law Institute  
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It is a pleasure to be with you again this year.

Over the past four years, the SEC has been increasing investor protections and corporations' financing flexibility, and reducing unnecessary corporate paperwork and other expenses, that are ultimately borne by investors. Such expenses have been reduced by over a billion dollars per annum.

Today, I would like to highlight the past fiscal year's results and some of the major efforts in progress at the Commission.

Fiscal 1984 Results

Through automation, paperwork reduction and other staff initiatives, each SEC division has achieved record results, or the highest levels in years, in each of the last three fiscal years, with 5% less personnel.

Based on the 1984 results, increases since 1981, range from 19% to 78% in the annual volume of:

- o Enforcement cases (57%);
- o Investment company and advisor inspections (78%);
- o Broker-dealer examinations (40%);
- o Full disclosure filings processed (19%);
- o And the Commission's other activities.

Additional highlights of the past year include:

Edgar: Commencement on schedule in September of "Edgar", the SEC's pilot high-speed electronic filing system, which is intended to:

- o Accelerate the filing, processing, dissemination and analysis of corporate information;
- o Facilitate investment decisions and executions;
- o And increase the efficiency of the securities markets.

We expect that all companies that file with the Commission will be on Edgar by 1988. Some of the companies that are participating in the present pilot operation, report that it has permitted them to get to the market faster. The companies on Edgar are also helping shape the system and gaining valuable experience, so that they will not be caught in the last minute crush, as thousands of companies shift from manual to electronic filing in 1988.

Insider Trading: The Commission proposed - and Congress enacted in August - the Insider Trading Sanctions Act.

Most inside traders have only been compelled to disgorge their profits - which has not been much of a deterrent. Now they will be subject to fines, up to three times their profits. Criminal fines for securities law violations were also increased - from up to \$10,000, which was established 50 years ago, to up to \$100,000 per count.

Shelf Registration: Adoption of the revised shelf registration rule (415), has increased the largest and most creditworthy corporations' financing flexibility and reduced their expenses, for the benefit of their shareholders, by hundreds of millions of dollars per annum, without compromising full disclosures.

All but a small portion of shelf offerings, consist of investment grade debt issues. The large savings are principally due to keener competition among underwriters, and among the institutions which purchase the bulk of such issues, whether under shelf or conventional offerings. The Commission is continuing to monitor the effects of the shelf rule and will take appropriate action, if warranted.

Proxies and Prospectuses: Simplification and improvement of proxy statements and mutual fund prospectuses have reduced their costs and increased their utility to investors.

New Options: New options authorized by the Commission, permit investors and corporations to hedge stock market, foreign currency and other risks at a fraction of the cost of other means of hedging or reducing such risks.

Intermarket Surveillance: At the Commission's initiative, the exchanges are installing electronic intermarket, stock and option surveillance systems, and transaction audit trails, for the quick identification of inside traders and market manipulators. Audit trails also reduce transaction reconciliation costs, that are ultimately borne by investors.

Last Sale Reporting: The number of Over-the-counter securities eligible for last sale reporting has been doubled - to over 2,000 issues. This information increases market efficiency and investors' ability to monitor, the quality of their order executions.

Shareholder Communications: Rules adopted and legislation proposed by the Commission last year, will also reduce the time and expense of corporations' communications with their shareholders.

Starting on January 1st, 1986, brokers will be required to provide corporations with the identity of their shareholders, who do not object. The Commission has also proposed legislation that will require the banks to provide such information.

Important Court Decisions: Two of the important court decisions last year were in the SEC v. Jerry T. O'Brien, Inc. and the SEC v. Materia cases. In O'Brien, the Supreme Court unanimously held that the SEC is not required to notify the "targets" of nonpublic investigations when subpoenas are issued to 3rd parties. In Materia, the 2nd Circuit Court of Appeals held that a financial printer, who misappropriated information from his employer concerning tender offers to be made by his employers' clients, violated 10b-5.

Bush Task Group: The recommendations of Vice President Bush's Task Group on the Regulation of Financial Services, include consolidation within the SEC of the securities law filings of all publicly owned banks and thrifts, which will increase the uniformity and reduce the regulatory costs of such disclosures.

The past year's results are a tribute to the Commissioners and the outstanding men and women, who serve throughout the SEC.

### Fiscal 1985 Efforts

Now I would like to highlight a few of the important efforts in progress at the Commission.

Immobilization of Securities: One is to accelerate the immobilization and ultimate elimination of securities certificates, through the use of central depositories and proven, high-speed electronic book-entry systems. The savings for investors, who ultimately bear such costs, are expected to aggregate hundreds of millions of dollars annually. But even in the absence of such savings, the speed and simplicity - the future paperwork and other problems avoided - will more than justify the effort.

Tons of new certificates are being engraved and distributed daily. They are moved by planes, trains, armored trucks and guards, throughout the nation and the financial community. They are inspected, counted and sorted over-and-over again, repackaged and sent by couriers and insured mail to investors and depositories, and stored in vaults and safety-deposit boxes.

The transfer of millions of shares daily, is a similarly laborious task. And millions of dollars of securities are counterfeited, lost, stolen, and accidentally mutilated and destroyed annually.

These slow and expensive, mechanical functions are gradually being reduced, through the use of central depositories and proven, high-speed electronic book-entry systems. Over the past 15 years, great progress has been made in the immobilization of corporate stocks and bonds, about half of which now repose in central depositories.

The Market Regulation Division is conducting workshops of industry executives and experts to help establish and implement the time schedules and programs - the national effort - necessary to accelerate the immobilization and ultimate elimination, not only of corporate securities, but also mortgage-backed securities, municipal bonds, and the many new financial instruments, which are largely outside of the national clearance and settlement system. The integration of financial services is such, that a paperwork crisis in any segment of the system, will have very serious repercussions, throughout the system.

A few of the many favorable precedents and encouraging developments are that:

- o For over a decade, money market fund shareholders have received periodic statements, rather than securities certificates.
- o The 1977 Uniform Commercial Code amendments facilitate transferring and pledging uncertificated securities.
- o Treasury bills have been on a book-entry system since 1979.
- o The SEC's 1983 expansion of the institutional, electronic book-entry system is saving an estimated \$350 million per annum.
- o Within the past two years, about 50 municipal issues have been sold in modified book-entry form.
- o France has commenced the conversion of all existing and new securities to an electronic book-entry system, within three years.
- o And last Friday, the U.S. Treasury made an historic announcement. It will stop issuing note and bond certificates next year. All future Treasury securities will be issued under a certificateless, electronic book-entry system.

It is difficult to change long-established habits and customs, but the time has come for major U.S. corporations to follow the Treasury's lead, and demonstrate similar leadership in the private sector.

The problems to be addressed include the fact that about 12 states still require insurance companies and municipal pension funds to hold some or all of their securities within the state. And only 14 states have adopted the 1977 Uniform Commercial Code amendments.

However, the problems are not insurmountable, and we are encouraged by the enthusiastic response from members of the business and financial community. Your support, comments and suggestions would be sincerely appreciated.

Internationalization: Another major project concerns the increasing internationalization of the securities markets.

Not only recently, but for over two centuries, the United States has been a major beneficiary of foreign investment.

With a view to facilitating the international mobility of capital, yesterday the Commission approved a release which solicits public comments on ways to harmonize the disclosures and the distribution practices for multi-national securities offerings. The release contains two conceptual approaches, to facilitate such offerings in the United States, the United Kingdom and Canada. A major portion of multi-national offerings originate and are sold within these three countries. In addition to our common language, our securities laws, disclosure requirements and accounting practices are more similar than those of other countries.

Reciprocal Approach: Of the two approaches, one would consist of a reciprocal agreement that would permit offering documents which comply with issuers' home country requirements to be used in the other two countries, provided certain standards are met.

Common Prospectus: The other approach, would be to develop a common prospectus, that could be used in any of the three countries. The release provides comparative facts on the three countries' regulations and sets forth a number of issues to be addressed under either approach. Your comments on these - and suggestions of alternative approaches - would be sincerely appreciated.

Employee Benefit Plans: Another major effort is to simplify and improve the registration of securities offered under employee benefit plans. About 60% of the companies registered with the SEC have such plans.

Approaches being studied by the Corporation Finance Division would eliminate unnecessary and duplicative filings under SEC and ERISA requirements. The costs - ultimately borne by shareholders - would be reduced by over \$100 million per annum, without compromising investor protections.

Short-Swing Profit Rules: Another major effort of the Corporation Finance Division that is nearing completion, is the first comprehensive revision of the short-swing profit rules - since they were enacted 50 years ago.

Section 16 of the '34 Act needs to be updated, to reflect judicial decisions and the dramatic increase in the number, size and complexity of executive compensation plans. The potential savings could exceed \$100 million per annum.

Small Businesses: The next project is a product of the Government-Business Forum on Small Business Capital Formation, hosted by the Commission last year - at the direction of Congress.

Companies with 500 shareholders and \$3 million of assets are presently required to file with the Commission, until their shareholders decline below 300, or if they have less than 500 shareholders and less than \$3 million in assets for three years - and no registration statement has become effective during that period.

The Corporation Finance Division is studying the effects of terminating the filing requirements of companies that have less than \$5 million in assets and 500 shareholders during their three most recent years. This approach would exempt about 600 small businesses, that presently incur very high compliance costs per shareholder.

Partnership Disclosures: The form and substance of disclosures by partnerships are also under review. Public offerings by partnerships last year, totalled over \$8 billion. Disclosures that are of particular interest to investors, that need to be improved include the tax aspects, after-issuance liquidity, and general partners' fees and past performance.

Conclusion: These are a few of the many important efforts in progress at the Commission.

The future offers the prospect of major improvements and cost savings for the benefit of investors, including the exciting potentials of the application of telecommunication technology to the high-speed transmission and analysis of financial information and to the clearance and settlement of securities transactions.