



OPENING STATEMENT OF

**RICHARD C. BREEDEN, CHAIRMAN
U.S. SECURITIES AND EXCHANGE COMMISSION**

OPEN MEETING OF THE COMMISSION

JULY 16, 1992

**U. S. Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549**

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Today's proposals represent additional steps that the Commission is taking in response to the President's call for regulatory relief to spur economic growth, as the Commission outlined in its Report to the President on Regulatory Reform Initiatives dated April 28, 1992. The proposals are designed to facilitate capital raising and to reduce the cost of financing through the securities markets. The two items on the agenda today are (1) an expansion of the kinds of institutional investors that can buy nonregistered securities in the "Rule 144A" private placement market, and (2) an expansion of the Commission's successful and proven program of providing quick and easy access to the securities markets through larger "shelf registrations" for issuers. Today's changes would permit use of the same techniques to provide easier access to capital for smaller companies by expanding availability of shelf registration for securities backed by pools of small business loans or other financial assets.

Rule 144A

The first item on the agenda is a proposed revision to Rule 144A. Rule 144A provides an exemption from registration for sales of securities to "qualified institutional buyers," generally institutions with \$100 or more invested in securities. Since its adoption in April 1990, over \$19 billion of securities have been

sold in 184 Rule 144A transactions. More than 100 offerings under Rule 144A have been made by foreign companies who often use this market to enter the U.S. market for the first time. Today's proposal would expand the universe of "qualified institutional buyers" under Rule 144A. The proposal would:

1. include bank collective trust funds whose participants are pension and benefit plans;

2. permit insurance companies to purchase for their unregistered separate accounts; and

3. allow institutions to include government securities along with other securities in determining whether they have the requisite \$100 million invested in securities.

Collectively, these changes should add approximately \$1 trillion in buying power to this market.

Expansion of the Availability of Form S-3

Form S-3 is the short-form registration statement currently used by issuers with sufficient information in the market and with a large public float of their stock. Form S-3 is shorter than other registration statements because it allows unrestricted incorporation by reference of both past and future filings (such as annual and quarterly reports) into the registration statement. This allows a shorter prospectus, faster turnaround, simplified updating, and lower costs to the issuer.

An additional major advantage of the ability to use Form S-3 is that the issuer can designate in a filing an amount of

securities that it expects to issue in the following 2 years (referred to as putting the securities "on the shelf") and sell these securities on a delayed or continuous basis. No pre-clearance with the Commission is required where securities are taken off the shelf. For example, General Motors Acceptance Corporation (GMAC) did approximately 500 offerings from one shelf registration statement filed in 1989. Other issuers making effective use of the shelf registration process are IBM Credit Corp, DuPont and AT&T Credit Corp., just to name a few. These companies have enjoyed faster access to the capital markets and more flexibility.

The amendments proposed today include the following:

1. The public-float tests for non-investment grade primary offerings would be reduced from \$150 million to \$75 million, and the current 3 million share trading volume test would be eliminated. Also, the currently required 36-month history of filing annual, quarterly and other reports would be reduced to 12 months. As a result, the number of companies eligible to use Form S-3 will increase by roughly 30%, adding an estimated 450 companies to the current 1500 companies eligible to use it. This will allow companies with an estimated \$88 billion of market capitalization to use this cost-saving process.

2. Investment-grade asset-backed financings would be added to categories of offerings eligible for Form S-3, with no reporting history required. This step will save thousands of repetitive pages filed by issuers of securities back by assets such as credit

card receivables and car loans. This proposal may also encourage the securitization of small business loans.

3. Form S-3 would be amended to permit a dollar amount of securities to be registered, without specification of the amount allocable to specific types of equity and debt. This change should make it easier for companies to sell equity securities through the shelf registration process, as well as the more typical use of shelf registration for debt securities.