

ADDRESS

OF

EDMOND M. HANRAHAN

CHAIRMAN, SECURITIES & EXCHANGE COMMISSION

Before the

NATIONAL ASSOCIATION OF SECURITIES ADMINISTRATORS

Multnomah Hotel

Portland, Oregon

July 19, 1948

It is a real pleasure to be here in Portland enjoying the hospitality of your association; and, I can say with all sincerity that it is a high honor to have again the privilege of addressing this group at your 31st annual meeting. I have come to know many of you personally over the past few years and have immensely enjoyed working with you. My chief regret at the moment is that all members of the Commission could not accept your invitation and be present. However, every one of the Commissioners sends his greetings and his wishes for a pleasant and successful meeting.

Commissioner McEntire, particularly, sends his regards. He still retains many pleasant memories of last year's convention in Florida.

I don't propose to hold you with any lengthy dissertation today. Competition with the pleasures afforded by Portland is too much of a task. Moreover, in these summer months, I hold to the old thesis that, after ten minutes of talking, there is little learning or listening. Or, as I've heard it in another context, in warm weather, after ten minutes, even the Gospel gripes.

Nor shall I attempt to bore you with the performance record of the Commission since your last meeting in October. Most of you are intimately interested in and familiar with the Commission's activities. If any further enlightenment on that score should be sought, I believe we can fill in the gaps during a few social sessions.

In general, we at the Commission have been continuing to simplify the various forms used for filing under the Acts we administer. We aim to bring these to the point where they contribute most to investor information and facilitate to the greatest extent the process of registration. Simple forms, and the greatest possible material information are our objectives. With this end in mind, we are now attempting to simplify and clarify the forms and rules under the Securities Exchange Act of 1934.

There is one development, however, which I believe warrants analysis and discussion at this meeting. This pertains to a proposal for adoption of a rule to facilitate rights offerings to stockholders.

You may remember that, back in 1946, the Commission sent out to the public for comment, three proposed rules -

- (1) the so-called red herring rule
- (2) the rule which would have permitted the use of summaries prior to the effective date of a registration statement, and lastly,
- (3) a rule which would have permitted the use of a red herring plus a supplemental document as a definitive prospectus.

You will recall that Rule 131, the red herring rule, was adopted in December, 1946, and the other two rules were held for further consideration.

During the last few months a proposal was made that the document rule be adopted but be limited to those situations where rights or warrants to subscribe to additional securities are offered by the issuer to its stockholders.

The proposed rule would state in substance that in such rights offerings the prospectus requirements of Section 10 of the Securities Act of 1933 would be met, if the issuer should (1) send or give to its stockholders a proposed prospectus meeting the requirements of Rule 131, and (2) after the effective date of the registration statement, send or give the same stockholder a document containing the price and price related items omitted from the proposed prospectus. This document would have to incorporate the proposed prospectus by reference and be sent or given to the stockholder not more than twenty days after the proposed prospectus was sent or given.

The reasons advanced for the Rules are: (1) that it would stimulate greatly the dissemination of information concerning the proposed offering, prior to the effective date, and thus give the stockholder the essential data

and time to determine whether to buy, and (2) it would resolve to a great extent the problem of mailing to stockholders a massive amount of prospectuses with the warrant on and after the effective date.

It seems to me that the rule possesses at least one definite attribute - advance dissemination of information. It has, however, certain bugs which probably can be worked out, such as the problem relative to street name certificates. For example, it might so happen that the street name would receive the proposed prospectus from the issuer and transmit it to the beneficial owner. Thereafter, the beneficial owner would sell his shares, before the effective date, to another beneficial owner under the same street name. In this case, the street name would receive from the issuer on the effective date only the document and the warrant which would be transmitted to the second beneficial owner. This result is definitely not desirable since the second beneficial owner would not receive a full prospectus. Perhaps this difficulty might be obviated by the exchanges and the N.A.S.D. adopting a requirement in such cases that the nominee advise the issuer of any such transfer of beneficial ownership prior to the effective date.

There is a further bug in the rule and one with which you, as state administrators, are closely concerned, namely, the impact of the various state laws upon a distribution effected under such a rule. In those states where securities may be sold without registration, there is, of course, no problem. But, in forty or more other states, where sales are prohibited before registration, and distribution of a red herring prospectus may constitute a sale - the problem is patent.

I understand that the question of distribution of a red herring prospectus prior to the effective date of registration is one of the problems to be considered at this meeting by the members of the association. Perhaps the proposed document rule, which is part and parcel of the general problem,

might also be debated, and your views concerning it offered to the Commission.

As fellow administrators, you realize full well the problems that confront the Commission. We shall certainly appreciate an expression of your opinions as to the merit and feasibility of this proposal in the light, not only of the federal law, but also of the several state laws which you administer.

This is but one of the many problems which we can tackle hand in hand. To my mind, it is only by such mutual cooperation that we shall be able to achieve the ultimate goal of full investor protection which we all seek.

It is comforting to note in this connection that we administrators are not alone in seeking this objective. The National Association of Securities Dealers, the Investment Bankers Association, and the many national securities exchanges, such as the New York Stock Exchange and the New York Curb, are all contributing to the accomplishment of this common goal.

By reason of the joint effort of all parties, the securities market has reached a high peak of professional integrity. True, there are still some recalcitrants in the field. But I am confident that with our continued joint endeavor we shall be able to remove these few sharpers.

Such cooperation amongst us has been and will continue to be essential. We have come a long way since the trying twenties. Investor confidence in the securities markets, so sorely tried in the twenties and early thirties, is slowly but surely returning. No longer need the investor fear the baneful bucket shop; and he can be reasonably sure that he is not investing in a tailor-made market operated for the benefit of a few.

It is this investor confidence which we must nurture and safeguard. This is the aim not only of the securities administrators but of all honest men in the securities business.

This is particularly true in the present international crisis. An honest market, operated by honest men, can go toward staving off inflationary trends which might lead to depression. An honest market will bring in investor dollars to build new business, and contribute to the growth of established industries.

With the active assistance of our securities market, we have, all of us, witnessed the development of this country over a period of some thirty-five years from a debtor nation to the foremost creditor nation in the world. We are now called upon to play the part of protagonist in the financial rehabilitation and development of a world threatened by economic and political totalitarianism. In this new role, our securities market may be called upon to play a leading part to help, by private investment, rebuild the economies of countries outside our borders, as it has in the past built and maintained the productive capacities of our domestic enterprises. With an honest market, in which an investor may invest with confidence - a market free from artificial influences, where the customer is told the whole truth, I am sure the securities business will be able to win an "oscar" for its new role, and will earn the undying gratitude, not only of the citizens of this country, but of all the peoples of the world.