HOLD FOR DELIVERY

Address By

MANUEL F. COHEN

Chairman, Securities and Exchange Commission

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Last year I spoke to this Association about the need to coordinate our regulatory activities. I emphasized the need to reduce to a minimum the burdens of compliance with the complex securities laws and regulations administered by the States, the self-regulatory institutions, and the SEC. I asked for your cooperation, and pledged that of the Commission, to the end that together we could eliminate as much as humanly possible the waste of energies and resources caused by duplication and lack of coordination in our regulatory efforts.

We have made much progress since last September. New channels of communications have been opened. Others have been broadened. And new ways to coordinate our regulatory activities, ideas then only in the discussion stage, are now beginning to be put into practice. The progress made within the past year is ample proof of the desirability of these efforts. I know the Commission has been pleased with the results and, from the letters I have received from many of you, I know you are too.

Let me review briefly some of the progress that has been made. First, and this is especially gratifying to me, we have proved that coordination and cooperation does not mean a one-way flow of information to the SEC. At your suggestion I asked our Regional Administrators to make every effort to coordinate their activities with the state securities administrators. As a result we have greatly increased our joint efforts in those areas where our respective jurisdictions overlap. For example, our Regional Administrators now furnish to state administrators a schedule of proposed broker-dealer inspections to be conducted within their states before the inspections are begun. Or, if that is not possible, they notify the state administrator when an inspection begins. This parallels our coordination procedure with the NASD.

Last year I posed the question:

> "Is it necessary that inspections of the same broker-dealer firms be conducted by several regulatory and self-regulatory bodies, each looking for particular items but ignoring the requirements of the others?"

During this past year staff members from the Commission and from certain of the States have joined forces to conduct inspections. The results have been heartening. As you know, we want staff members from the States to participate with us in conducting inspections to the extent permitted by state law, either on a joint basis or as observers. Through this type of joint action we can strengthen the scope and effectiveness of the inspection program at less cost to us -- the regulators -- and with less burden on those we regulate.

We have also taken steps to inform you about important investigations the SEC is making in a particular state. And other steps have been taken to advise you of injunctive or public administrative proceedings which are to be instituted against persons or firms in your state. In this way we hope to afford you an opportunity to formulate a course of action under state law, if appropriate. These efforts to improve communications are, of course, a first and vital step in an effective coordination program.

In Washington, we have taken additional steps to make information filed with us available to the States, to the extent possible. We have, for example recently started a program to furnish a copy of the prospectus in the first registration statement filed by a company under the Securities Act of 1933 to the interested state administrators. We will also send to you a copy of any broker-dealer withdrawal form filed by a firm which has its principal office located within your state. This form, designated Form BDW, requires the firm withdrawing its broker-dealer registration with the SEC to furnish detailed information about any money or securities the firm owes, and any arrangements for payment. It requires the firm to describe any pending legal action or proceeding in which the firm is involved; to give the amount of any unsatisfied judgments or liens against the firm; and to indicate where the firm's books and records will be located. I understand many state securities administrators find this information useful in determining whether any regulatory action under state law is necessary. If any of you who are not now receiving copies of this form for firms within your State would like to obtain them, please write to the Secretary of the Commission.

Significant progress has also been made in the last year to coordinate our efforts in administering examinations given to securities salesmen. As you know, the SEC is in the examination business because of the Securities Acts Amendments of 1964, which authorize and direct the Commission to set qualifications standards, including examinations, for persons associated with broker-dealers that are not members of the NASD. Because salesmen should not have to take essentially duplicate examinations to qualify, we decided to grant reciprocity to any securities examination that meets our general standards. I am happy to report that a majority of the 31 States which require salesmen to pass a general securities examination, and the NASD, now also grant reciprocity to the Commission's examination. This is an important step toward the development of a truly uniform securities examination that every prospective salesman would take. Such an examination could cover a core of basic subjects and could be supplemented by an examination on state law, one on NASD rules if the broker-dealer is a member or on the Commission's SECO rules if he is not, and one on exchange rules if the firm is a member of an Exchange. Giving such an examination at the same time and place would save the applicant time, effort and money.

This same concept of using a basic core, supplemented by additional requirements of particular jurisdictions, has wide applicability. As you know, it has been carefully studied by one of your committees as a means of reducing the burden on persons filing broker-dealer or investment adviser application forms and amendments. I was pleased to learn that on Monday of this week the committee approved the adoption of the uniform form, which will be available to all administrators. I believe this will be recognized by industry as well as by the taxpayers as an important and cost saving action.

The common core of information would be provided by our B/D and ADV forms, which you helped us design. The information in these forms would be supplemented by information required by a particular jurisdiction. This procedure would save broker-dealers and investment advisers considerable time and expense. With your cooperation and support we can reduce considerably the burden on those persons who now must furnish substantially the same information in slightly different form to various regulatory bodies.

These steps which have been taken within the last year have been important ones. But, in pointing out these new areas of coordination, I do not mean to overlook the improvement in coordination which has occurred in other areas, such as the conduct of joint investigations and the referral of enforcement problems which avoid duplication of investigative and enforcement activities. These improvements too are noteworthy. They show that even though a high level of coordination of activities has existed in the past, improvements can still be made in the future.

I hasten to add that our efforts and proposals to coordinate the activities of the various States, the self-regulatory institutions and the SEC should not be viewed either as steps toward Federal preemption or as reflecting dissatisfaction with state regulation. On the contrary, as I have repeatedly emphasized, we believe firmly that state regulation has made, and will continue to make, significant contributions to securities regulation and that there should not be any Federal preemption. As I stated when I spoke to you two years ago, local officials provide surveillance that we could never duplicate and serve as important laboratories for new ideas. Indeed, the purpose of the SEC in urging coordination of our regulatory activities is aimed at increasing the role of the States and the self-regulatory institutions, by providing information on which they can act and by eliminating the waste of energies and resources caused by duplication and lack of coordination. This effort, we believe, will result in more effective regulation and, at the same time, reduce the burden on industry.

These efforts are especially important where self-regulation is so vital to the protection of the public. As you know, self-regulation has been a distinguishing characteristic of securities regulation. Indeed, I testified recently before a Subcommittee of the Senate Committee on Banking and Currency with respect to a proposal to extend self-regulation to another facet of the securities industry. Wholly apart from the provision for self-regulation in the federal securities laws, the success of securities regulation in the past has resulted in substantial measure from the cooperative spirit of the industry -- reinforced, of course, by the legislative command. If we as governmental regulators are to continue to expect this same cooperative spirit in the future, we must reciprocate -- not by regulating less strictly, but by regulating in a way that will reduce the burdens of regulation to the minimum possible, consistent with our need to protect the public interest.

The heightened cooperation among state securities administrators and the SEC during the past year has resulted in large measure from a better exchange of information among us. This increased flow of information has enabled all of us to perform our work in a more productive, less burdensome manner. The benefits which can result from more active exchanges of information are common to many areas of our jurisdiction.

I believe, for example, that the government, the public and the securities industry as a whole could benefit greatly from improved financial reporting by broker-dealers. We are constantly being asked to exercise our jurisdiction in areas which require a more advanced knowledge of the workings of the securities industry and a sophisticated appraisal of the effects of proposed regulatory actions. Yet we know surprisingly little of the underlying economics of this industry. The information that we expect to obtain through the proposed broker-dealer financial reports will allow us to assess in a meaningful way a number of regulatory problems, including the desirability and effect of suggested changes in trade and regulatory practices.

To illustrate that the SEC is not alone in its conclusion that there is a dearth of information about the broker-dealer community, I want to read to you a short paragraph from a Report issued in 1964 by a special committee of The National Bureau of Economics Research, a committee which included representatives of the securities industry as well as scholars. The report reads:

> ". . .[I]t is rather surprising that in the past we have had so little systematic knowledge about the securities industry as an industry, or about securities brokers and dealers as business firms. How many people are employed in this industry? Where are they located? Are there cyclical fluctuations or trends in the level of employment? What is the scope of operations in inventories of securities, volume of transactions, and number of issues traded? What are wage, profit, and cost levels? How are employement, costs, wages, and profits in this industry affected by market fluctutations? Are there economies of scale in this industry? How many firms are there of various size classifications? What are the capital positions of the securities brokers and dealers and how adequate are their equity cushions as safeguards against market fluctuations? Are there any differences between member firms and nonmember firms in these respects? How great is the degree of specialization in this industry, the degree of concentration, and the freedom of entry?"

The Report then noted that information presently received by the Commission is not adequate to answer these questions, which are clearly pertinent to a wide range of issues with which the Commission must deal. And just recently, I had the opportunity to read a thesis on the capital growth of stock brokerage firms. The scholar, like The National Bureau of Economics Research, noted that more financial information is needed to study adequately the ability of brokerage firms to attract capital--a question vital both to sound regulation and to the industry itself.

In deciding whether the desirability of having the information outweighs our reluctance to impose another reporting requirement on an already burdened industry, it is important to remember that regulatory mistakes can be costly, not only to the securities industry but to the public as well. For this reason, we must do all we can to minimize the risk of error. I would hope that the data produced by a carefully designed system of broker-dealer financial reports, coupled with computer technology, would enable us to evaluate the impact of suggested changes to a degree never before available. The securities industry is already using electronic data processing equipment to perform a wide variety of functions. I understand that some of the brokerage firms are using statistical simulation techniques in their market projections. Why not use the same techniques to predict the effect of regulatory changes? Such a project could be done on a cooperative basis, operating through existing liaison groups or through a joint committee formed for the purpose of exploiting computer technology to its fullest. The formation of one such industry committee was announced last week by Keith Funston. The

committee was organized to make recommendations to the New York Stock Exchange's board of governors for greater uniformity and paperwork procedures. A purpose is to reap fully the benefits of automation and avoid costly duplication. The committee, I understand, will supplement the efforts of various ad hoc groups which have for some time been concerned with these problems.

I have talked about improving the flow of information among the regulatory and self-regulatory agencies, and the need for better information about the securities industry in order to achieve a greater understanding of its workings. Our traditional business, however, has been that of obtaining information about securities and securities offerings for the benefit of the public investors, and I do not want to imply that we have been ignoring that area of our jurisdiction. Indeed, some of the possible innovations we have been discussing represent very significant advances.

For example, we are looking at the possibility of requiring more detailed financial reporting from conglomerate companies; that is, those widely diversified companies whose operations include a number of distinct lines of business or classes of products or services within the same overall organization. The effect of consolidated financial statements has been, at times, to obscure financial information which may be important to a sound analysis of the company's worth and future prospects. We are working with The American Institute of Certified Public Accountants to determine the extent to, and manner in which, sales and profit and loss information can be required.

The Commission has also submitted to the Congress a report on pending bills aimed at filling a gap in existing requirements by obtaining dislosure of the identity and background of persons making a bid for control of a company by a cash tender offer. The bills, S. 2731, introduced by Senator Harrison Williams of New Jersey, Chairman of the Subcommittee on Securities of the Banking and Currency Committee, and H.R. 14417, introduced by Harley O. Staggers, Chairman of the House Interstate and Foreign Commerce Committee, would require disclosure of information about persons making a cash tender offer. The disclosures would be substantially similar to those made available to investors when stock is being offered in exchange. The Commission has supported this legislation, with modifications designed to strike a fair balance between the need of the public for information and preservation of the tender offer as a useful device in corporate dealings.

These bills would also codify the Commission's authority to require disclosure in connection with the cash purchase by a company of its own registered equity securities. Specifically, the bills would authorize the Commission to adopt rules requiring a company which purchases its own shares to disclose:

(1) the reason for the purchase of its stock
(2) the source of funds
(3) the number of shares to be purchased
(4) the price to be paid
(5) the method of purchase, and
(6) such financial or other information as may be necessary for the protection of investors.

The purchase by a company of its own securities can be the subject of a number of abuses and special circumstances requiring disclosure to the seller, whether the purchases are by tender offer or made in the open market. Some of these potential abuses were the subject of recent Commission action and other proposals are under current consideration. We would welcome the more specific delegations of authority which the pending legislation would give us.

Another area in which we have been investigating ways to improve disclosures to the investing public is in connection with securities of foreign issuers. As you know, the Securities Acts Amendments of 1964 extended the registration requirements of the Exchange Act to a large number of unlisted companies with shares held by the public. This registration requirement applies to foreign and domestic issuers alike, although the Commission was given additional exemptive powers with respect to foreign securities.

As contemplated when the statute was adopted, the Commission granted a general exemption to foreign issuers, to give us time to study the special problems involved in applying our statute to foreign companies, many of them based in non-English speaking countries. This exemption was extended last April, when we asked foreign issuers whose securities are held by 300 or more residents of the United States and which have $1 million or more of total assets and 500 or more shareholders on a world-wide basis to furnish certain information to us. The requested information, which is to be available for public inspection and for study by the Commission, consists of information, documents and reports which the issuers, during their past fiscal year (1) were made public in the countries of their domicile or in which they were incorporated or organized, or (2) filed with a foreign stock exchange on which their securities are traded and which was made public by the exchange, or (3) distributed to their security holders. The furnishing of this material was requested on a continuing current basis.

I am happy to report that, as of August 4, 1966, approximately 80 foreign companies had supplied to us the information we requested.

An additional 32 foreign companies which we believe meet the size and shareholder tests have not as yet furnished any material to us, although I sincerely hope that they all will do so before long. We expect that the material will be extremely useful to us in determining the extent to which disclosures are already being made by foreign companies. We have received material from all over the world, and we appreciate greatly the attitude with which our request was, for the most part, received by foreign issuers and their governments.

The Commission is issuing a release which lists foreign companies which we believe meet the size and shareholder tests. We cannot be sure, however, that the list will include all companies which fall within the statutory tests. The list will indicate those issuers which have furnished the requested material and those which have not, and we will publish additional lists to keep the information current. The Commission is of the view that these lists will be useful to brokers and dealers in making recommendations to their customers with respect to the securities of these foreign companies.

We are especially pleased that our Canadian neighbors, who represent by far the largest number of companies with which we are concerned, were so co-operative in furnishing us with material. Approximately 32 Canadian issuers have complied with our request, as have 15 from the United Kingdom and 14 from South Africa. Others who furnished material are from Australia, West Germany, Italy, Jamaica, Japan and the Netherlands.

We in the United States are not the only ones concerned with improving disclosure to investors. This interest is now spreading world-wide. Many foreign countries are considering or have adopted important new securities regulations. In a few cases the requirements exceed our own. To be sure, our disclosure is still the most comprehensive, but in some areas it is not the most imaginative or the most useful. We can learn much from the experiences of those foreign countries.

As many of you know, securities regulation throughout the world has interested me personally for many years, and it is a subject we have studied in detail in connection with the problem I just mentioned. The current heightened activity in securities regulation here and abroad reflects, I think, some basic changes in attitude resulting from changing conditions in world securities markets.

Until the end of World War II, most large foreign industrial companies were closely-held or family corporations which, when in need of capital, obtained it from private sources rather than from the public. Debt rather than equity financing was the more common way of raising money, and there was little public investment in large corporations. Further, those who did invest equity capital were often in a position to obtain whatever information they needed about the company prior to making their investment. There was thus little pressure to compel companies to make public disclosure about their operations and their managements.

Since the end of World War II, however, a corporate revolution has been taking place in many foreign countries, a revolution which has profound implications not only for those countries in which it is occurring, but for countries like the United States which have traditionally advocated greater public disclosure of corporate information. The end of the war has seen the breakup of the family corporation and the increased need for companies to seek equity capital from the investing public. The increase in public investment has been substantial, although the amount still does not approximate the amount of such investment found in this country. As the need for more public capital has grown, so has the realization by companies, governments, stock exchanges, and other interested parties, that investors have the right to and need the protection offered by fuller disclosure of corporate information.

In Canada, for example, the Ontario government has recently enacted an important new Securities Act and a major revision of the Corporation Act. These new provisions embodied many of the recommendations of the Kimber Committee which studied the Ontario

securities markets and the Kelly Royal Commission which investigated the Windfall Oils and Mines affair in July 1964. If you have not seen the statute, I commend it to you for study and suggestions. It is one of the more sophisticated statutes of its kind in the world.

The proposed laws impose new requirements for proxy solicitations, increased financial reporting, and insider trading, which in many respects are similar to our own Federal requirements and those adopted by the States for insurance companies. The new laws would also expand the disclosure required in prospectuses. More noteworthy, however, is the provision that a purchase of a new security will not be binding on the purchaser until two days after he has received the final prospectus. This provision is similar to one which our Special Study recommended. Another interesting section of the Canadian laws deals with take-over bids, an area in which, as I mentioned before, we have particular interest.

The Ontario laws are only a part of the Canadian activity in the field of securities regulation. Some reforms have been delayed until all the Provinces have considered their own laws, and efforts are being made to coordinate Federal and Provincial laws in this field. I think we can expect to see other Provinces following Ontario's example and further reforms throughout Canada.

I referred a moment ago to the Kimber and Kelly Committees, and I would like now to discuss the important role which these and other similar committees play in improving securities regulation. You all know, of course, of our own Special Study which led to the Securities Acts Amendments of 1964. In England, the Jenkins Committee issued a report which is the basis of the pending revision of the Companies Act. South Africa has a standing committee to consider changes in its Companies Act. In the Netherlands and Australia, studies of the securities markets have just been completed. Even newer countries such as Israel and Ghana have studied how to initiate a system of securities regulation. We have been fortunate in being able to share our experience with other countries. I have testified in several countries as have other representatives of the Commission; members of our staff have visited India, Brazil, and Korea to assist in establishing systems of securities regulation or to study the securities markets in those countries. The reports of these committees over the world demonstrate that we have no monopoly on creative solutions to the problems of securities regulation, and we have been able to learn as well as to teach when we have gone abroad. Our shared experience is the most desirable type of international cooperation, and I hope that such cooperation will continue in the future.

An illustration of the fact that we have no monopoly on creativity or initiative in the area of corporate reporting may be found in the United Kingdom, where the ferment of the last few years has seen substantial reforms proposed and adopted. A new Companies Bill, implementing many recommendations of the Jenkins Committee, received two readings in Parliament prior to its recent adjournment, and is fairly certain of reintroduction and passage. The Bill includes provisions for reporting by diversified companies which go well

beyond anything we require at the present time, although some American companies make some of these disclosures on a voluntary basis. Many of these proposals have already been put into effect by the London Stock Exchange.

The English and Canadian bills are, like our Securities Acts Amendments of 1964, part of a worldwide recognition that improvements and refinements in securities regulation and financial disclosure further the interests of domestic and world capital markets. Actions by the International Federation of Stock Exchanges, of which I believe the New York Stock Exchange has recently become a member, the Federation of Stock Exchanges in Great Britain and Ireland, the appropriate committee of the Common Market government, new legislation in Germany, and proposed legislation and reform in other countries around the world, all reflect the ferment now going on in this field.

These improvements take on growing significance in light of the ever increasing internationalization of securities markets—more American securities are being traded abroad, and more foreign securities are being traded here. This internationalization of the securities markets poses new problems of regulation, cooperation and coordination on an international scale. Who should be responsible for protecting foreign citizens in the purchase or sale of U.S. company securities in a foreign country? Should we be responsible? Should the country where the transaction takes place be responsible? Or should the responsibility be shared? Similar questions arise in connection with determining who should be responsible for protecting the American citizen in the purchase or sale of foreign company securities, whether here or abroad. All of these questions, of course, must be considered in light of the authority of, and the mandate to, the Commission in the federal securities laws. Section 12(g) of the Securities Exchange Act is an answer to one facet of these problems. Other provisions of the securities laws relate to them. Cooperation and coordination of regulatory activities with the securities officials of other countries provides another answer. In the latter respect, we can look to our fine experiences with the officials of Canada and Mexico. But these past efforts at providing protections to investors in the developing world market for securities have been only a beginning. This is doubtless an area where we will be concentrating more of our attention in the future.

We, as North American securities administrators, are important participants in these developments. We have an obligation to advance them, when we can, and to learn from them as much as possible. The importance of meetings like this convention is that they provide an opportunity to share our experiences and our knowledge. I am happy to be able to join with you again this year.