

Full Disclosure System

The full disclosure system's goals are to:

- *foster investor confidence;*
- *provide investors with material information;*
- *contribute to the maintenance of fair and orderly markets;*
- *reduce the costs of capital raising; and*
- *inhibit fraud in the public offering, trading, voting, and tendering of securities.*

The Division of Corporation Finance achieves these goals by reviewing the financial and non-financial disclosures made by companies in their periodic reports and transactional filings. The Division also achieves its goal by recommending to the Commission new rules to facilitate and enhance corporate disclosure.

What We Did

- Completed reviews of year-end financial statements of 1,535 reporting issuers and 2,435 new issuers.
- Processed over 500 letters relating to shareholder proposals and nearly 500 other no-action and interpretive letters.
- Issued interpretive releases relating to the use of electronic media to deliver or transmit information under the federal securities laws and providing guidance on the disclosure and dissemination of mini-tender offers.

- Adopted rules to exempt subsidiary guarantors and subsidiary issuers of guaranteed securities from Exchange Act financial statement and reporting requirements and to permit the delivery of a single disclosure document to two or more investors sharing the same address.
- Adopted new rules and amendments in connection with the second stage of EDGAR modernization.

2000 Statistics

Companies filed registration statements covering \$2.3 trillion in proposed securities offerings during the year, an increase of 9% from the \$2.1 trillion in 1999. Offerings filed by first time registrants (IPOs) totalled approximately \$186 billion, 58% more than the \$118 billion filed in 1999.

Registration Statements Filed

(in billions of dollars)

<u>Security</u>	<u>1999 Value</u>	<u>2000 Value</u>	<u>Change</u>
Common stock	\$1,174.8	\$1,570.4	+34%
Asset backed	260.6	145.8	- 44%
Debt	397.9	372.5	- 6%
Unallocated shelf *	211.0	171.6	- 19%
Other equity	60.1	40.0	- 33%
Total	\$2,104.4	\$2,300.3	+ 9%

* A transactional filing where the issuer registers a dollar amount of securities without specifying the particular amount of each different type of security to be issued.

Review of Filings

The following table summarizes the principal filings reviewed during the last five years.

Full Disclosure Reviews					
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Reporting issuer reviews <u>a/</u>	3,210	3,513	2,828	2,550	1,535
New issuer review <u>b/</u>	1,735	1,715	1,739	1,755	2,435
Total issuer reviews	4,945	5,228	4,567	4,305	3,970
Major Filing Reviews					
Securities Act filings					
IPOs	1,412	1,255	1,320	1,010	1,350
Repeat issuers	769	723	720	510	270
P/E amdts. <u>c/</u>	140	41	28	10	10
Regulation A	77	111	81	65	70
Exchange Act					
Initial registrations	246	349	338	680	1,015
Annual report reviews					
Full <u>d/</u>	1,446	1,949	1,527	1,375	595
Full financial	933	1,208	997	960	550
Tender offers (14D-1)	165	234	259	355	300
Going private schedules	100	94	115	180	115
Contested proxy					
solicitations	62	83	59	70	90
Proxy statements					
Merger/going private	261	233	219	195	75
Others w/financials	199	238	257	190	150
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<u>a/</u>	Includes companies subject to Exchange Act reporting whose financial statements were reviewed during the year.				
<u>b/</u>	Includes reviews of Securities Act or Exchange Act registration statements of non-Exchange Act reporting companies. Includes reviews of Regulation A filings.				
<u>c/</u>	Post-effective amendments with new financial statements.				
<u>d/</u>	Includes annual reports reviewed in connection with the review of other filings that incorporated financial statements by reference.				

The decrease in reporting issuer reviews resulted from the need to shift review resources to the review of an increased number of IPO and Exchange Act new issuer registration statements. The increase in Exchange Act new issuer registration statement filings is attributable to a NASD rule change that requires companies listed on the Over-The-Counter Bulletin Board to be subject to the reporting requirements of the Exchange Act. Many of these new registration statements were filed by small businesses seeking to retain their bulletin board listings. Substantial staff time was devoted to assisting these companies in complying with the federal disclosure requirements.

International Activities

Foreign companies' participation in the U.S. public markets continued to grow in 2000. Approximately 200 foreign companies from over 30 countries entered the U.S. markets for the first time. At year-end, there were almost 1,400 foreign companies from over 55 countries filing reports with us. Public offerings filed by foreign companies in 2000 totaled over \$211 billion.

Recent Rulemaking, Interpretive, and Related Matters

Rulemaking is undertaken to protect investors, facilitate capital formation, improve and simplify disclosure, establish uniform requirements, and eliminate unnecessary regulation. The objective in rulemaking is to define regulatory requirements on a cost-effective basis. We provide general interpretive and accounting advice through interpretive releases, staff legal bulletins, staff accounting bulletins, no-action and interpretive letters, current issues outlines, and responses to telephone inquiries.

Rulemaking

- *Electronic Delivery of Information to Security Holders.* On April 25, 2000, the Commission issued the third of a series of interpretive releases and rules addressing the use of electronic media to deliver or transmit information under the federal securities laws.⁷⁵ In the latest release, among other things, the Commission clarified that information which may be obtained through a hyperlink embedded within a prospectus or other document required to be filed or delivered under the federal securities laws causes the hyperlinked information to be a part of that document. The Commission also clarified that the close proximity of information on a web site to a public offering prospectus does not, by itself make that information an “offer” within the meaning of the federal securities laws. In addition, the release provided guidance on responsibility under the anti-fraud provisions of the federal securities laws for information hyperlinked to issuer websites.
- *EDGAR Modernization and Related Rule Amendments.* On April 24, 2000, the Commission adopted new rules and amendments in connection with the second stage of EDGAR modernization and the conversion of the EDGAR system to an Internet-based system using hypertext markup language (HTML) as the predominant filing format.⁷⁶ On May 30, 2000, we added new features to the system that facilitate the transmission of filings over the Internet and expand the use of

hyperlinks and graphic and image files in HTML documents.

- *Mini-Tender Offers.* On July 24, 2000, the Commission issued an interpretive release providing guidance on the regulation of tender offers that result in the bidder holding five percent or less of the outstanding securities of a company (mini-tender offers).⁷⁷ The release sets forth specific disclosure guidelines for bidders in mini-tenders and notes practices that should be avoided because they may be considered fraudulent, deceptive, or manipulative. The release also addresses disclosure in tender offers for limited partnership units.
- *Financial Statements and Periodic Reports for Related Issuers and Guarantors.* On August 4, 2000, the Commission adopted rules to exempt subsidiary guarantors and subsidiary issuers of guaranteed securities from Exchange Act financial statement and reporting requirements.⁷⁸
- *Delivery of Disclosure Documents to Households.* The Commission adopted rules concerning the delivery of a single disclosure document to two or more investors sharing the same address (householding) if the investors have consented in writing or by implication.⁷⁹ One rule, issued on November 4, 1999, covers householding of prospectuses, annual reports and, in the case of investment companies, semiannual reports. The second rule, issued on October 27, 2000, adopted similar changes to the proxy

rules to permit householding of proxy and information statements, but not proxy cards.

Interpretive Guidance

- *Securities Issued by “Blank Check” Companies.* In January 2000, the Division staff issued an interpretive letter to NASD Regulation, Inc., limiting unregistered resales of securities in blank check companies by promoters, affiliates, and their transferees. The letter also indicated that the exemption provided in Rule 701 for offerings of employee benefit plan securities by non-reporting companies generally would not be available to blank check companies.

Conferences

At the *17th Annual Federal/State Uniformity Conference* held in April 2000 in Washington, D.C., approximately 60 Commission officials met with approximately 60 representatives of the North American Securities Administrators Association, Inc. to discuss methods of achieving greater uniformity in federal and state securities matters. After the conference, a final report summarizing the discussions was prepared and distributed to interested persons and participants.

We conducted the *19th Annual Government-Business Forum on Small Business Capital Formation* in San Antonio, Texas in September 2000. This is the only government-sponsored national gathering providing an opportunity for

small businesses to let government officials know how the laws, rules, and regulations are affecting their ability to raise capital.

Throughout the year, we also met with representatives of professional organizations whose members are affected by our regulations. These groups included the following:

- Securities Industry Association,
- American Bar Association,
- American Society of Corporate Secretaries,
- American Corporate Counsel Association,
- National Venture Capital Association,
- Bond Market Association,
- Council of Institutional Investors, and
- American Institute of Certified Public Accountants.