REMARKS OF

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TO

THE NEW ENGLAND SECURITIES CONFERENCE

BOSTON, MASSACHUSETTS

JUNE 12, 1992

* The views expressed herein are those of Commissioner Beese and do not necessarily represent those of the Commission, other Commissioners, or the staff.

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Good afternoon. I am pleased to be here and be a part of the Second Annual New England Regional Securities Conference. I would like to thank the Massachusetts Bar Association, and the bar associations from Connecticut, Maine, New Hampshire, Vermont and Rhode Island for inviting me to participate in the conference this year. Having been sworn-in by Vice President Qualye, and serving as the only non-lawyer on the Commission, I thought it might be appropriate to begin these remarks with a lawyer joke. My staff, however, advised strongly against this. Both of them, of course, are lawyers.

Today, the securities industry is more dynamic than ever before: swelling in size, expanding across oceans and involving ever increasing numbers of investors. This transformation presents both challenges and opportunities to regulators and market participants alike.

As both counselors and participants, you have a unique opportunity to help shape the securities markets as we move into the 21st century. The next few years particularly will be watershed years for investment companies. Here, in the capital of the mutual fund industry, you are witnessing daily the growing institutionalization of the securities markets. Investors are altering their saving and

investing practices, and as these historical patterns shift, the character and nature of the entire securities industry will also change. In such a vibrant environment, I can assure you that there will be ample topics for you to discuss next year at your third annual conference, such as the digestion of all this growth. I hope I can return and join you next year.

In the past few months, the Commission has taken several initiatives to address some of the specific issues raised by the changing nature of the securities industry. Today, I would like to discuss our current activity in three specific areas: executive compensation, capital formation among young and growing companies, and the Commission's recently released study of the investment company industry.

As of late, the topic of executive compensation has generated considerable public discussion across the nation. From boardrooms to barrooms to the hallowed halls of Congress, it seems everyone has an opinion or suggestion concerning this issue. Generally, this debate has been healthy, once you get past the sensationalist headlines and the election year rhetoric.

However, there have been calls for government intervention in this area, either to cap executive salaries or to amend the tax laws to limit the deductibility of certain forms of compensation. In fact, just this week the House passed legislation prohibiting companies from deducting more than $1 million in executive pay from their taxes. It is tough to follow the logic of this type of legislation. The government should not be in the business of setting compensation levels, and it should not hide tax increases under the guise of investor protection. After all, it is the shareholders who ultimately must pay for any additional taxes.

If the perceived problem is that an employee of the corporation is over compensated, then the solution is to ask the owners of that corporation, the shareholders, to say what salary is appropriate.

Historically, shareholders have encountered two obstacles in dealing with this issue. First, executive salaries are not subject to direct shareholder votes. Second, as levels of compensation have increased over time, so have the complexities surrounding the means of providing compensation. These complexities have made it difficult for shareholders and others to understand what level of compensation will ultimately be paid to management.

This SEC is in the process of trying to remedy these historical problems. This spring, the Commission determined that public corporations could no longer exclude advisory shareholder proposals concerning senior executive or director compensation. While I do not favor putting executive compensation to a direct vote, I believe these advisory proposals provide shareholders a real opportunity to express their views on the subject. In fact, in recent months, several of these proposals garnered significant percentages of the votes cast at the annual meetings held by Sears, Reebok and IBM, among others.

Voting on shareholder proposals has limited effectiveness, however, if shareholders are not able to comprehend exactly the compensation that is being provided to management. In this regard, the disclosures provided by corporations in their proxy statements or annual reports must be made clearer and easier to understand. The Commission is seeking to highlight and simplify these disclosures by using plain english, as well as charts and tables to clarify, if not replace, the single-spaced pages of obtuse language that run for pages on end. If implemented, these new requirements should help shareholders understand exactly what compensation senior

executives are receiving, especially when some variation of stock options and other sophisticated methods of compensation are being employed.

For those of you with corporate practices, the Commission's approach may entail increased work to educate your clients about these new requirements and the reasons behind them. Further, your skills will be necessary to draft the required disclosures in a clear and concise manner.

Of course, all the clear and comprehensible disclosures in the world will not satisfy shareholders unless they feel management is doing its job. At its heart, executive compensation boils down to one issue: accountability.

Very few shareholders will be inclined to complain about executive salaries when management is performing well. If management slips, however, shareholders often have only one recourse to hold management accountable: a proxy contest to elect new directors willing to replace management. Such contests are often contentious, time-consuming and costly, and in their current form, do not represent the most efficient manner for shareholders to

challenge management. For this reason, the Commission is considering certain reforms to the proxy rules to remove some of the regulatory impediments involved in the process. Some of these changes are controversial, but should provide shareholders a more direct path to express their views.

The issues surrounding executive compensation are only beginning to be addressed. The key is to make sure that these issues are decided by market participants, and not by the government. Too often, Congress is tempted to intervene when there is no demonstrated need for legislative action.
A perfect example of this unnecessary intervention is the Senate's recent consideration of a bill regarding limited partnership roll-ups.

Over the last few years there has been a significant amount of attention paid to limited partnership roll-up transactions. The attention has been justified -- investors involved in roll-ups have not always been treated fairly.

The SEC responded by adopting a number of proposals that are designed to assure investors that they will have adequate information to weigh the merits of a particular roll-up transaction. In addition, the

NASD has adopted rules prohibiting brokers from accepting compensation based solely on their solicitation of "yes" votes.

Despite these fairly comprehensive measures, the Senate is still considering several bills that would go even further. In my view, they are unnecessary. Simply put, I believe that there is no demonstrated need for additional action at this time. In addition, I believe that some of the provisions of the legislation may conflict with state law. My greatest concern is with the federal appraisal right that has been proposed. Such a provision may potentially intrude on what has traditionally been governed by state law. It would also be detrimental to partnerships by allowing investors to re-write partnership agreements long after buying into them.

With limited partnerships, as with executive compensation, I believe that the marketplace will correct abuses if market participants have access to sufficient quantities of relevant information. As a regulator, my job is to make sure that the market is fully informed and that there exists an efficient means to address concerns as they arise. That entails requirements for adequate and understandable disclosures, not election year legislation.

Another area where the SEC has sought to increase the efficiency of the marketplace is with regards to capital formation for small businesses. Over the past two years, we have witnessed a contraction in the amount capital traditional sources have provided to small and start-up companies. Banks have tightened credit and venture capital seems to be drying up.

In response to these conditions, the SEC took a comprehensive look at its regulatory requirements to see where unnecessary burdens on small company capital raising could be eliminated. The result was the Small Business Initiative announced in March. The Initiative includes numerous proposals to change existing SEC rules, and to amend the statutes we operate under. They are intended to achieve several goals.

- First, they should simplify disclosure requirements for small businesses, while retaining information essential to investors.

- Second, the proposals are designed to make it easier for a small business to tap the capital markets for funds earlier in the company's existence.

- And third, the proposals should make it easier and less costly to form pooled investment vehicles like venture capital funds and business development companies.

Now let me turn to the specifics of the proposals.

To facilitate public offerings for small businesses, the SEC proposed a new offering form -- Form SB-1 -- for any offerings by businesses with annual revenues less than $15 million. These companies encompass close to one-third of all reporting companies. In addition, the SEC has requested comment on a new series of "small business" forms for periodic reporting purposes. The new forms, "10-K Junior" and "10-Q Junior," will be written in plain English and will involve simplified disclosures making them easier to use.

Several of the proposals are aimed at expanding exemptions from the registration requirements. For example, one of the proposals would increase from $1.5 million to $5 million the amount of securities that can be offered under the streamlined process provided by Regulation A for small offerings. The Commission also proposed changes to Regulation A to permit a small business to use

a simplified "Q & A" form and to "test the waters" for investor interest without preparing and submitting offering documents first to the SEC.

In addition, the SEC has recommended a statutory change to the SEC's authority to exempt small issues from Securities Act registration requirements. The change would increase the SEC's exemptive authority from $5 million to $10 million.

Moreover, the SEC's proposals were aimed at easing some restrictions on investment companies that invest in small or start-up businesses. For example, the SEC has proposed allowing a Small Business Investment Company to issue $15 million, rather than $5 million, of securities under Regulation E each year. In the future, the SEC will soon seek comment on proposals to allow funds to redeem securities at intervals less frequent than daily, which should provide much-needed flexibility to venture-capital funds.

Finally, the SEC also has made several recommendations to Congress to amend the Investment Company Act of 1940 in hopes of removing certain barriers facing those individuals wishing to form investment vehicles to invest in small businesses.

The proposed amendments include the following:

- First, relaxing the attribution rules used to determine whether a company has under 100 investors and is thus exempt as a "private investment company;"

- Second, creating a "qualified investor investment company exception" to allow any number of qualified investors to form an investment company;

- Third, increasing from $100,000 to $10 million the amount of securities that can be issued by an exempt intrastate investment company;

- and fourth, relaxing some of the requirements for Business Development Companies, which are investment companies that specialize in small business investment.

As a result, investors should have an easier time forming vehicles to provide precious capital to young companies in desperate need of funds.

The Small Business Initiative was the result of Chairman Breeden's decision to order a comprehensive examination of the Commission's regulatory requirements as they apply to small businesses. They do not, however, signal a change in the SEC's commitment to its first and most important responsibility: to protect investors. Although some may criticize the SEC for loosening up disclosure requirements, it is important to understand that nothing in these proposals provides issuers with a safe harbor to commit fraud.

This tension between easing regulatory burdens and maintaining sufficient investor protection presents a constant challenge to the SEC as we strive to remove unnecessary regulations and make our markets more efficient. Nowhere is this tension greater than in the investment company industry. The Investment Company Act of 1940 was born out of the necessity to protect the public from disreputable sponsors who sought to use investment company assets to further their own business interests.

Since that time, mutual funds have grown into a $1.5 trillion industry, and continue to expand at a phenomenal pace. Yet the origin of many of the rules and regulations presently in place can be traced to abuses that existed when the Act was passed. While the

possibility of many of these same abuses exists today, the rules and regulations under the Act can and must be made more flexible and efficient to deal with the problems and challenges presented by today's more modern and inclusive financial markets. Of course, in considering any changes to the this system of regulation, investor protection remains a vital concern and the number one priority.

Three weeks ago, the Division of Investment Management issued a comprehensive 500 page report detailing proposals to make update the laws governing pooled investment vehicles. A week later, the Commission took the first step in implementing these proposals by issuing for comment a rule designed to exclude most asset-backed securities from the definition of an investment company. This rule will replace the need to obtain no-action letters on a case by case basis, and instead exempt these securities from regulation on an all inclusive basis.

As I said at the time we considered this change, I think that this proposal represents an appropriate response to the tremendous but orderly growth in the structured finance market over the last decade. The proposal shows enormous flexibility and vision, not only in addressing the current needs of this market but in attempting to

provide for its natural evolution. It's significant that a regulatory agency can have the wisdom to give up active regulation when the markets have shown that they have adequate discipline.

There is a substantial potential market for certain types of structured financing that has not developed because of limitations in the Investment Company Act. Today, these deals are sold primarily to sophisticated U.S. investors and overseas to foreign investors. I believe that this proposal will allow a much broader public market to develop for these deals. It should also provide increased flexibility for companies to manage their portfolios and balance sheets. In a time of increased global competition for capital, it is crucial that we do anything we can to make capital more accessible and the cost of it more competitive. Further, to the extent this market can be developed to securitize small business loans, we may be able to provide increased and less expensive capital to that sector of our economy.

This proposal is only the first of many that will be submitted as a result of the '40 Act study. In the future, there will be proposals issued for comment dealing with a wide variety of topics, including, among others, allowing for the creation of new interval funds,

facilitating the sale of mutual fund shares to the public through the use of off the page advertising, and providing increased information to participants in retirement plans.

Specifically, the Division has recommended certain changes to inject some middle ground between open-end and closed-end funds. Currently, investors initially face a black or white decision in choosing a fund. Open-end funds provide excellent liquidity, but severely limit the portfolio managers investment opportunities. On the other hand, closed-end funds provide low liquidity, but increase the options available to portfolio managers.

Several alternatives are available address this situation so that investors can participate in mutual funds that more closely address their needs. First, interval funds could be created to allow shareholders to redeem shares at net asset value at some regular interval, but not daily. For example, an interval fund might provide that shares could be redeemed on a given day each quarter or month, but only on that day.

Alternatively, an open-ended fund could extend the time in which it would redeem shares, and become an extended payment

open end fund. Or, a closed-end fund could provide for regular repurchases of its shares so that the market and investors have the benefit of increased liquidity.

The popularity of these types of funds remains to be seen. But in a free market, these options should be available, especially if they will benefit investors. Further, by freeing portfolio managers of some of the constraints imposed by daily redemptions, these managers will be free to invest in securities of less liquid companies, thereby increasing liquidity in certain sectors of our capital markets.

The Division also recommended changes to the regulations for mutual fund advertising. In doing so, the Division hopes to provide investors with more informative ads, and also make investing easier by allowing purchases of mutual funds directly from an advertisement, a so-called "off-the-page" purchase. To protect investors, the advertisements would still be subject to prospectus liability. Some have criticized the Division's recommendation as lessening the protection available to investors.

However, off-the-page purchases are currently allowed in the United Kingdom and other European countries, and I am confident that the Commission will be able to maintain or increase investor protection by developing standards to govern the content of the advertising employed. After all, anyone in this room can pick up the phone, call their broker and purchase securities in thousands of publicly held companies without seeing a prospectus first.

These are some of the highlights of the Division's report. In the months ahead, I look forward to working with the other Commissioners to address each of the Division's recommendations. Perhaps the most interesting area of future activity will be the approach taken to the internationalization of the securities markets. Not only do U.S. mutual funds want the ability to sell shares overseas, but U.S. investors deserve the opportunity to purchase shares of foreign funds.

Presently, global politics and economics have limited mutual fund investment opportunities for both U.S. and foreign investors. However, as I mentioned when beginning these remarks, the securities industry is more dynamic today than ever before. The world as we know it is changing. The evidence is overwhelming: from 1984 to 1990, gross cross-border equity flows have increased from about $300 billion per year to about $1.7 trillion per year; and huge multinational offerings, such as Telephonos de Mexico, Attwoods PLC Worldwide, and New Zealand Telecom, are now a reality. We must prepare for the 21st century by addressing concerns raised both here and abroad. Moreover, our markets must continue to be responsive to the changes and competitive pressures present in today's global economy. We can achieve these goals by remaining vigilant against unnecessary burdens on our capital markets and responding to the reality of international trends as they arise.

Today, my remarks focused on three different areas where the SEC has addressed concerns raised by a vibrant and evolving market economy. These are but a few examples of the Commission's continuing efforts to strengthen our capital markets and help our nation's economy grow and prosper. As counselors to the participants in the marketplace, and individually as a direct

participants, you have the opportunity to assist in the transformation of the securities industry. Your presence here today serves as an indication of your willingness to take advantage of this opportunity. As the Commission issues proposals and seeks comments on its future courses of action, I look forward to hearing your views. Thank you.