

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

263884

OFFICE OF THE CHAIRMAN

September 27, 1984
Personal


The Honorable Edwin Meese III
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dear Ed:

If there are any important areas you feel the SEC should address during the coming year, I would be most grateful for your informal suggestions. A draft of a brief talk on the subject is attached.

With best personal regards.

Sincerely yours,


John S.R. Shad

Attachment

Harvard Business School Club
October 2, 1984
John Shad

SEC Ongoing Activities and Goals

Best Markets

The United States has today by far the best securities markets, the world has ever known - the broadest, the most active and efficient - and the fairest. The SEC's job is to help keep them that way.

Insider trading and corporate "cooking the books" cases have received publicity in the financial pages, but this evening I would like to provide an inside view of the Commission's ongoing activities and goals, and then solicit your comments and questions. I will cover a number of topics, so please note any that are of interest.

In discharging our mandate to protect investors and maintain fair and orderly markets, it would be a 10-strike if we could increase investor protections and also reduce unnecessary paperwork and other expenses, ultimately borne by shareholders.

Increased Investor Protections

Over the past 3-1/2 years, the Commission's efforts to increase investor protections, include the following.

Through automation, paperwork reduction and other improvements, each SEC division has achieved record results - or the highest levels in several years - in each of the last three fiscal years, with 3% less personnel. Increases since 1981 in the annual volume of enforcement cases, investment company and adviser inspections, broker-dealer reports processed, and full disclosure filings handled, range from 15% to 37%. And accounting firm peer reviews - under the SEC's oversight - have been increased 150%.

The Commission's budget has also increased, but as a result of the expanding volume of financings and trading, registration, transfer and other fees, have risen even faster. They are presently running at over 115% of the Commission's budget. So the SEC is now a profit center for the U.S. government.

Additional efforts to increase investor protections include initiation of the electronic intermarket surveillance system and transaction audit trails, to enable the exchanges and the National Association of Securities Dealers (NASD) to identify quickly, inter-related manipulation or insider trading in the stock and options markets - and also reduce transaction reconciliation costs, ultimately borne by investors.

Also, the supervision and inspection of all over-the-counter brokers have been consolidated under the NASD, with SEC oversight.

And the SEC Accord with Switzerland has removed the haven of the Swiss secrecy laws from those who would trade on inside information. During this period of increasing internationalization of the securities markets, the Swiss Accord is an historic precedent.

In addition, the Commission proposed - and the President recently signed - the Insider Trading Sanctions Act, which permits court imposed civil fines, up to three times inside traders' profits (or losses avoided). While inside traders are subject to possible criminal and other sanctions - such as disbarment - prior to this new law, the SEC could only initiate actions to compel disgorgement of such profits. For most, this meant that if you got caught, you had to give it back; otherwise, you got to keep it - which wasn't much of a deterrent.

The Commission has also proposed pending tender offer legislation, which would proscribe self-tender offers, dilutionary financings and the granting of golden parachutes, during bonafide tender offers by third parties; and also greenmail transactions (that is, repurchases by companies of blocks of their stocks at premiums from threatened bidders). The tender offer legislation would also close the so-called 13D 10-day window. Those who acquire over 5% of a company's stock would have to disclose it immediately, instead of 10 days later.

Reduced Paperwork and Other Expenses

The foregoing are recent efforts to increase investor protections. Efforts to reduce corporate paperwork and other expenses - ultimately borne by shareholders - include the following.

The shelf registration rule permits companies to file a single registration statement, covering the securities they expect to sell from time to time, within two years. Interest, paperwork and other savings under the shelf rule are running at over a billion dollars per annum.

Integration of corporations' registration and reporting requirements - under the multiple securities laws and regulations - is saving corporations over \$350 million per annum, for the benefit of their shareholders. Integration has also increased corporations' financing flexibility.

Expansion of the institutional book-entry delivery system has also reduced expenses - ultimately borne by shareholders - by over \$350 million per annum.

Updating brokers' clearinghouse deposit and net capital requirements has freed-up over a billion dollars of capital, which has helped securities firms handle the record volume of trading and financings.

New small business and private placement exemptions - of securities offerings to others than the public at large - have also resulted in substantial savings to corporations and their shareholders. Financings under these new exemptions are running at the rate of over \$20 billion per annum.

Simplification of proxy statements and mutual fund prospectuses, have reduced the cost and improved the utility to investors of such documents.

The SEC/Commodity Futures Trading Commission Accord resolved a seven-year jurisdictional dispute between the two agencies. This Accord has permitted the authorization of new options and futures, which enable investors and corporations to hedge stock market, foreign currency and other risks, at a fraction of the cost of other means of reducing or hedging such risks.

In a broader area, for the past half century the financial service industries have been regulated by industry categories. The SEC regulates the securities industry. The Federal Reserve, Comptroller of the Currency and the FDIC regulate the banks. The Federal Home Loan Bank Board regulates savings and loan associations. And the Commodity Futures Trading Commission regulates the commodities markets.

However, new financial products and services and major mergers and acquisitions have bridged the traditional gaps between these industries. Today, over a thousand banks and S&Ls are offering discount brokerage services. Money market funds and cash management accounts have attracted billions of dollars of deposits from the banks. Brokers are operating non-bank banks. Sears, American Express, Merrill Lynch, the Prudential and many other financial conglomerates are engaged in these and other activities.

In addition, state and federal regulatory agencies have multiplied over the years. Today, 10 Federal and over 100 state agencies regulate various aspects of the securities markets alone.

In 1981, shortly after joining the Commission, I began advocating in Congressional testimony, speeches and meetings with members of the Cabinet, the other regulatory agencies and the Chairmen of the key House and Senate committees:

- o Regulation by functional activities, instead of by outmoded industry classifications;
- o Consolidation of overlapping and duplicative regulatory activities;
- o And specific measures to eliminate redundant regulations, within and between agencies.

To implement these concepts, I proposed and participated in Vice President Bush's Task Group on the Regulation of Financial Services. The Task Group has completed its report to the President and major legislative initiatives are expected next year.

Future Goals and Objectives

The foregoing summarizes the Commission's efforts to increase investor protections and reduce unnecessary paperwork and other expenses, ultimately borne by shareholders. Now, I would like to mention briefly some future goals and objectives.

Last week we commenced a pilot project for the high-speed electronic filing, processing and dissemination of corporate information. The pilot will be carefully monitored and upgraded during the coming year. When it is fully operational, investors, securities analysts and others will have instant access - on home and business computer screens - to such information as it is filed with the Commission.

In addition to accelerating the dissemination and processing of corporate information, the system will contribute to revolutionary improvements in the manner in which investment decisions are made and executed.

Another objective is to accelerate the immobilization - or ideally, the elimination - of securities certificates through electronic book-entry systems, which will permit multi-billion dollar savings. Progress has been made, but much more remains to be done.

Also, corporations' communications with their shareholders can be accelerated - and at substantial savings to issuers and the financial community - by securities firms and banks providing corporations with the identity of their beneficial shareholders. The Commission has adopted a rule and proposed legislation to achieve such results by January 1st 1986.

The securities markets are moving rapidly toward broad scale, 24-hour, global trading in so-called "world class" securities. The Commission is exploring ways to improve international disclosure and enforcement programs.

Also, implementation next year of the Bush Task Group's legislative initiatives would greatly simplify and improve financial service regulations - for the benefit of investors and depositors.

Full scale implementation by the exchanges and the NASD of the electronic intermarket surveillance system and transaction audit trails is another 1985 objective.

The principal purpose of the Public Utility Holding Company Act - the dismantlement of multi-tiered holding companies - was achieved 20 years ago, but the Act continues to burden electric and gas utilities, investors and consumers with redundant regulations, administered by the SEC. The Commission has proposed repeal of the Act. Hopefully, repeal or major amendments will be accomplished next year.

Also, some question the adequacy of the \$300 million SIPC fund - to address industry contingencies, during the next bear market.

Another question is the consequence of the erosion of shareholder voting rights, through corporate recapitalizations, charter and bylaw amendments and state statutes. While voting rights are not accorded high value by shareholders, the question posed is the consequences to investors, corporations and the financial community of the gradual erosion of such rights. Will shareholders tend to shift into other investments which afford capital a stronger "bargaining position"? Such as debt issues, real estate, limited partnerships and royalty trusts.

These are some of the questions and objectives, to be addressed during the coming year.

Thank you.

I would welcome your comments and questions.