

NEW YORK STOCK EXCHANGE
BOARD OF GOVERNORS
NOVEMBER 1, 1984

SEC EFFORTS AND ISSUES
JOHN SHAD

THE SEC HAS BEEN INCREASING, INVESTOR PROTECTIONS,
AND REDUCING, UNNECESSARY PAPERWORK AND OTHER EXPENSES -
THAT ARE ULTIMATELY BORNE BY INVESTORS.

IN THE NEXT 15 MINUTES,
I WOULD LIKE TO HIGHLIGHT SOME OF THESE EFFORTS,
FUTURE GOALS, AND IMPORTANT ISSUES,
AND THEN SOLICIT YOUR COMMENTS AND SUGGESTIONS.

EFFORTS TO INCREASE INVESTOR PROTECTIONS,
INCLUDE THE FOLLOWING.

THROUGH AUTOMATION,
PAPERWORK REDUCTION, AND OTHER IMPROVEMENTS,
EACH SEC DIVISION, HAS ACHIEVED RECORD RESULTS -
OR THE HIGHEST LEVELS IN SEVERAL YEARS -
IN EACH OF THE LAST THREE FISCAL YEARS,
WITH 5% LESS PERSONNEL.

INCREASES SINCE FISCAL 1981,
RANGE FROM 20 TO 75%
IN THE ANNUAL VOLUME OF ENFORCEMENT CASES;
INVESTMENT COMPANY AND ADVISER INSPECTIONS;
BROKER-DEALER REPORTS PROCESSED;
AND FULL DISCLOSURE FILINGS HANDLED.

AND THE ANNUAL VOLUME
OF ACCOUNTING FIRMS PEER REVIEWS -
UNDER THE PUBLIC OVERSIGHT BOARD'S
AND THE SEC'S OVERSIGHT -
HAS BEEN INCREASED BY OVER 100%.

BECAUSE OF THE GREATER LEVERAGE,
INSIDE TRADERS AND MARKET MANIPULATORS,
OFTEN DEAL IN OPTIONS, RATHER THAN STOCKS.

AT THE COMMISSION'S INITIATIVE,
AND WITH THE FULL SUPPORT
OF THE NEW YORK STOCK EXCHANGE,
THE EXCHANGES AND THE NASD
ARE INSTALLING ELECTRONIC SYSTEMS,
AND TRANSACTION AUDIT TRAILS,
TO MONITOR, SIMULTANEOUSLY,
THE INTER-RELATED, STOCK AND OPTIONS MARKETS.

TRANSACTION AUDIT TRAILS ALSO,

ACCELERATE THE PROCESS, AND THE COSTS -
ULTIMATELY BORNE BY INVESTORS -
OF MATCHING-UP BUYERS AND SELLERS,
AT THE END OF EACH TRADING DAY.

THE SUPERVISION AND INSPECTION,

OF ALL OVER-THE-COUNTER BROKERS,
HAS BEEN CONSOLIDATED,
WITHIN THE NASD, UNDER THE SEC'S OVERSIGHT.

AND THE SEC ACCORD WITH SWITZERLAND,

HAS REMOVED THE HAVEN, OF THE SWISS SECRECY LAWS,
FROM THOSE WHO WOULD TRADE ON INSIDE INFORMATION.

DURING THIS PERIOD,

OF INCREASING INTERNATIONALIZATION
OF THE SECURITIES MARKETS,
THE SWISS ACCORD IS AN IMPORTANT PRECEDENT.

IN ADDITION, THE COMMISSION PROPOSED -

AND THE PRESIDENT SIGNED IN AUGUST -
THE INSIDER TRADING SANCTIONS ACT.

WHILE INSIDE TRADERS ARE SUBJECT TO POSSIBLE,

CRIMINAL AND OTHER SANCTIONS,
MOST HAVE ONLY BEEN COMPELLED
TO DISGORGE THEIR PROFITS -
WHICH HASN'T BEEN MUCH OF A DETERRENT.

NOW THEY WILL BE SUBJECT TO FINES -
UP TO 3 TIMES THEIR PROFITS.

THE COMMISSION HAS ALSO PROPOSED LEGISLATION,
WHICH WOULD, NARROWLY PROSCRIBE,
CERTAIN SELF-TENDER OFFERS,
DILUTIONARY FINANCINGS,
AND THE GRANTING OF "GOLDEN PARACHUTES",
DURING, BONAFIDE TENDER OFFERS.

"BONAFIDE TENDER OFFERS" ARE DEFINED AS
UNCONDITIONAL OFFERS,
TO PURCHASE AT LEAST 10% OF A COMPANY'S SHARES,
AT AT LEAST A 25% PREMIUM,
OVER THE PRIOR MARKET PRICE.

THE COMMISSION RECENTLY OPPOSED,
THE HOUSE TENDER OFFER BILL,
IN PART BECAUSE IT LACKS SUCH CAVEATS,
AND WOULD, THEREFORE, PERMIT
"LOW BALL" BIDDERS, TO BLOCK COMPANIES,
FROM DOING LEGITIMATE FINANCINGS,
SHARE RE-ACQUISITIONS,
AND FROM ENTERING INTO
TERMINATION CONTRACTS WITH EXECUTIVES.

THE LEGISLATION PROPOSED BY THE COMMISSION,
WOULD ALSO PROSCRIBE, "GREENMAIL" TRANSACTIONS,
AND CLOSE THE SO-CALLED 13D, 10-DAY WINDOW.

THOSE WHO ACQUIRE OVER 5% OF A COMPANY'S SHARES,
WOULD HAVE TO DISCLOSE IT IMMEDIATELY -
INSTEAD OF 10 DAYS LATER.

THERE HAVE BEEN INSTANCES,
WHEN 20 TO 30% OF A COMPANY'S SHARES,
HAVE BEEN ACQUIRED, DURING THE 10 DAYS.

THE FOREGOING ARE RECENT EFFORTS,
TO INCREASE INVESTOR PROTECTIONS.

EFFORTS TO REDUCE, UNNECESSARY PAPERWORK AND OTHER EXPENSES -
ULTIMATELY BORNE BY INVESTORS -
INCLUDE THE FOLLOWING.

THE SHELF REGISTRATION RULE,
AND THE INTEGRATION OF CORPORATIONS'
REGISTRATION AND REPORTING REQUIREMENTS,
HAVE INCREASED, CORPORATIONS' FINANCING FLEXIBILITY,
AND REDUCED THEIR EXPENSES -
FOR THE BENEFIT OF THEIR SHAREHOLDERS -
BY OVER A BILLION DOLLARS PER ANNUM.

SHELF FILINGS ARE RUNNING AT THE ANNUAL RATE
OF OVER 40 BILLION DOLLARS.

THE VAST MAJORITY,
ARE INVESTMENT GRADE DEBT ISSUES.

CORPORATIONS MUST CONTINUE TO MAKE,

FULL DISCLOSURE OF ANY NEW, MATERIAL DEVELOPMENTS -
WHETHER OR NOT THEY HAVE FILED SHELF OFFERINGS -
BUT BILLION DOLLAR ANNUAL SAVINGS HAVE RESULTED,
FROM LOWER INTEREST, UNDERWRITING, LEGAL
AND PRINTING EXPENSES.

THE MOST IMPORTANT HAVE BEEN INTEREST SAVINGS,

AS A RESULT OF GREATER COMPETITION,
BETWEEN THE INSTITUTIONAL INVESTORS,
THAT HAVE ALWAYS PURCHASED THE BULK
OF INVESTMENT GRADE DEBT OFFERINGS -
WHETHER SHELF OR CONVENTIONAL.

WITH THE BENEFIT OF THE STOCK EXCHANGE'S ADVICE AND GUIDANCE,
EXPANSION OF THE INSTITUTIONAL, BOOK-ENTRY DELIVERY SYSTEM

HAS REDUCED, BROKERS' AND AGENT BANKS' EXPENSES -
WHICH ARE ULTIMATELY BORNE BY INVESTORS -
BY OVER \$350 MILLION PER ANNUM.

BOOK-ENTRY, IS OF COURSE,

IN LIEU OF THE EXPENSIVE PROCESS,
OF PHYSICALLY DELIVERING BUNDLES OF SECURITIES.

MORE REMAINS TO BE DONE IN THIS AREA.

WITH THE HELP OF THE SIA,
UPDATING, BROKERS' CLEARINGHOUSE DEPOSIT
AND NET CAPITAL REQUIREMENTS,
HAS FREED-UP OVER, A BILLION DOLLARS OF CAPITAL -
WHICH HAS HELPED SECURITIES FIRMS,
HANDLE THE UNPRECEDENTED VOLUME OF TRADING AND FINANCINGS,
WITHOUT PROBLEMS.

NEW, PRIVATE PLACEMENT AND SMALL BUSINESS EXEMPTIONS -
OF SECURITIES OFFERINGS TO OTHERS THAN THE PUBLIC AT LARGE -
HAVE ALSO RESULTED IN SUBSTANTIAL SAVINGS
TO CORPORATIONS AND THEIR SHAREHOLDERS.

FINANCINGS UNDER THESE NEW EXEMPTIONS,
ARE RUNNING AT THE RATE
OF \$20 BILLION PER ANNUM.

ALSO, SIMPLIFICATION AND IMPROVEMENT,
OF PROXY STATEMENTS AND MUTUAL FUND PROSPECTUSES,
HAVE REDUCED THE COSTS, AND INCREASED THE UTILITY,
OF THESE DOCUMENTS TO INVESTORS.

THE SEC ACCORD, WITH THE COMMODITY FUTURES TRADING COMMISSION,
HAS PERMITTED THE AUTHORIZATION OF NEW OPTIONS AND FUTURES,
WHICH ENABLE INVESTORS, BANKS, UNDERWRITERS AND CORPORATIONS,
TO HEDGE, STOCK MARKET, FOREIGN CURRENCY AND OTHER RISKS,
AT A FRACTION OF THE COSTS, OF OTHER MEANS,
OF REDUCING OR HEDGING SUCH RISKS.

IN A BROADER AREA,

IN 1981 - SHORTLY AFTER JOINING THE COMMISSION -

I BEGAN POINTING-OUT -

IN CONGRESSIONAL TESTIMONY,

MEETINGS WITH CABINET MEMBERS,

AND THE CHAIRMEN OF THE OTHER REGULATORY AGENCIES,

AND THE KEY HOUSE AND SENATE COMMITTEES -

THAT NEW FINANCIAL PRODUCTS AND SERVICES,

AND MAJOR MERGERS AND ACQUISITIONS,

HAVE BRIDGED THE TRADITIONAL GAPS,

BETWEEN THE SECURITIES AND BANKING INDUSTRIES;

AND ALSO THAT TODAY, 10 FEDERAL

AND OVER 100 STATE AGENCIES,

REGULATE ASPECTS OF THE SECURITIES MARKETS, ALONE;

I ADVOCATED:

O REGULATION BY FUNCTIONAL ACTIVITIES,

INSTEAD OF BY OUTMODED, INDUSTRY CLASSIFICATIONS;

O CONSOLIDATION OF OVERLAPPING AND DUPLICATIVE

REGULATORY ACTIVITIES;

O AND ELIMINATION OF EXCESSIVE REGULATIONS -

WITHIN AND BETWEEN AGENCIES.

IN ORDER TO IMPLEMENT THESE CONCEPTS,
I AND OTHERS, PROPOSED AND PARTICIPATED,
IN VICE PRESIDENT BUSH'S TASK GROUP
ON THE REGULATION OF FINANCIAL SERVICES.

THE BUSH TASK GROUP'S FINAL REPORT
IS AT THE GOVERNMENT PRINTING OFFICE.

MAJOR LEGISLATIVE INITIATIVES -
TO SIMPLIFY AND IMPROVE
THE REGULATORY STRUCTURE -
ARE EXPECTED NEXT YEAR.

THE ULTIMATE BENEFICIARIES, WILL BE INVESTORS AND DEPOSITORS.

THE FOREGOING SUMMARIZES RECENT EFFORTS,
TO INCREASE, INVESTOR PROTECTIONS,
AND REDUCE, UNNECESSARY PAPERWORK AND OTHER EXPENSES,
ULTIMATELY BORNE BY INVESTORS.

NOW, I WOULD LIKE TO MENTION BRIEFLY,
SOME FUTURE GOALS AND IMPORTANT ISSUES.

IN SEPTEMBER, THE SEC COMMENCED A PILOT PROJECT,
FOR THE HIGH-SPEED, ELECTRONIC FILING,
PROCESSING AND DISSEMINATION,
OF CORPORATE INFORMATION.

SUBJECT TO CONGRESSIONAL APPROVALS AND PRIVATE FUNDING,
THE SYSTEM IS INTENDED TO ACCELERATE DRAMATICALLY,
THE FILING, PROCESSING, DISSEMINATION AND ANALYSIS
OF CORPORATE INFORMATION;
REVOLUTIONIZE THE MANNER IN WHICH,
MANY INVESTMENT DECISIONS ARE MADE, AND EXECUTED;
AND CONTRIBUTE TO THE EFFICIENCY OF THE SECURITIES MARKETS.

ALSO, CORPORATIONS' COMMUNICATIONS WITH THEIR SHAREHOLDERS,
CAN BE ACCELERATED - AND AT SUBSTANTIAL SAVINGS
TO CORPORATIONS AND THE FINANCIAL COMMUNITY -
BY SECURITIES FIRMS AND BANKS,
PROVIDING CORPORATIONS, WITH THE IDENTITY
OF THOSE SHAREHOLDERS, WHO DO NOT OBJECT.

THE COMMISSION HAS ADOPTED A RULE
AND PROPOSED LEGISLATION,
TO ACHIEVE SUCH RESULTS, BY JANUARY 1ST 1986.

THE STOCK EXCHANGE, THE SOCIETY OF CORPORATE SECRETARIES
AND THE SIA,
ARE ENGAGED IN A JOINT EFFORT,
TO CENTRALIZE AND SIMPLIFY THE SYSTEM.

WITH THE HELP OF THE STOCK EXCHANGE,
ANOTHER OBJECTIVE, IS TO ACCELERATE THE IMMOBILIZATION -
OR IDEALLY, THE ELIMINATION -
OF SECURITIES CERTIFICATES,
THROUGH ELECTRONIC, BOOK-ENTRY SYSTEMS,
WHICH WILL PERMIT, MULTI-BILLION DOLLAR SAVINGS.

PROGRESS HAS BEEN MADE,

BUT MUCH MORE REMAINS TO BE DONE.

ALSO, IN RESPONSE TO THE PROSPECT,

OF BROAD SCALE, 24-HOUR, GLOBAL TRADING,

IN SO-CALLED "WORLD CLASS" SECURITIES,

THE COMMISSION IS EXPLORING WAYS TO IMPROVE

INTERNATIONAL DISCLOSURE AND ENFORCEMENT EFFORTS,

WITHOUT UNNECESSARILY BURDENING THESE MARKETS.

ADDITIONAL 1985 OBJECTIVES INCLUDE:

O FULL SCALE IMPLEMENTATION,

BY THE EXCHANGES AND THE NASD,

OF THE ELECTRONIC, STOCK AND OPTIONS,

INTERMARKET SURVEILLANCE SYSTEM,

AND TRANSACTION AUDIT TRAILS;

O AND REPEAL - OR MAJOR AMENDMENT -

OF THE PUBLIC UTILITY HOLDING COMPANY ACT,

WHICH THE SEC ADMINISTERS.

THE PRINCIPAL PURPOSES

OF THE PUBLIC UTILITY HOLDING COMPANY ACT

WERE ACHIEVED 20 YEARS AGO,

BUT IT CONTINUES TO BURDEN,

ELECTRIC AND GAS UTILITIES, INVESTORS AND CONSUMERS,

WITH PERVASIVE REGULATIONS.

IN ANOTHER AREA,

SOME HAVE QUESTIONED THE ADEQUACY,
OF THE SIPC INSURANCE FUND,
TO ADDRESS INDUSTRY CONTINGENCIES,
DURING THE NEXT BEAR MARKET.

IT IS PRESENTLY \$225 MILLION,

AND IS EXPECTED TO REACH \$300 MILLION,
BY THE END OF NEXT YEAR.

IF ADDITIONAL FUNDS ARE NEEDED,

PERHAPS BROKERS' LETTERS OF CREDIT,
CAN BE USED TO STRENGTHEN THE FUND -
AT MINIMUM COST,

TO THE SECURITIES INDUSTRY AND INVESTORS.

AND FINALLY,

A TOPIC UPON WHICH I WOULD PARTICULARLY APPRECIATE
YOUR COMMENTS AND SUGGESTIONS,

IS THE CONSEQUENCES,

OF THE EROSION OF SHAREHOLDER VOTING RIGHTS -
THE DISENFRANCHISEMENT OF SHAREHOLDERS -
THROUGH CORPORATE RECAPITALIZATIONS,

SUPER-MAJORITY, FAIR PRICE AND OTHER

CHARTER AND BYLAW AMENDMENTS,

AND NEW STATE STATUTES.

IN 1983, OVER 200 COMPANIES -

AND TWICE THAT MANY, THIS YEAR TO DATE -
HAVE IMPLEMENTED PROVISIONS,
WHICH LIMIT SHAREHOLDERS' VOTING RIGHTS.

THE LIST INCLUDES OVER 50

OF THE 200 LARGEST FORTUNE COMPANIES.

BASED ON A STUDY -

BY THE SEC'S OFFICE OF THE CHIEF ECONOMIST -
OF 87 NEW YORK AND AMERICAN STOCK EXCHANGE LISTED COMPANIES,
THAT ADOPTED FAIR PRICE, AND SUPER-MAJORITY PROVISIONS,
FROM 1980 THROUGH 1983,

THEIR SHARES DECLINED,

AN AVERAGE, OF OVER 3% MORE THAN THE MARKET,
FOLLOWING ANNOUNCEMENT OF SUCH PROPOSALS.

AND, 40 OVER-THE-COUNTER COMPANIES' SHARES,

DECLINED AN AVERAGE, OF 5% MORE THAN THE MARKET.

THE DECLINE IN MARKET VALUE

OF THESE 127 COMPANIES, AGGREGATED 1.4 BILLION DOLLARS.

ALSO, OHIO NOW REQUIRES, APPROVAL OF "CONTROL SHARE ACQUISITIONS",

BY A MAJORITY OF THE "DISINTERESTED SHAREHOLDERS".

MARYLAND REQUIRES 80% SHAREHOLDER APPROVAL,

PLUS 2/3 RDS OF THE DISINTERESTED SHAREHOLDERS.

PENNSYLVANIA, WISCONSIN, MINNESOTA AND KENTUCKY
HAVE ALSO RECENTLY ENACTED SIMILAR STATUTES -
THE NET EFFECTS OF WHICH,
ARE TO PERMIT A MINORITY,
TO VETO THE DESIRES OF A MAJORITY,
OF A COMPANY'S SHAREHOLDERS.

ALSO, AS YOU KNOW BETTER THAN I,
A FEW COMPANIES HAVE BEEN WILLING TO DELIST
FROM THE NEW YORK STOCK EXCHANGE,
IN ORDER TO GET OUT FROM UNDER,
THE ONE-SHARE, ONE-VOTE REQUIREMENT.

NASDAQ LACKS SUCH REQUIREMENTS,
AND THE NYSE'S ARE UNDER REVIEW.

ANOTHER OFFICE OF THE CHIEF ECONOMIST STUDY,
HAS FOUND THAT THE SIX NYSE LISTED COMPANIES,
THAT HAVE DELISTED SINCE 1976,
DECLINED AN AVERAGE OF 9.8% MORE THAN THE MARKET,
FOLLOWING ANNOUNCEMENT OF THEIR INTENTIONS TO RECAPITALIZE,
AND PRESS SPECULATION THAT THEY WOULD BE DELISTED.

THE THREE COMPANIES THAT ARE PRESENTLY SUBJECT
TO THE EXCHANGE'S MORATORIUM ON DELISTINGS,
DECLINED AN AVERAGE OF 12.8% MORE THAN THE MARKET,
FOLLOWING THE INITIAL ANNOUNCEMENT
OF THEIR PROPOSED RECAPITALIZATIONS.

NOTWITHSTANDING THE ADVERSE MARKET REACTION,

AND INCREASING OPPOSITION FROM INSTITUTIONAL INVESTORS,
THESE RECAPITALIZATIONS, AND CHARTER AND BYLAW AMENDMENTS,
HAVE RECEIVED, THE REQUISITE SHAREHOLDER APPROVALS.

QUESTIONS POSED, INCLUDE THE FOLLOWING:

ARE THERE ADEQUATE ECONOMIC JUSTIFICATIONS
FOR THESE CORPORATE DEFENSIVE TACTICS?

ARE SHAREHOLDERS AWARE
OF THE ADVERSE REACTION
OF THE MARKET TO SUCH PROPOSALS?

ARE GREATER DISCLOSURES NECESSARY?

WHAT ARE THE CONSEQUENCES -
TO INVESTORS, CORPORATIONS AND THE FINANCIAL COMMUNITY -
OF THE GRADUAL EROSION OF SHAREHOLDER VOTING RIGHTS?

OVER TIME, WILL SHAREHOLDERS TEND TO SHIFT,
INTO OTHER INVESTMENTS, WHICH AFFORD CAPITAL,
A STRONGER "BARGAINING POSITION", THAN NON-VOTING COMMON SHARES -
SUCH AS DEBT AND PREFERRED ISSUES, REAL ESTATE,
LIMITED PARTNERSHIPS AND ROYALTY TRUSTS?

WHAT WILL BE THE IMPACT,
ON CORPORATIONS', ABILITY TO RAISE EQUITY CAPITAL?

WILL THE EROSION OF SHAREHOLDER VOTING RIGHTS,
INVITE FEDERAL INTERVENTION?

THESE ARE A FEW OF THE QUESTIONS POSED,
BY THESE IMPORTANT TRENDS AND DEVELOPMENTS.

THANK YOU.