

Full Disclosure System

The full disclosure system's goals are to:

- *foster investor confidence by providing investors with material information on public companies;*
- *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 business disclosure and financial statements in periodic reports and transactional filings by corporate issuers and by making rules that facilitate and enhance disclosure in capital formation.

What We Did

- Reviewed the year-end financial statements of 2,550 reporting issuers and 1,690 new issuers.
- Published rule proposals that would modernize the regulation of capital formation under the Securities Act.
- Adopted a new regulatory scheme for business combination transactions and security holder communications.

- Added exemptions that made it easier for U.S. holders to participate in tender and exchange offers, business combinations, and rights offerings for the securities of foreign companies.

Registration Statements Filed

Companies filed registration statements covering \$2.1 trillion in proposed securities offerings, a 17 percent decrease from the record \$2.5 trillion in 1998. Offerings filed by first time registrants (IPOs) were approximately \$118 billion, 54 percent less than the \$257 billion filed in 1998.

Registration Statements Filed Dollar Value (Billions)

<u>Security</u>	<u>1999</u> <u>\$ Value</u>	<u>1998</u> <u>\$ Value</u>	<u>% Change</u>
Common stock	1,174.8	1,453.7	-19%
Asset backed	260.6	476.2	-45%
Debt	397.9	291.6	+36%
Unallocated shelf *	211.0	259.8	-18%
Other equity	60.1	64.8	- 7%
Total	2,104.4	2,546.1	-17%

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

Review of Filings

The following table summarizes the principal filings reviewed during the last five years. Because the staff reviews all new

issuer filings (including IPOs), third party tender offers, contested solicitations, and going private transactions, the number of these filings that are reviewed reflects the increases and decreases in the number of filings received.

Full Disclosure Reviews

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Reporting issuer reviews <u>a/</u>	3,930	3,210	3,513	2,828	2,550
New issuer reviews <u>b/</u>	1,150	1,658	1,604	1,658	1,690
<u>Major Filing Reviews</u>					
Securities Act filings					
IPOs <u>c/</u>	950	1,412	1,255	1,320	1,010
Repeat issuers	815	769	723	720	510
P/E amdts. <u>c/ d/</u>	15	140	41	28	10
Regulation A	69	77	111	81	65
Exchange Act					
Initial registrations	200	246	349	338	680
Annual report reviews					
Full <u>e/</u>	1,930	1,446	1,949	1,527	1,375
Full financial	1,585	933	1,208	997	960
Tender offers					
(14D-1)	140	165	234	259	355
Going private schedules	77	100	94	115	180
Contested proxy solicitations	59	62	83	59	70
Proxy statements					
Merger/going private	225	261	233	219	195
Others w/financials	205	199	238	257	190

Note: Some 1999 numbers have been rounded.

a/ Includes companies subject to Exchange Act reporting whose financial statements were reviewed during the year.

b/ Includes reviews of Securities Act or Exchange Act registration statements of non-Exchange Act reporting companies. Excludes reviews of Regulation A filings.

c/ Includes Regional Office reviews of small business filings for years prior to 1996.

d/ Includes only post-effective amendments with new financial statements.

e/ Includes annual reports reviewed in connection with the review of other filings that incorporated financial statements by reference.

The increase in Exchange Act new issuer registration statement reviews is attributable to a NASD rule change that (subjects) companies listed on the over-the-counter bulletin board to the reporting requirements of the Exchange Act. Many of the new registration statements were filed by small businesses seeking to retain their current bulletin board listing. 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 1999. During the year, approximately 120 foreign companies from 26 countries entered our markets for the first time. At year-end, there were over 1,200 foreign companies from 57 countries filing reports with us. Public offerings filed by foreign companies in 1999 totaled over \$244 billion—a new record for an amount registered in a single year.

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. General interpretive and accounting advice is provided through our interpretive releases, staff legal bulletins, staff accounting bulletins, no-action and interpretive letters, and responses to telephone inquiries.

Reformation of the Offering Process under the Securities Act

For the past several years, we have been reevaluating the current securities registration system and offering process. In November 1998, we published proposals that would modernize the regulation of capital formation under the Securities Act, allow greater use of emerging communication technologies, and provide for more timely information being available to the marketplace under the Exchange Act. The proposals also would:

- provide more information to investors on a more timely and fair basis;
- allow companies and underwriters to communicate with investors more freely; and
- enhance companies' ability to adapt offerings to changing market conditions.

The comment period on these proposals ended in June 1999. We have received numerous comment letters about the proposals and our work in this area is ongoing.

Regulation of Takeovers and Security Holder Communications

In October 1999, we adopted a new regulatory scheme for business combination transactions and security holder communications.¹⁰⁰ The new rules and amendments are effective January 24, 2000. The amendments significantly update the existing regulations to meet the realities of today's markets while maintaining important investor protections. Specifically, the amendments:

- reduce restrictions on communications;
- balance the regulatory treatment of cash and stock tender offers; and
- update, simplify, and harmonize disclosure requirements in connection with business combination transactions.

Cross-Border Tender Offers, Rights Offers, and Business Combinations

In October 1999, we adopted exemptive provisions under the Securities Act and the Williams Act to make it easier for U.S. holders to participate in tender and exchange offers, business combinations, and rights offerings for the securities of foreign companies.¹⁰¹

International Disclosure Standards

In September 1999, we adopted changes to our non-financial statement disclosure requirements for foreign private issuers.¹⁰² The new provisions conform those requirements more closely to the International Disclosure Standards endorsed by IOSCO in September 1998. The changes are intended to harmonize disclosure requirements on fundamental topics among the securities regulations of various countries. The revisions should facilitate cross-border capital-raising and listings.

Small Business Rulemaking

In February 1999, we adopted amendments to rule 504 under the Securities Act to address concerns that the rule may have been used to facilitate fraudulent securities transactions by microcap companies.¹⁰³ Rule 504 permitted private companies to offer and sell up to \$1 million of securities a year to an unlimited number of persons, without regard to their sophistication or experience and without delivery of any specified information. The amendments

prohibit general solicitation and advertising and restrict the resale of rule 504 securities, unless the company ensures delivery of disclosure to investors or sells only to accredited investors.

We also adopted amendments to rule 701 under the Securities Act to raise the amount of securities that could be sold under the rule and provide greater flexibility to those relying on it.¹⁰⁴ Rule 701 allows private companies to sell securities to their employees under compensation arrangements without filing a registration statement. The amendments replaced the existing limits on the total amount of securities that could be offered so that a private company may sell in a year up to the greater of (1) \$1 million; (2) 15 percent of the issuer's total assets; or (3) 15 percent of the outstanding securities of the class.

EDGAR Modernization and Related Rule Amendments

In 1998, the Commission awarded a three-year contract for the modernization of the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system. The new system is expected to reduce costs and efforts of preparing and submitting electronic filings, as well as permit more attractive and readable documents. In May 1999, we adopted new rules and amendments in connection with the first stage of EDGAR modernization.¹⁰⁵

Segment Disclosure

In January 1999, we adopted technical amendments to conform our rules to the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 131.¹⁰⁶ The amendments harmonize the narrative disclosure rules with recently revised Generally Accepted Accounting Principles financial reporting standards by requiring disclosure of a business enterprise's "operating segments," rather than its "industry segments," as previously required.

Form S-8

Form S-8 is the Securities Act registration statement form used for offerings of securities to employees. The disclosure requirements for the form are abbreviated because of the compensatory nature of these offerings and employees' familiarity with their employer's business.

Some companies, including microcap companies, have used Form S-8 improperly to compensate consultants whose primary service to the company is promotion of its securities. Others have used Form S-8 to distribute securities to public investors through so-called "consultants" whose service to the issuer is selling those securities into the market.

In February 1999, we adopted amendments to Form S-8 and related rules designed to deter these abuses.¹⁰⁷ The amendments also provide more flexibility in the legitimate use of Form S-8 by allowing use for exercise of stock options by family members of employees. On the same day, we proposed additional amendments designed to further deter abuse of Form S-8.¹⁰⁸

Financial Statements and Periodic Reports for Related Issuers and Guarantors

In February 1999, we proposed rules concerning the financial statement and Exchange Act reporting requirements for subsidiary guarantors and subsidiary issuers of guaranteed securities.¹⁰⁹ New rule 12h-5 would exempt a subsidiary issuer or subsidiary guarantor from Exchange Act reporting if it were otherwise not required by existing rules to file detailed financial statements.

Delivery of Disclosure Documents to Households

In November 1999, the Commission issued two releases concerning the delivery of a single disclosure document to two or more investors sharing the same address

(householding). The first release adopts rules regarding the householding of prospectuses, annual reports and, in the case of investment companies, semiannual reports.¹¹⁰ New rule 154 permits issuers and broker-dealers to satisfy the Securities Act's prospectus delivery requirements by sending a single prospectus to two or more investors residing at the same address if the investors have consented in writing or by implication. The second release proposes similar changes to the proxy rules to permit householding of proxy and information statements, but not proxy cards.¹¹¹

Staff Legal Bulletins

We publish Staff Legal Bulletins to advise the public on frequently recurring issues. In June 1999, the Division published an updated version of Staff Legal Bulletin No. 7 (CF)—Plain English. The bulletin provides helpful information about how to apply the plain English rules to improve the readability of prospectuses and examples of the comments most often cited by the staff on compliance with the plain English rules.

Conferences

Small Business Town Meetings

Since 1996, several informal town meetings between our staff and small businesses have been conducted throughout the U.S. These town meetings tell small businesses about the basic requirements for raising capital through the public sale of securities. They also provide us with information on the concerns and problems facing small businesses. During 1999, we held small business town meetings in Kansas City, Missouri; Albuquerque, New Mexico; and Anchorage, Alaska.

SEC/NASAA Conference Under Section 19(c) of the Securities Act

The 16th Annual Federal/State Uniformity Conference was held in April 1999. Approximately 60 Commission officials and 60 representatives of the North American Securities Administrators Association, Inc. met to discuss methods of achieving greater uniformity in federal and state securities matters. After the conference, a report summarizing the discussions was prepared and distributed to interested persons and participants.

SEC Government-Business Forum on Small Business Capital Formation

The 18th Annual Government-Business Forum on Small Business Capital Formation was held in Washington, D.C. in September 1999. This platform for small business is the only government-sponsored national gathering for small business, which offers annually the opportunity for small businesses to let government officials know how the laws, rules, and regulations are affecting their ability to raise capital. Next year's Government-Business Forum will be in the San Antonio, Texas area.