

AGENDA

MEETING OF ADVISORY COMMITTEE
CORPORATE DISCLOSURE

February 24, 1976
10:00 a.m.

Room 776
Securities and Exchange Commission
500 North Capitol Street
Washington, D.C.

- I. Introductory remarks by Chairman Roderick M. Hills and Commissioner A.A. Sommer, Jr.
- II. Introduction of staff and remarks by Mary E.T. Beach, staff director of the study
- III. Operating procedures of the Committee
 - A. Compliance with the Federal Advisory Committee and Freedom of Information Acts
 - 1. Requirement that meetings be open to the public
 - 2. Public nature of documents prepared for and by the Board
 - 3. Designated officer to attend meetings and approve agenda
 - 4. Minutes, approved by Chairman
 - 5. Provision for receipt of written public statements
 - B. Procedural matters requiring Committee decision
 - 1. Frequency, location and dates of meetings
 - 2. Alternate chairman
 - 3. Attendance by substitute members
 - 4. Press and public inquiries during course of study
 - 5. Extent of public participation at meetings

- 6. Rules of order
- C. Expense reimbursement for Advisory Committee members
- IV. The Committee's Charter
 - A. Purpose and scope of the study
 - B. Questions to be addressed by the study
- V. Developing a study program and timetable
 - A. Use of working groups or task forces
 - B. Use of consultants
 - C. Hearings
 - D. Participation of non-Board, non-SEC staff personnel
 - E. Study timetable
 - F. SEC staff support function
- VI. Report by Gene L. Finn (Director, Office of Economic Research) concerning research program proposed to be used in connection with the study
- VII. Report by Dr. John C. Burton (Chief Accountant of the Commission) on the AICPA's study on the objectives of financial statements and the Commission on auditors' responsibilities
- VIII. Report by Richard H. Rowe (Associate Director, Division of Corporation Finance) with respect to the 1969 Commission's Disclosure Study and the Board of the Advisory Committee on Industrial Issuers
- IX. Discussion of objectives of the current study

QUESTIONS PROPOSED TO BE ADDRESSED
BY DISCLOSURE STUDY

Conceptual Questions

- I. What should the objectives of a corporate disclosure system be?
 - A. Generally:
 1. Confidence of investors in the fairness of the market?
 2. Fairness of opportunity for investors in the marketplace?
 3. Rational establishment of security prices?
 4. Prevention of improper conduct by corporate managers?
 5. Assurance of efficient markets?
 6. Management accounting to security holders?
 7. Efficient allocation of capital?
 8. Protection of investors?
 9. Rational basis for investment decisions?
 - B. Of the SEC components of the disclosure system:
 1. Inject new or additional information into the market or to investors?
 2. Assure the integrity of information generally?
 3. Establishment of minimum standards for amount, quality and dissemination of information?
 - C. Can the extent to which the objectives are attained be measured in any fashion?
- II. What should the characteristics of formation disseminated in a properly functioning disclosure system?
 - A. Possible characteristics:

1. Reliability
 2. Timeliness
 3. Availability on a fair basis
 4. Comprehensiveness
 5. Understandability
 6. Relevance
 7. Others
- B. To what extent are, and/or should, maximum achievement of these characteristics be limited because of
1. Costs?
 2. Legal considerations?
 3. Other factors?
- C. What forces operate to maximize the achievement of these characteristics –
1. SEC filing requirements?
 2. SEC pre-use review?
 3. Concern for corporate and/or personal legal liability and sanctions?
 4. Independent review?
 5. Concern for corporate and/or personal integrity and credibility?
 6. Opportunities to secure capital in future?
 7. Other?
- III. What are the characteristics and history of the present system?
- A. History:
1. Pre-1933

2. Post-1933
 - a. Enactments
 - b. Administration of FTC and SEC
- B. Present characteristics
 1. Required disclosures
 - a. SEC
 - b. Exchanges, NASD, state law
 2. Non-required disclosures
 - a. Issuer originated
 - b. Non-issuer originated
 3. To what extent is present system effective in achieving presently desired objectives of a disclosure system?
 - a. To what extent are these objectives attained because of SEC requirements?
 4. To what extent does present system satisfy the criteria for a disclosure system stated in II, A, above?
 - a. To what extent do SEC requirements assist in meeting the criteria stated in II, A, above?
 5. How is SEC disclosure policy established under present system?
- IV. What is the relationship of disclosure to market prices, the efficiency of markets and capital formation?
 - A. What information affects market prices?

- B. What is role of information in addition to that which immediately impacts market price?
 - C. What is significance of the efficient market hypothesis with respect to disclosure policy?
- V. What are the legal implications of disclosure?
- A. What are they presently?
 - 1. Do they inhibit full realization of the goals of disclosure?
 - 2. Do they stifle innovations in disclosure?
 - 3. To what extent do they add to costs?
 - B. If legal risks presently thwart development deemed desirable, what changes should be made in the legal framework?

Question

- VI. What are the costs of the system and who bears them?
- A. What are the costs of preparing information?
 - 1. Issuers
 - 2. Others (summarizers, etc.)
 - B. What are the additional costs associated with preparing information occasioned by SEC requirements?
 - C. What are the costs of reviewing information?
 - 1. Auditors
 - 2. SEC
 - 3. Exchanges
 - 4. Others

- D. What are the costs of disseminating information?
 - 1. Issuers
 - 2. SEC
 - 3. Others
- E. To what extent does cost significantly affect the kinds of information made available and the manner of its dissemination?

- B. Is information disseminated equitably?
- C. Who controls means of dissemination?
- D. What means of dissemination are economically available now, e.g., data processing and computer technology?
- E. Is information distorted in the course of dissemination?
- IX. Who are the users of information concerning corporate issuers?
 - A. Classes of users: two or more?
 - 1. Characteristics and classifications
 - 2. How do the various classes of users secure information?
 - B. To what extent is universe of users determined by –
 - 1. Types of information available?
 - 2. Availability of information?
 - 3. Format in which information presented?

- X. What kinds of information are used and wanted by various classes of users?
 - A. Information used:
 - 1. Historical
 - a. Financial
 - b. Non-financial
 - 2. Forward looking
 - 3. Analytical
 - 4. Non-issuer related information, e.g., macro-economic data (e.g., interest rates), movements of market prices, historical stock prices of issuers' securities, industry data
 - B. Types of information wanted
 - 1. See above A1-4
 - 2. In what format wanted?
- XI. What sources of information are used by decision makers (and those who advise decision makers) in making (or advising) investment decisions (relate to classes of users)?
 - A. Filings with the Commission and mandated information
 - B. Other information originating in corporation
 - C. Financial publications
 - D. Analyses of others
 - E. Other

Conclusions

- XII. What changes, if any, should be made in disclosure system to better achieve the objectives (I, above) and satisfy the criteria (II, A, above) of a disclosure system?

- A. Inclusion of different and/or additional kinds of information in mandated disclosure documents?
 - 1. Non-issuer related information – industry information, competitor information, etc.?
 - 2. Analysis by management?
 - 3. Forward looking information?
- B. Changes in format of disclosure?
 - 1. Summarizations
 - 2. Simplification
 - 3. Disaggregation
- C. Use of additional and/or different means of disseminating information?
 - 1. Improvement of SEC information system?
 - 2. Computer storage and processing?
 - 3. Use of machine readable filings?
- D. Changes in method of establishing SEC disclosure policy?