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Investor Relations and the SEC

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Ladies and Gentlemen:

It is a pleasure to participate in this NIRI Conference. In just 14 years, NIRI has become the leading investor relations association, with over 1,300 corporate executives and other professionals, including executives from 80% of the Fortune 1,000 companies.

This morning, I would like to highlight three topics:

- o some recent economic trends;
- o how companies can profitably improve their communication with the financial community;
- o and programs being implemented at the SEC for the benefit of shareholders and corporations.

Then I would welcome your comments and suggestions and be pleased to respond to your questions.

<u>Recent Trends</u>

The results of competition among nations are in large measure a product of their relative rates of capital formation. During the past decade, many of our regulatory, fiscal and monetary policies have actually been antithetical to capital formation.

- o Mounting regulatory burdens;
- o Rising inflation, corporate and individual taxes;
- o Inadequate depreciation allowances for tax purposes;
- o Discriminatory taxation of interest and dividends;
- o As well as double taxation of dividends;
- o And one of the highest effective rates of capital gains taxation in the industrialized free world;

have been distinct disincentives to saving and investing.

These policies have contributed to the decline in our relative rate of capital formation, among industrialized nations. The inevitable consequence has been a similar decline in the relative growth of our productivity. Our 2.5% average annual increase in productivity per man-hour during the past decade, compares with Japan's 7.4%, and Western Europe's 4.7%. In other words, Japan's productivity has been increasing at nearly three times, and Western Europe's at nearly twice the rate in the United States! Such trends cannot be projected very far into the future, if the United States is to maintain its relative position in this keenly competitive world.

We have an excellent labor force in America, but the only way we can materially improve most workers' standard of living is by increasing their productivity - and that takes capital - savings, investments and corporate profits, plowed back into new technology and production facilities, which create new jobs and multiply workers' productivity - thereby permitting substantial wage increases.

Fortunately, since 1981:

- Tax deductible depreciation allowances have been increased by over 14%;
- The rate of inflation has been reduced by over 60%;
- The prime rate by 50%;
- And the maximum federal tax rates on interest, dividends and capital gains have been reduced by over 25%;

In addition, since 1981 the annual growth rate of our productivity per man-hour has tripled. It is now growing at an extraordinary 7 1/2% annual rate and our Gross National Product, at a phenomenal 7.9% annual rate. Exceptional growth rates are not uncommon during the initial stage of the recovery from a serious recession. They are not sustainable, but continued GNP growth at the 5% level and unemployment at the 7% level, will favorably impact the large federal deficits, presently projected. This year's corporate profits are expected to exceed last year's by over 25% - and the prospects for next year are excellent.

My thesis is simply this - these increases in our investment incentives and reductions in the disincentives, have been reflected since August of last year in the broadest and strongest stock, bond and new issue markets in history; and will be reflected - during the balance of this year, 1984 and beyond - in rising demand for consumer durables, capital goods - and most important - jobs. The unemployment rate has already dropped an extraordinary two full percentage points in less than a year - from 10.7% late last year to 8.7% today - and it's expected to break 8% next year.

Thus, there has been a real change of direction in America. Major problems remain in the international arena, but the stage is set for an era of strong domestic growth and development.

As For the SEC

As for the SEC, by effectively discharging its mandate to protect investors and maintain fair and orderly markets, the SEC facilitates capital formation - as well as the mobility of capital.

America has 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, without imposing unnecessary burdens on the investing public and the business community. I will highlight in a moment programs being implemented at the SEC, but first, I would like to describe how companies can profitably improve their communication with the financial community.

Better Disclosures

Many companies view their prospectuses, proxies, annual and quarterly SEC filings as legal necessities. Some attorneys view them as "insurance policies", not to inform investors, but to be used against them in the event of litigation. If such documents contain excessive disclaimers, legalese boilerplate, minutia and redundancies they tend to obfuscate, rather than inform.

When corporate officers and directors question such ponderous documents, they are often told, "Don't worry about it. No one reads them anyway." It is true that few shareholders read them, but SEC filing documents are not only read, they are carefully studied by:

- investment analysts, advisers and brokers;
- investment and commercial bankers;
- short and long term lenders;
- the bond and credit rating agencies;
- and most important, by institutional investors, who account for 70% of the market in listed stocks and half of the over-the-counter market.

They are also reviewed by:

- o your major customers and suppliers;
- o merger and acquisition prospects;
- o key employees and the financial press.

SEC filing documents are generally the most creditable that corporations disseminate. As pointed out in the September NIRI Update, in a current survey, securities analysts ranked SEC filings ahead of annual reports, as source documents. They have a major impact on a company's market value, credit, credibility, image, reputation and business opportunities.

If portions are not written in clear, concise language, they should be boiled down into plain English. They should tell it the way it is. If they make full disclosure of the material negative and affirmative facts in clear, concise language and tables, they serve the best interests of corporations and their shareholders, as well as the intent of the securities laws.

<u>SEC 1982-83 Results</u>

Now I would like to highlight the programs being implemented at the SEC for the benefit of shareholders and corporations.

The SEC's fiscal years end on September 30th. In fiscal 1982 and 1983, which just ended, the Commission's principal divisions achieved record results in each year, or the highest levels in several years. For example, by comparison with fiscal 1981, in fiscal 1983:

- o 35% more enforcement cases were brought;
- o 28% more investment company and adviser inspections were conducted;
- o 16% more broker-dealer reports were processed;
- o and 6% more full disclosure filings were handled;
- o despite a 3% reduction in personnel.

The Commission is also implementing programs that are saving investors and corporations hundreds of millions of dollars per annum, and reducing the SEC's paperwork, but not investor protections.

Integration

For example, last year the Commission integrated publicly-owned corporations' registration and reporting requirements - under the multiple securities laws and regulations. Integration has increased corporations' financing flexibility and reduced their expenses (for the benefit of their shareholders) by well over $350 million per annum, as well as the Commission's paperwork, but not full disclosures to the investing public.

Registration Exemptions

The Commission has also exempted from registration, certain securities offerings - up to $5 million to others than the general public. The exemptions for private placements of unlimited size - with institutions and other sophisticated investors - have also been simplified and improved. Financings under these new exemptions are expected to exceed $20 billion this year. In addition, most states are expected to adopt comparable exemptions - which will be the first joint state and federal registration exemptions.

Shelf Rule

The shelf registration rule - which the SEC adopted on a temporary basis last year - permits corporations to file a single registration statement covering securities they expect to sell from time to time within two years. In addition to traditional shelf filings, about $70 billion of investment grade debt and $13 billion of equities have been registered under the shelf rule, since March of last year. About half of these offerings have come to market.

Since the Commission will be meeting on the shelf rule this afternoon, I cannot engage in a discussion of it, but I will summarize some of the pros and cons.

Based on a study of recent debt offerings, two professors have concluded that shelf debt offerings have averaged 3/10ths of 1% lower interest cost per annum, than comparable conventional debt offerings. It has also been estimated that issuers' savings in underwriting costs on equity shelf offerings have amounted to over 1% of the principal amount of such offerings.

Others dispute these savings and state that most of the shelf offerings have been sold on short notice in large blocks to institutions. They contend that the short time schedules do not permit underwriters to conduct due diligence investigations, nor investors to analyze the securities being offered; and that individual investors are being denied the opportunity to participate directly in such offerings. They recommend that instant shelf offerings be limited to debt issues - which account for the bulk of shelf offerings and are largely bought by institutions - and that equity offerings be subject to a five business day delay, in order to permit underwriters to conduct due diligence investigations and syndicate such offerings for broad public distribution, and to afford individual investors the time to decide whether to purchase them.

The Commission has been studying these and other issues for several months - and will determine this afternoon, whether to extend, modify or withdraw the shelf rule.

Net Capital Rule

In another area, the Commission has freed-up over $700 million of the securities industry's capital by updating the net capital requirements, to take into account the industry's improved financial and operational conditions; and by permitting the use of letters of credit for clearinghouse deposits and stock loan collateral. This additional capital is helping the securities industry handle the record volume of trading and financings.

Institutional Delivery System

Additional savings to brokers and agent banks - of over $400 million per annum - are expected from the Commission's recent approval of a book entry delivery system for institutional transactions.

SEC/CFTC Accord

The Accord concluded by the SEC with the Commodity Futures Trading Commission resolved a seven-year turf battle between these two agencies. This Accord has permitted the SEC and the CFTC to authorize trading in new options and futures, that are facilitating government and mortgage financings, international trade - and hedging the risks of fluctuating interest rates and securities markets.

Swiss Accord

Another Accord, concluded by the SEC with Switzerland, removed the haven of the Swiss secrecy laws, from those who would trade on inside information. During this era of increasing internationalization of the securities markets, the Swiss Accord is an important precedent.

Investment Company Prospectuses

This summer, the Commission simplified and improved mutual fund prospectuses. Henceforth, investors will receive prospectuses which contain the information they need and want. More detailed statements will be available on request.

Shareholder Communications

Also this summer, with the benefit of comments and suggestions from NIRI, the shareholder communication rules were amended to require brokers to provide issuers with the names, addresses and holdings of beneficial shareholders, who do not specifically object to such disclosures. This new rule will become effective on January 1, 1985.

Nominee Banks

The banks hold a major portion of nominee shares. The SEC lacks the authority to extend these rules to the banks, and the bank regulators may also lack such authority. The SEC has requested the bank regulators to solicit the banks' compliance, and has recommended legislation to require it. NIRI's new Government Affairs and Securities Industry Committees can also be helpful in this and other areas of concern to your companies.

Jeff Steele of the Investment Management Division, will discuss in the next session, public disclosures of the shares held by institutions and others.

Shareholder Proposals

This summer, as you know, the SEC also improved the shareholder proposal rules. Instead of one share, proposing shareholders must hold for at least 12 months 1% or $1,000 of the security to be voted. They will be limited to one, instead of two proposals. The prior votes required for resubmission, the "business related" and other requirements, have also been increased. These improvements will benefit most shareholders and reduce corporations' expenses, as well as the Commission's paperwork.

Executive Compensation

Also as you know, this fall, the SEC revised the management compensation disclosures. The old rules were so complex that articles by national publications reached different conclusions concerning management compensation.

Under the new rules, the proxy table will be limited to cash compensation. Stock options, "golden parachutes" and other contingent compensation plans will be described in the text.

The threshold for perquisite disclosures remains the lesser of 10% of cash compensation or $25,000. It is based on the incremental cost to the corporation. The old rule was based on the greater of the incremental cost or the estimated benefits to the recipient.

Self-Regulation

Self-regulation by the accounting profession and the securities industry, under the SEC's oversight, is also being enhanced. Effective self-regulation is more efficient and far preferable to state and federal regulation.

For example, the 428 accounting firms - which audit over 90% of the 9,000 publicly-owned corporations - are now on a three-year peer review cycle. The purpose of these reviews is to assure high auditing standards. They "pay for themselves" by reducing accounting firms' exposure to liabilities to those who rely on their audits.

Market Surveillance

In addition, the stock exchanges and the over-the-counter markets are enhancing their electronic inter-market surveillance systems and transaction audit trails. These measures facilitate the quick identification of market manipulation and insider trading. They also reduce the industry's transaction reconciliation costs.

National Market System

With reference to the national market system:

- o the Intermarket Trading System now electronically links all the exchanges, as well as the NASDAQ over-the-counter system;

- o by next February, last sales in over 700 national market system over-the-counter stocks will be electronically reported throughout the country, as they are executed;

- the New York Stock Exchange's expanded pilot operation - known as R-4, Registered Representative Rapid Response - permits derivatively priced, instant executions by account executives of orders up to 599 shares in 200 of the most actively traded NYSE stocks;

- and the exchanges are routinely handling 100 million share trading days, which would have been impossible a decade ago.

In a related area, the experimental linkage of the market in 30 listed stocks with the over-the-counter market has not improved or hurt the markets in these stocks. The off-board market makers have dropped out of this market. The Commission has, therefore, deferred action on an order exposure rule.

<u>Proxy and Tender Offer Rules</u>

Major programs are in progress for next year.

The Commission is reviewing the rules that govern the methods of changing control of publicly-owned corporations. Earlier this year, an advisory committee of recognized authorities reviewed tender offers, from the point of view of the best interests of all shareholders - those of bidder, target and bystander corporations. The Corporation Finance Division is presently studying the Committee's 50 recommendations and reviewing the merger proxy and contest rules, with a view to administrative and legislative proposals next year.

The Market Regulation Division is reviewing new financial products and trading practices. The Investment Management Division is engaged in a major review of the Investment Company Act. And the Enforcement Division is reviewing its remedies and practices.

<u>Pending Legislation</u>

Pending legislation initiated by the Commission includes the Insider Trading Sanctions Act. The Commission has also proposed repeal of the Public Utility Holding Company Act and has testified in support of the Financial Institutions Deregulation Act and amendments to the Foreign Corrupt Practices Act.

The Commission is also an active participant in the Vice President's Task Group on the Regulation of Financial Services, which is expected to propose major legislation later this year.

Electronic Filing

Next year, the Commission also expects to begin, a pilot electronic filing, processing and information dissemination system. The objectives are to accelerate the dissemination and analysis of corporate information by investors and securities analysts and to reduce corporations' and the SEC's expenses.

As corporations file such information electronically with the SEC, investors and analysts will have instant access to it on home and business computer screens. Through telephone links to software systems, they will be able to analyze data in minutes that would otherwise take months. For example, they will be able to display all of the listed stocks that closed yesterday at less than 6 times earnings, 4 times cash flow and 75% of their book values per share, that afford dividend yields of over 6% and have debt-equity ratios of less than 25% - and a variety of other data. They can then instantly refine such lists by industry, size and other criteria and display the latest annual and quarterly reports and other documents of those companies that appeared to be undervalued. They will also be able to obtain hard copy on their accessory print-out equipment.

The system will also accelerate the SEC's screening of filings and the rapid identification of those which require detailed review.

The pilot operation is expected to begin next year. It will be tested and debugged for a year or more. Full scale implementation is intended to coordinate with the rapid growth of home computers - from 5 million today to over 60 million in five years. By then, it is also expected that investors will be able to enter their market orders directly on their own computer terminals and receive instant confirmations. They will also be able to retain their portfolios in their data banks and instantly price them to the market.

Conclusion

To sum up, the increase in the nation's investment incentives and reduction in the disincentives since 1981, have set the stage for an era of strong domestic growth and development.

Progress is being made in reducing, simplifying and improving regulations for the benefit of investors and corporations.

The future offers the challenging prospect of further major improvements in the regulatory structure of the financial service industries, and the exciting potential of high speed, electronic communication and analysis of corporate information. Thank you. I would welcome your comments and suggestions and be pleased to respond to your questions.