UNITED STATES OF AMERICA
before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 5673 / February 2, 1976

SECURITIES EXCHANGE ACT OF 1934
Release No. 12064 / February 2, 1976

Roderick M. Hills, Chairman of the Securities and Exchange Commission, with the concurrence of the other members of the Commission, today announced the appointment of an Advisory Committee on Corporate Disclosure. Initially the Committee will consist of thirteen members who have extensive experience with the disclosure system as attorneys, accountants, academics, financial executives, analysts and other users of information. Additional persons may be appointed if it appears that it would enhance the work of the Committee. Commissioner A. A. Sommer, Jr. will chair the Committee. Mary E.T. Beach of the Division of Corporation Finance will serve as the staff director of the study.

Background

The concept of disclosure has been central to the federal regulation of securities since enactment of the Securities Act of 1933, the "Truth in Securities" Bill. As was stated in the preamble to that Act, Congress intended "To provide full and fair disclosure of the character of securities sold in interstate and foreign commerce and through the mails . . ." This concept was expanded in the Securities Exchange Act of 1934, which provided for a system of continuous disclosure, initially only by companies listed on national securities exchanges, but subsequently extended to a large number of issuers with securities traded over-the-counter.

Following the Congressional mandates expressed in this and other legislation, the Commission has developed and refined a comprehensive system of disclosure in an effort to reflect its experience in administering the system, changes in the securities markets and the changing needs of investors.

The Commission's last study of its disclosure requirements, from 1967 to 1969, resulted in the Disclosure Study, often referred to as the "Wheat Report." The Wheat Report recommended numerous changes in the Commission's reporting requirements, strongly urged the further development of a continuous disclosure system, and recommended solutions to a number of problems relating to secondary distributions and acquisition transactions.

The Wheat Report recognized the necessity of continuing attention to disclosure policy:

> Finally, this report reflects the conclusion that change in disclosure policy through Commission rule-making should be evolutionary in nature. The results of each stage in that evolution should be tested and evaluated before further changes are made. Thus, in no sense do the recommendations represent a final set of parameters, but only the Study's judgment as to the best practicable steps to be taken at this time.

Substantial questions concerning the substance and effectiveness of the corporate disclosure system continue to be raised. In some measure, these questions reflect the intensification of forces identified by Commissioner Wheat, such as the increasing institutionalization of the markets. Moreover, since the time of that Report, an increasing body of scholarly work examining the economics and structure of information systems has evolved; increasing consideration has been given to the "random walk theory" and the efficient market hypothesis; new techniques of portfolio management are being utilized; and penetrating questions have been asked concerning the costs and benefits of the current system. In addition, the President and Congressional leaders have urged all units of government to examine their practices and procedures to determine whether they are cost effective, whether they impose inordinate burdens on business and the public, and whether competitive forces, among others, might be substituted for governmental regulation.

In response to these inquiries and in accordance with the Commission's practice of continual reevaluation of its major policies, the Commission has directed that a new study be undertaken.

Purpose

The present study will not be confined to an examination of the Commission's disclosure requirements, but will embrace the entire corporate disclosure system that has developed in this country -- partially in response to the requirements of the acts administered by the Commission, and partially in response to other forces. Initially, the Committee will seek to define the purposes and objectives of a corporate disclosure system. It will seek to identify more precisely those who make investment decisions; the information they actually use in making such decisions; the extent to which such information is found in or secured from Commission files and documents required to be prepared and distributed by Commission requirements; the means by which users secure such information; the validity, accuracy and credibility of the information used; and the types of information not presently available, or widely disseminated, which such investment decision-makers would find helpful.

It will examine the institutional framework within which disclosure presently occurs, including the roles of preparers of information, auditors, and the purveyors and users of information; the various governmental and other requirements related to disclosure, and the effect of current legal concepts and developments influencing innovation within the disclosure process. The study also will seek to identify the types of information which impact market prices, the implications of modern theories concerning portfolio management and the extent to which modern academic research concerning markets indicates the need for modifications of the system. Finally, the study will seek to ascertain the costs of maintaining the system, the costs related to the disclosures mandated by the federal statutes and the Commission rules and the identity of those who bear them.

The study will be conducted through various means, including analysis of economic and other literature concerning all aspects of disclosure; examination of the present legal structure within which disclosure occurs; and original research where needed and feasible.

If indicated by the study's conclusions, the Committee will make recommendations for changes in the present regulations relating to disclosure, including means for better dissemination of information filed with the Commission and making such filings more relevant to the needs of investors. If change is warranted, modifications of Commission rules and regulations and legislation will be suggested, where appropriate

Disclosure serves many functions under the securities laws. In addition to its function in informing investors at the time of distribution and on a continuous basis, disclosure principles are central to a number of exemptions from registration under the 1933 Act and to the liabilities that have been imposed by the courts under Rule 10b-5. It is not, however, the principal purpose of the study to explore the specific disclosures that may be necessary to the availability of an exemption or that may affect the liability of "insiders" and others under Rule 10b-5 or similar sections of the statutes administered by the Commission. Also, it is not expected that significant attention will be directed to the administrative processes of the Commission.

Membership

The members of the Committee are:

1. William H. Beaver
   Professor of Economics
   Stanford University
   Palo Alto, California

2. Victor H. Brown
   Controller
   Standard Oil of Indiana
   Chicago, Illinois

3. Arthur Fleischer, Jr.
   Partner
   Fried, Frank, Harris, Shriver & Jacobson
   New York, New York

4. Ray J. Groves
Partner
Ernst & Ernst
Cleveland, Ohio

5. Deborah E. Kelly
Director of Investment Research
Lowe's Companies, Inc.
Wilkesboro, North Carolina

6. Homer Kripke
Professor of Law
New York University
New York, New York

7. Martin Lipton
Partner
Wachtell, Lipton, Rosen & Katz
New York, New York

8. Robert A. Malin
Senior Vice President and Director
First Boston Corporation
New York, New York

9. Roger F. Murray
S. Sloan Colt Professor of Banking
and Finance
Graduate School of Business
Columbia University
New York, New York

10. David M. Norr
Partner
First Manhattan Co.
New York, New York

11. A.A. Sommer, Jr. (Chairman)
Commissioner
Securities and Exchange Commission
Washington, D.C.

12. Elliott J. Weiss
Executive Director
Investor Responsibility Research Center
Washington, D.C.

13. Frank T. Weston
Former Partner
Arthur Young & Co.
San Diego, California

A staff of four to seven persons, drawn predominately from the current staff of the Commission, will be assigned to work full-time on the project. Members of the staff selected so far are:

1. Mary E.T. Beach (Staff Director)
Chief Office of Disclosure Policy
and Proceedings
Division of Corporation Finance

2. Hugh R. Haworth
Office of Economic Research

3. Michael Rogan
Division of Corporation Finance

4. John C. Richards
Office of the Chief Accountant

5. Charles R. Wenner
Division of Corporation Finance

It is expected that a number of econometric and other studies may be undertaken, and in some instances these studies may be contracted for with outside agencies.

The Committee is expected to complete its work no later than July 1, 1977.