



**Remarks Of**

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Commissioner\*  
U.S. Securities and Exchange Commission  
Washington, D.C.**

**Continue Successful State/Federal  
Regulatory Partnership**

**SEC/NASAA Annual 19(c) Conference  
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**\*/ The views expressed herein are those of Commissioner Roberts and do not necessarily represent those of the Commission, other Commissioners or the staff.**

**U.S. Securities and Exchange Commission  
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**I. Introduction**

As many of you are aware, pursuant to a suggestion by NASAA President Lewis Brothers, Chairman Breeden has recently designated me to serve as the Commission's liaison to NASAA. I am flattered by President Brothers' request and grateful for Chairman Breeden's confidence that I up to the task. My role as liaison is to serve as a communicator between the Commission and state securities administrators in those instances where direct communication is appropriate and which may have a beneficial effect on federal/state relations. I certainly look forward to meeting and to working with each of you in this capacity.

I am pleased to have the opportunity to participate in this Annual Conference on Uniformity of Securities Law. When Congress passed the Omnibus Small Business Capital Formation Act of 1980, it added Section 19(c) to the Act, which declares a policy of "greater Federal and state cooperation in securities matters." In furtherance of this policy, the Commission and state securities regulators, acting through NASAA, hold

an annual Section 19(c) Conference at which federal-state issues of uniformity, maximum effectiveness of regulation, minimum interference with the business of capital formation, and cost reductions in government programs affecting capital formation are discussed. These conferences have engendered federal-state cooperation on a number of matters, including a multijurisdictional disclosure system for U.S. and Canadian issuers and ongoing efforts to reduce capital formation burdens faced by small issuers. Before the Conference reconvenes into smaller working groups, I would like to discuss a few important and timely topics that I believe are of mutual concern.

## II. Small Business Initiatives

### A. SEC/NASAA Cooperation

In the past month the Commission has initiated an effort to improve the efficiency of the small business capital formation process without undermining fundamental investor protection safeguards. One of the initiatives is to reduce burdens on capital formation through increased cooperation between the Commission and state securities regulators. I know that NASAA has pledged its full assistance and cooperation in this

**effort. I can assure you that the Commission's mandate of protecting investors and safeguarding the public interest will always be, as it has been throughout the past, foremost in any action that will ultimately be taken. I urge each of you to scrutinize carefully our small business proposals to ensure that the optimal blend of investor protection and market efficiency has been achieved. I look forward to your comments on the rule proposals and the legislative proposals.**

**State securities regulators have already pioneered several innovative efforts designed to assist legitimate small businesses seeking access to capital markets. Many state securities agencies already have in place a variety of rules and exemptions to assist small businesses in their capital formation efforts. For example, NASAA developed and implemented the use of Form U-7, sometimes referred to as the Small Corporate Offering Registration system ("SCOR"). SCOR has been hailed by state securities regulators, small business operators, and others as a major breakthrough for the small business capital formation process. Securities agencies in 30 states either already have or are now in the process of putting into place**

**the SCOR system. SCOR has worked so well that the Commission has proposed to use it as an integral part of its small business initiatives.**

**In the Corporation Finance discussion group there will be, I believe, many interesting and perhaps controversial matters which may be discussed, as a result of these proposed small business initiatives. I understand that the hallmark of these sessions in the past has been that both federal and state participants are frank in these discussions. I hope that this will continue to be the case today. Your views will be especially welcome with respect to the impact of the small business initiatives both from the standpoint of investor protection and from the standpoint of easing the burdens faced by small businesses when raising capital. I understand that, in particular, your thoughts about several of the provisions in the proposed exemptive package could be most interesting. Among some of the provisions that could be of concern are:**

**(1) the removal of virtually all federal restrictions from the Rule 504 exemption --- some questions that could arise here are, how the state systems, both regulatory and enforcement, will work - and perhaps more importantly, whether those systems will be able to provide the investor**

safety net which is the basic premise behind the removal of federal limitations in the Commission's proposed de minimis exemptive provision;

(2) the so-called "test the waters" provision in the Regulation A proposal permitting issuer assessment of interest in a contemplated securities offering prior to the preparation of federal compliance documents; and

(3) the continued availability of unaudited financial statements under Regulation A even for the proposed increased offering amounts above \$1.5 million and up to \$5 million.

I have been asked by the Corporation Finance staff to specifically mention the Uniform Limited Offering Exemption project. I understand there is an annual endeavor at this Conference to get all of the states to accept this exemptive provision which so long ago was endorsed by NASAA. I hope your discussions today will accomplish that objective.

**B. AMEX EMC**

As everyone here is aware, the Commission has also recently approved the American Stock Exchange's ("AMEX") proposal to create the Emerging Company Marketplace ("ECM"). The ECM is a new auction

marketplace that lists companies too small to meet the AMEX's regular listing criteria, with the avowed goal of providing a select group of smaller companies most of the advantages and services now enjoyed by AMEX listed issuers. In order to qualify for ECM listing, the companies must first successfully pass through a screening process administered by a special AMEX committee. However, firms are not entitled to the state registration exemption usually available to companies listed on the AMEX.

The Commission received a number of comment letters from state securities regulators with respect to the AMEX ECM proposal. It is my understanding that virtually all of these concerns were satisfied through amendments to the original proposal. I certainly appreciate your help in improving this proposal and wish to encourage that same approach of careful scrutiny and constructive suggestion with respect to all Commission initiatives.

### III. NASD Transaction Reporting Proposal

A tangential issue raised in connection with the AMEX ECM proposal was the NASD's rule proposal to extend transaction reporting to Nasdaq/non-NMS securities. This rule proposal is currently pending

before the Commission and is, I understand, of interest to NASAA and its members. The NASD is proposing, with the rule, to extend transaction reporting requirements to all Nasdaq securities, so that the requirements would be the same as those currently in place for Nasdaq National Market System securities ("Nasdaq/NMS"). Transaction reporting is, in my opinion, a fundamental component of a national marketplace that accomplishes several important functions, including the following: 1) reporting enhances transparency of information for investors and issuers; 2) reporting permits immediate collection and scrutiny of trading information for regulatory purposes; and 3) reporting permits the compilation of historical price and volume data for analysis and research. The NASD has had over nine years of experience with real time reporting of Nasdaq/NMS securities and believes that capturing trade-by-trade data for dissemination to the public through the Nasdaq and vender networks is beneficial to investors and issuers. Capturing transactional information as it occurs strikes me as being fundamental to ensure regulatory and self regulatory oversight of the markets. Moreover, transaction reporting also



allows investors to monitor effectively the quality of executions that they receive.

The NASD proposal was filed with the Commission in September of last year. I hope that the Commission will act soon to approve the proposal. One of the strong points of the AMEX ECM proposal was the extension of transaction reporting requirements to ECM listed companies. The NASD proposal would extend transaction reporting to cover a much greater number of companies, and thus, in my judgment, the Commission should move expeditiously to approve the NASD's proposal.

IV. "One Stop" Filing

A. EDGAR

Another issue that requires the cooperation of the Commission and NASAA is the implementation of "one stop" filing. The staff of the Commission has been working for some time with its EDGAR project to achieve, among other things, efficient "one stop" filing for Securities Act and Exchange Act required filings. One of the important benefits of EDGAR will be the ability of filers to send a single filing to the

**Commission with instructions to forward copies of it to designated states or self-regulatory organizations for Blue Sky and other purposes.**

**It is my understanding that Commission staff has had extensive discussions with NASAA regarding the procedures and technical requirements for directing state-related electronic filings to NASAA's proposed Securities Registration Depository system and for providing NASAA access to the EDGAR public database. It is also my understanding, as a matter of information, that the Commission will soon approve the long awaited EDGAR rules.**

**There are "one stop" filing efforts ongoing in other areas as well. For example, if enacted, the Investment Adviser Oversight Act of 1992 would give the Commission authority to designate an organization, such as the NASD, its agent for the receipt of adviser filings. This would facilitate the implementation of "one stop" filing for federal and state investment adviser filings. The Commission and the states currently use a uniform registration form, Form ADV, for investment advisers. Creation of a central registration system for advisers would be more**

efficient for investment advisers, the Commission, and state securities regulators.

"One stop" filing is a concept that, in my judgment, should also be extended to cover investment companies. After all, investment companies comprise the fastest growing segment of the securities industry. "One stop" filing for investment companies is something that I would hope that NASAA and the Commission's Division of Investment Management would begin to work on in the near future, possibly as early as today.

"One stop" filing progress is being made in the broker-dealer area as well. In order to facilitate the broker-dealer registration process, it is my understanding that the Commission is preparing to join the Central Registration Depository ("CRD") system. The Commission's entry into the CRD system will permit broker-dealers to file one application for registration on Form BD with the NASD, which will enter the information into the CRD system and then electronically forward the data to the Commission for review. In addition to improving the efficiency of the broker-dealer registration process, the new system should result in significant cost savings to registrants by eliminating multiple filings with the NASD, various state agencies, and the Commission.

**V. Enforcement**

**I believe that everyone recognizes that the states play a central role in securities law enforcement. The Commission's limited resources do not permit it to detect and to prosecute all of the fraudulent schemes that occur in our capital markets. It is my impression that the Commission's Division of Enforcement and regional offices work closely with state securities regulators, and I intend to work to strengthen that relationship. The Commission strongly supports state securities law enforcement programs; and I believe that if there were not any state securities enforcement presence, at a minimum, a potential void would exist with respect to detection and prosecution of localized securities fraud schemes. I have always been a strong supporter of broad state anti-fraud authority, and it is my intention to continue to do so. It is my understanding that the Enforcement Policy Committee is working on several notable projects, including the telemarketing fraud project and the penny stock project, which will be discussed in today's working groups. I am sure that these discussions will be both interesting and worthwhile.**

**VI. Miscellaneous**

**There are a couple of other areas of interest, at least to me, that I wish to mention briefly. I encourage NASAA to remain actively involved to insure that our principal national securities marketplaces retain a listing requirement designed to protect the voting rights of common stock shareholders. This is an area which requires constant vigilance and attention. NASAA has established itself as one of the premier protectors of shareholder voting rights, and I urge you to continue to maintain that reputation.**

**Secondly, earlier this year, I requested the Commission's Division of Market Regulation to strongly consider drafting a rule to recommend to the Commission that would require any broker-dealer that "recommends" unrated municipal bonds to retail customers, whether in primary or secondary transactions, to fully document its reasons for determining that the investment was suitable for a particular investor. Broker-dealers currently are required by law to make such a suitability determination, and most already do so. Nevertheless, in other circumstances, requiring a written record of that suitability determination has proven valuable in**

**focusing the dealer's attention on the need to ascertain the investor's objectives and on the ability of both the Commission's and the NASD's enforcement staffs to detect problems before investors are seriously harmed. I hope that NASAA takes a long look at this proposal to see if it is something that you could support. It is my understanding that state securities regulators expend a good deal of time and energy policing the municipal securities market. I believe that my proposal would assist your efforts in this regard.**

**Speaking of municipal securities, it appears that the Commission will, in the near future, approve the Municipal Securities Rulemaking Board's ("MSRB") rule that permits the MSRB to accept and disseminate voluntary submissions of continuing disclosure information on a pilot basis. If that approval does occur, I will be ecstatic. I have always viewed the startup operation of the MSRB's continuing disclosure information pilot system to be a momentous step toward the creation of an efficient secondary market disclosure program for the municipal securities market.**

**VII. Conclusion**

**In conclusion, the Commission and NASAA have formed a vibrant, successful partnership. From joint enforcement efforts to "one stop" filing systems, the Commission and NASAA have accomplished a great deal by working together. Our objectives are the same -- to safeguard investors, to maintain the integrity of our securities markets, and to improve the efficiency of those securities markets. Communication problems will always crop up between two large organizations. I pledge to strive to minimize those communication problems. During my tenure on the Commission, it is certainly my intention to work to continue the successful partnership that has developed.**