

NEWS

SECURITIES AND EXCHANGE COMMISSION

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Investment Company Institute
General Membership Meeting
Washington Hilton Hotel
Washington, D.C.

May 23, 1984

Ongoing Efforts at the SEC
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Ladies and Gentlemen:

It is a pleasure to be with you today.

The Investment Company Institute is an outstanding advocate for the mutual fund industry. In serving the interests of the industry and mutual fund investors, the SEC and the ICI share many common objectives. I will mention some of them in a moment, and toward those ends, I would like to offer the SEC's support and enlist yours.

I will highlight ongoing efforts at the SEC, and if time permits, invite your comments, questions and suggestions.

Investor Protection

The SEC is here to serve you and your shareholders. It is doing so by increasing investor protections and reducing unnecessary paperwork and other expenses, at the rate of over a billion dollars per annum, for the benefit of shareholders.

Record Results

As a result of productivity and other improvements by the Commission's outstanding staff, each of the major divisions has achieved record results, or the highest levels in several years, in each of the last two years, despite personnel reductions and budgetary constraints.

These results include:

- o 37% more enforcement cases brought;
- o 28% more investment company and advisor inspections conducted;
- o 16% more broker-dealer reports processed;

- o and 15% more full disclosure filings handled per annum;
- o than two years ago, despite a 3% reduction in personnel.

Fees Over 110%

Also, as a result of the record volume of securities transactions and financings, registration, transfer and other fees have risen to over 110% of the Commission's budget, as compared to 81% in 1981.

Enforcement

Enforcement of the securities laws is the largest activity at the SEC. It accounts for about a third of the total budget, which is justified by egregious examples of securities fraud, market manipulation and insider trading. These abuses victimize scores of companies and hundreds of thousands of investors annually.

Most of the enforcement cases involve hard-core fraud by corporations, brokers and individuals. They include misrepresentations in the sale of securities, conversions of investors' funds, market manipulation and insider trading.

Insider Trading

Although insider trading cases have received a great deal of publicity, they have only amounted to about 8% of the cases brought in each of the last two years. Disgorgements of ill-gotten gains and asset freezes for the benefit of investors, have been running at about \$65 million per annum.

Enforcement Priorities

I am often asked, "What are your Enforcement priorities?" The enforcement program is constantly responding to changing market conditions.

Tender Offers

For example, the recent record volume of tender offers and the extraordinary profit potentials afforded by stock options, have resulted in a record number of insider trading cases.

Cooking the Books Cases

Complex cases often require a year or two of investigation. This is particularly true of accounting cases - so-called "cooking the books" cases. Some of those that we are presently bringing are a product of the 1982 recession. During recessions, some managements temporize with bad news or delay its release.

Bull markets

During bull markets - such as August '82 to June '83 - "bucket shops" spring up like mushrooms and highly promotional initial public offerings are in great demand. There is of course an inevitable day of reckoning. When "hot new issue markets" collapse, many of the companies and promoters disappear. As a result of SEC and NASD task force efforts, a number of "hot issue" cases have been brought and more are in prospect.

Other Initiatives

In addition to the enforcement program, I would like to mention briefly other efforts that are increasing investor protections.

Electronic Intermarket Surveillance

At the Commission's initiative, the securities exchanges and the over-the-counter markets are enhancing their electronic intermarket surveillance systems and transaction audit trails. These measures facilitate the quick identification of market manipulation and insider trading. They also pay for themselves by reducing the industry's transaction reconciliation costs.

Peer Reviews

The accounting firms, which audit over 85% of all publicly-owned corporations, are now on a three-year peer review cycle. The purpose of these reviews is to assure high auditing standards.

Bank Disclosures

The Commission has increased bank disclosures of foreign and other loans that pose potential collection problems; and has proposed for public comment better loan loss reserve disclosures by casualty insurance companies; as well as quarterly segment disclosures by all issuers.

Insider Trading Sanctions Act

The Commission has also proposed the Insider Trading Sanctions Act, which will permit fines up to three times inside traders' profits. This bill has been passed by the House and is pending in the Senate.

The Swiss Accord

The SEC's Accord with Switzerland, has removed the haven of the Swiss secrecy laws, from those who would trade on inside information in U.S. markets. While a Swiss referendum to abolish their secrecy laws was recently defeated, it has no effect on our Accord with them. In fact, last week the Swiss Supreme Court ordered disclosure of those involved in the Santa Fe insider trading case.

Tender Offer Reform Act of 1984

Yesterday, the Commission sent up to Congress, the Tender Offer Reform Act of 1984, which is expected to be introduced shortly. Briefly, it limits or proscribes:

- o "Greenmail" - which is the resale of blocks of stocks to companies at premium prices;
- o and during tender offers:
 - o the granting of "Golden Parachutes" to managements;
 - o defensive repurchases of shares;
 - o and certain dilutionary financings.

It also eliminates the 10 day delay in public disclosures, upon acquisition of over 5% of a company's shares.

Institutional Voting

In a closely related area, a newsworthy development that has far reaching implications is the increasing tendency of investment companies and other institutional investors to be guided by their pocketbook interests, when voting corporate proxies. The interests of managements and shareholders may diverge on certain antitakeover proposals. Investment companies and others have generally tended to support management or sell their shares. However, last year, institutional and other investors defeated antitakeover proposals by companies such as Black & Decker, Cross & Trecker, Data General, International Paper and Sherwin Williams.

A Kidder Peabody survey of 2,500 institutions recorded 3-to-1 opposition to super majority provisions, and a 1-to-1 vote on staggered boards. Citicorp's \$36 billion Investment Management subsidiary, is reported to have voted against all antitakeover proposals by 64 of the companies in which it holds stock. The \$10 billion Batterymarch Financial has announced its intention to vote against all such proposals and to publicly announce its votes on specific issues. A D.F. King study indicates that 75 of 100 major institutions are generally opposed to increasing protective provisions. With only a 1% interest in the TWA holding company, Odyssey Partners obtained a 30% vote in favor of breaking up the company, on the theory that the parts were worth more than the whole.

A projection of these trends, suggests that as institutions become bolder, they will not only oppose certain antitakeover proposals, but begin to propose repeal of those that have been passed, and to initiate corporate break-ups and mergers, with a view to enhancing the value of their investments.

Paperwork Reduction

Now I would like to turn briefly to SEC measures that have reduced unnecessary paperwork and other expenses, by over a billion dollars per annum, for the benefit of shareholders.

Integration

Integration of corporations' registration and reporting requirements under the multiple securities laws and regulations, has increased corporations' financing flexibility and reduced their paperwork and other expenses - by over \$350 million per annum - but not investor protections. In the final analysis, these and other expenses are of course borne by shareholders.

Shelf Registration Rule

The revised shelf registration rule, adopted last November, permits the largest and most creditworthy corporations to file a single registration statement, covering the securities they expect to sell from time to time within two years. Based on an independent economic analysis of the shelf debt offerings between March '82 and November '83, the discounted present value of the interest savings on such offerings has amounted to hundreds of millions of dollars.

Institutional Book Entry

Expansion late last year of the institutional book-entry delivery system is expected to save brokers and agent banks over \$350 million this year - and more in future years. The ultimate objective is to eliminate stock and bond certificates and to record security ownership through electronic book-entry systems, which will result in billion dollar savings. The mutual fund industry has been a pioneer in this area. You are at least 15 years ahead of the other segments of the securities industry.

Net Capital Rule

Updating the securities industry's net capital and clearinghouse deposit requirements, has freed-up over a billion dollars of the industry's capital for more productive employment in handling the heavy volume of security transactions and financings.

Financing Exemptions

Security offerings up to \$5 million - to others than the general public - have been exempted from SEC registration. Many states are adopting similar exemptions, which are the first joint state and federal registration exemptions. The exemptions for larger private placements have also been simplified and improved. Financings under these new exemptions are running at an annual rate of over \$20 billion, and at significant interest and other savings.

Proxy and Shareholder Communication

The proxy and shareholder communication rules, have also been simplified and improved.

Electronic Filing

And earlier this month, the Commission awarded a contract to a team, consisting of Arthur Andersen, IBM and Dow Jones, to implement the SEC's pilot electronic filing system - known as EDGAR.

The objective is to accelerate the speed and reduce the costs of filing, processing and disseminating corporate information to the investing public. As investment companies, corporations and others electronically file annual, quarterly and other reports with the SEC, they will be instantly accessible to investors, security analysts and the media on home and business computer screens throughout the country and abroad. The system is also intended to reduce transcription and oral communication errors, and to accelerate the SEC's identification and processing of filings which require detailed reviews.

Over a hundred corporations are expected to participate in the pilot operation, which is scheduled to commence this September. It will be tested and debugged for a year or more. Industrywide implementation is intended to coordinate with the rapid growth of home and desk top computers - from 5 million today to over 50 million within less than 5 years.

Investment Companies

I have saved the investment company area for last. It is of course one of the most important areas of the Commission's responsibility.

Goals

Our goals are to increase the effectiveness of investment company disclosure and other regulations, and to reduce the expenses - ultimately borne by your shareholders - by eliminating unnecessary paperwork and time delays. Many of the following concepts and initiatives reflect the common interests and objectives of the investment company industry and the SEC.

Short Form Prospectus

The new short form mutual fund prospectus - adopted last year - has been very favorably received by the industry and investors. Investment company prospectuses had become so long, complex and legalistic that they were no longer effective disclosure documents. They now clearly disclose the information important to investors, particularly those written in plain English. They are presently running about half as many pages as before, even though they often include new information that is not required, on retirement, withdrawal, exchange and other plans and options. Additional detailed information is of course also available on request, but few request it.

The recommendations and support of the ICI on the short form prospectus, and in many other areas, have been invaluable in the development and implementation of these improvements.

The staff is working on similar improvements in other investment company filings and unit investment trust prospectuses.

Annuities and Margin

The Commission has also released for public comment:

- o short form registration requirements for variable annuities;
- o and a proposed rule that would permit brokers to extend margin credit on mutual fund that are fully paid and have been held for at least 30 days.

Closed-End

Two longer term projects are:

- o the development of a simplified registration statement for closed-end investment companies;
- o and a short form for investment company mergers and acquisitions, that will permit current prospectuses or shareholder annual reports, to be used to provide a substantial portion of the information otherwise required.

Selective Review

The Investment Management Division is also implementing new selective review procedures. If a fund complex files a registration statement for a new fund, which contains much of the same disclosures as one of their existing funds, the registrant will be requested to identify such areas. The procedure will expedite staff reviews.

Proxies and Inspections

Also, proxy materials can now be mailed to shareholders on the 10th day after they are filed, if the staff has not called before then.

The investment company inspection program is also undergoing significant revisions, with a view to placing greater emphasis on the adequacy of accounting and management controls, including common systems within investment company complexes, and agents which provide transfer, recordkeeping and other services to funds.

Portable computer and software programs are also being developed to accelerate data collection and analysis.

Codification

And progress is being made in the codification of frequently granted exemptions. In July, a rule was adopted to permit money market funds to use "penny-rounding" and amortized cost valuation methods.

Standard exemptions have also been codified for variable annuity and life insurance contracts, at savings to the industry - and therefore investors - of over \$40 million per annum.

Investment companies are also now permitted to use summary description mailing pieces, and money market funds can advertise their effective yields.

Brokerage Stocks

Also, the Investment Management Division expects to recommend shortly, that the Commission ease the restrictions on investing in broker-dealer securities, and permit foreign securities to be held by qualified foreign custodians, which will save time and money.

Negotiated Sales Loads

The Commission has also solicited public comment on negotiated sales loads. The Investment Management Division and the Office of the Chief Economist are carefully reviewing the comments, with a view to submitting the pros and cons on this sensitive issue to the Commission by late summer.

The Bush Task Group

The Bush Task Group on Regulation of Financial Institutions, will soon propose a number of major legislative initiatives to simplify and improve the regulatory structures of the financial service industries. The Task Group is expected to support recommendations by the Investment Management Division and the ICI, to amend Section 36(b) of the Investment Company Act, in order to eliminate vexatious litigation and uncertainty concerning investment advisory fees.

We have also recommended:

- o that funds in a complex be permitted to share distribution costs, without prior SEC approval;
- o that funds be permitted to buy securities of non-affiliated broker-dealers and investment advisers, without percentage restrictions;
- o and that in order to expedite Investment Company and Adviser Acts exemptions, the Federal Register posting requirement be eliminated.

Most, if not all, of these recommendations are expected to be included in the Task Group's legislative proposals.

In conclusion

Progress is being made in increasing investor protections and reducing unnecessary paperwork and other expenses. In a spirit of mutual cooperation and support, much more can be achieved through our joint efforts.

The future also holds the prospect of major improvements in the regulatory structures of the financial service industries, and the exciting potential of high speed, electronic communication and analysis of investment company and corporate information.

Thank you.