

**OPENING STATEMENT BY
RICHARD C. BREEDEN, CHAIRMAN
U.S. SECURITIES AND EXCHANGE COMMISSION
ON ADOPTION OF RULES, FORMS AND SCHEDULES
FOR MULTIJURISDICTIONAL DISCLOSURE WITH CANADA
AT OPEN MEETING
MAY 30, 1991**

The multijurisdictional disclosure system with Canada that we are considering today marks an historic milestone in the Commission's efforts to reduce the cost of capital, consistent with the investor protection purposes of our nation's securities laws. It also represents a milestone in the internationalization of regulation of capital markets. The result will be the ability of both U.S. and Canadian companies to offer securities into a North American market, not simply our respective national markets.

In terms of the number of companies, Canadian issuers represent the largest class of foreign issuers traded in the U.S. public markets. There are already more than 100 Canadian companies listed on the New York and American Stock Exchanges and in the NMS/NASDAQ. In 1989 and 1990, Canadian private issuers made 54 registered public offerings in the United States, totalling about \$11.9 billion.

Canada's securities markets are among the most developed in the world. In size, Canada's market capitalization in 1990 was approximately \$500 billion, which places it fourth in the world after the United States, Japan, and the United Kingdom. In 1990,

approximately \$63 billion worth of shares changed hands and approximately \$11 billion of new debt and equity was issued in Canada. Canada's fixed income market is well developed and very active -- its turnover ranks sixth in the world. When the Canadian equity market is combined with the U.S. equity market capitalization of approximately \$3.7 trillion, the result of MJDS will be a pool of approximately \$4.2 trillion in equity capital available for U.S. and Canadian issuers. This will be by far the largest such market in the world.

U.S. companies have often looked to the Canadian capital markets to raise funds. IBM, General Motors, USX, and Citicorp are among the approximately 40 American firms that are already listed on Canadian stock exchanges.

However, multiple registration, listing and reporting requirements in both the U.S. and Canada add substantially to costs for issuers, including the indirect costs incurred in different regulatory reviews and timing issues. Moreover, in the case of rights, exchange and tender offers, concerns regarding duplicative compliance costs may lead an issuer simply to exclude shareholders from the offers to minimize costs.

The Commission has been seeking ways to lower the cost for U.S. companies to raise capital domestically and internationally, without at the same time depriving investors in our markets of

the essential protections mandated by the U.S. securities laws. The MJDS system was developed initially with Canada due to its developed capital markets and strong regulatory tradition. While specific disclosure requirements of the United States and Canada differ in detail, the regulatory systems share the common purpose of ensuring that investors are given information adequate to make an informed investment decision.

Key to the MJDS system is the application of accounting and auditing standards. Canada, like the United States, has highly developed accounting and auditing standards. This is vital in insuring that use of Canadian financial statements in the U.S. will not prejudice U.S. investors through inadequate or misleading information. This system represents in a sense reciprocity based on quality of reporting and disclosure.

Under the proposed multijurisdiction system, eligible companies in the United States and Canada will be able to sell securities in each other's country using disclosure documents required by their home country. They may also use their home country's disclosure documents to satisfy the periodic reporting requirements in the other country. In other words, a securities offering made in the U.S. and Canada will be subject to only one, rather than two, regulatory schemes. The MJDS also will permit cash tender and exchange offers for Canadian companies under specified circumstances to proceed in this country on the basis

of Canadian tender offer rules and disclosure requirements.

The rule changes considered today also will allow those Canadian private issuers not eligible for MJDS to use the integrated disclosure system used by all other foreign private issuers (e.g., Forms F-2, F-3 and 20-F). Currently, most Canadian private issuers that publicly offer or list securities in the U.S. must use the same disclosure forms used by U.S. issuers. In addition, Canadian private issuers will become exempt from the proxy requirements and from application of 1934 Act §16 ownership reporting requirements and short-swing profit recapture provisions. Currently, foreign private issuers from all other countries have these exemptions.

The system before the Commission today sets threshold levels for issuer eligibility. The equity threshold used today is derived from that used on Form F-3, which is a market capitalization of \$300 million and 3 years of periodic reporting to the Commission. The MJDS considered today is an initial step in what I hope will be the eventual mutual recognition of the entire disclosure systems of our respective countries.

Similarly, an exception to full reliance on home country disclosure is the requirement for reconciliation of financial statements in equity and non-investment grade offerings, and related reporting. While there is little question about the

quality of financial reporting required by Canadian accounting principles, differences between U.S. and Canadian GAAP may present, under certain circumstances, different reported results.

Although comparability of earnings may be less critical in an investor's consideration of an investment-grade debt offering, its importance is substantially heightened in the case of equity securities, where investors are likely to be assessing competing investment opportunities on the basis of earnings and growth potential. We have considered whether the systems are close enough to abandon any requirement of financial statement comparability for equity investments. While we do not take that step today, experience under the new system should give us a better feel for the costs and benefits of retaining the reconciliation requirement in the future. I will propose that we amend our reconciliation requirement to add a two-year sunset provision.

Our action today will be followed by similar meetings of the Canadian authorities to approve the MJDS in their respective jurisdictions. Under the Canadian policy, qualifying U.S. issuers will be able to access the Canadian capital markets using disclosure documents prepared in accordance with the SEC's requirements. The U.S. MJDS will become effective upon completion of the Canadian adoption of the parallel system for U.S. issuers.

It is important to note that the criminal and civil antifraud protections of the federal securities laws will still be fully applicable to any security offered or traded in the United States under the MJDS. Just as important, the Commission has entered into bilateral understandings and agreements with Canadian authorities for exchanging investigative information in order to help keep both markets clean and free from fraud. In order for the MJDS to succeed, the Commission's experience of close cooperation in enforcement matters with its Canadian counterparts must continue.

I am very pleased to welcome back Ms. Pamela Hughes, Director of the International Markets Branch of the Ontario Securities Commission, who has been working on the MJDS from the outset. Pamela has been instrumental in developing the whole initiative from concept to reality. I would like to express the Commission's thanks to Pamela for all your help in making MJDS a reality. I am also delighted to welcome Mr. Jean Bernier, representing the Commission des valeurs mobilières du Québec, to his first meeting of the United States Securities and Exchange Commission. Let me thank all the members and staff of the the Ontario Securities Commission, the Commission des valeurs mobilières du Québec, and other Canadian provincial and territorial securities regulatory agencies, as well as the staff of the Commission for their creativity, persistence, patience and

skill in completing the highly detailed proposal we will act on today.

I will now ask Linda Quinn, the director of the Division of Corporation Finance, to outline for us the proposed rulemaking that would implement the multijurisdiction disclosure system.