DIVISION OF CORPORATION FINANCE

TRAINING PROGRAM LECTURES

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Subject: The Securities Exchange Act of 1934
and
Stock Exchange Listings and Problems
of Stock Exchanges

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and

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Mr. Shreve: The Securities Exchange Act is the second in the arsenal of weapons against fraud in the sale of securities that was entrusted to this Commission. It was the Act which created the Securities Exchange Commission.

The purpose of the Act is to insure the maintenance of fair and honest markets for securities transactions. The Act includes a variety of provisions, the most notable among which are: a provision for registration and regulation of stock exchanges, a provision for regulation of securities for listing on such exchanges, a provision for imposing reporting requirements in compliance with the proxy rules by companies whose securities are registered on stock exchanges, and provisions for reports by insiders of trading and accountability for "short swing" profits arising from such trading.

The Act also provides for reports by certain unlisted companies whose securities are registered under the Securities Act of 1933. It provides for registration and regulation of brokers and dealers doing business in the over-the-counter market in interstate commerce and through the mails. It provides for registration of national securities associations -- the only one registered being the National Association of Securities Dealers. It prohibits fraudulent, deceptive, or manipulative acts or practices on the exchanges and in the over-the counter market. It authorizes the Federal Reserve Board to fix margin requirements for registered securities, and under the current requirements a borrower must put up 70% margin.

The administration of this Act is divided between the Division of Corporation Finance and the Division of Trading and Exchanges. The Division of Corporation Finance is concerned with the provisions of the Act relating

to companies having securities registered on national securities exchanges, namely, it is interested in reports by such registered companies, reports of insider trading, and the disclosures relating to proxy solicitations.

The act seeks to impose its regulations in two main directions: one, through the registration for listing on stock exchanges; and another through the regulation of the over-the-counter market.

Registration of Stock Exchanges

The stock exchanges are the focal points of the exchange markets and these exchanges, in order to do business, must register or be exempted from registration. They pay an annual fee of 1/500 of 1% of their gross sales.

One important requirement for registration is that the rules of the exchange must be just and adequate to insure fair dealing and to protect investors. They must also provide for the disciplining of members for conduct inconsistent with just and equitable principles of trade, or for wilful violation of the Act or the rules thereunder. Under Section 19(b) of the Act the Commission may impose changes in the rules of the exchange - after notice and opportunity for hearing concerning such matters as listing and delisting standards, hours of trading, financial responsibility of members, solicitation of business, methods of making settlement, reporting of transactions, rates of charges, odd-lot transactions, and deposits on margin accounts. I understand that the Commission has exercised this power only once, in 1940.

Within 30 days after an exchange files an application for registration, the Commission shall either enter an order granting the application or, after notice and opportunity for hearing, may deny the registration. The Commission may suspend or withdraw registration if it finds, after notice and opportunity for hearing, that the exchange has violated the Act or the rules thereunder, or has failed to enforce compliance by its members. There are 14 national securities exchanges registered under the 1934 Act at the present time.

The Commission may find upon application that because of the limited volume of trading it is not practicable, necessary or appropriate in the public interest or for the protection of investors to require registration of a stock exchange. There are now four exchanges that operate as exempt exchanges: Colorado Springs, Richmond, Honolulu and Wheeling. These exemptions are usually granted upon specific conditions, which Mr. Clifton will discuss later.

The Commission may also suspend or expel members of a national securities exchange for violation of the Act and the rules and regulations thereunder, as well as for certain violations by the customers of those members.

Manipulative and Deceptive Practices

There are provisions of the Act, as I mentioned earlier, outlawing manipulative and deceptive practices, which are enforced by the Division of Trading and Exchanges and the Regional Offices. Section 9 contains prohibitions against manipulation of prices of registered securities. It deals with both manipulative trading practices and the spreading of false rumors. Section 10 of the Act prohibits manipulative and deceptive devices in the purchase or sale of securities, whether or not registered on a national securities exchange, in contravention of the rules and regulations of the Commission. Notable among those rules is Rule X-10B-5, the counterpart of Section 17(a) of the Securities Act which, as you recall, prohibits fraud in the sale of securities. Rule X-10B-5 prohibits fraud both in the sale and purchase of securities. As part of the present legislative proposals it is expected that the Commission will recommend to Congress that Rule X-10B-5 be incorporated into the statute itself.

The Commission has under Sections 9 and 10 defined what are authorized stabilization activities. Thus we have Rules X-10B-6, 7 and 8 adopted under both sections.

Registration of Brokers and Dealers

Brokers and dealers doing business in the over-the-counter market and using the facilities of interstate commerce and of the mails must register under the Securities Exchange Act. This registration of brokers and dealers is administered by the Division of Trading and Exchanges. The registration of a broker-dealer is effective within 30 days after the application is filed unless acceleration is granted. The Commission may deny or revoke registration if the broker-dealer firm, its partners, officers, directors, branch mamagers, or other persons in a control relationship wilfully made a false application for registration, were convicted within the past 10 years for unlawful acts relating to the purchase or sale of securities or conduct as a broker or dealer, were enjoined from engaging in any conduct or practice in connection with the purchase or sale of securities, or for wilful violations of the Securities Act or the Securities Exchange Act or the rules and regulations under those Acts. Brokers and dealers are prohibited from using manipulative, deceptive or fraudulent devices to induce the purchase or sale of securities in the over-the-counter market. The Commission may prescribe safeguards with respect to the financial responsibility of brokers and dealers, and has adopted the "net capital" rule, Rule X-15C3-1, which limits the aggregate indebtedness of a broker-dealer not to exceed 20 times its net capital, as defined in the rule.

Registration of National Securities Associations

A part of the regulation of the over-the-counter market was added by the Malony Act of 1938, providing for registration of national securities associations. By this means it was expected that there would be some self-regulation by the members of such associations. The National Association of Securities Dealers (NASD) is the only association registered thereunder.

The rules of the association must provide that the membership of a broker-dealer in the association can be revoked or denied if a member of the firm was the cause of a revocation of the registration of a broker-dealer under the Securities Exchange Act, or if the firm itself was revoked as a broker-dealer under the Act.

A member of the association may not deal with a non-member except upon the same terms as it deals with members of the public, so that it cannot re-allow any of the underwriting concessions in a securities offering to a non-member. A well known test of fair practice for members of the NASD in the over-the-counter market is the so-called "5% mark-up" rule of thumb for transactions in the over-the-counter market.

The S.E.C. may review disciplinary action by the association, and may change the rules of the association. The membership of the NASD on June 30, 1956, was over 3600.

Registration of Securities

It is unlawful to effect transactions in non-exempt securities upon a national securities exchange unless the issuer of the security has filed a registration statement with both the exchanges and the Commission. There is no fee payable to the Commission for such registration.

In addition to registration, the company desiring to list its securities must file a listing application with the exchange. The registration on the exchange and with the Commission becomes effective 30 days after the exchange certifies that such security's listing and registration are appropriate. The Commission may upon application accelerate such application for registration.

Prior to January 28, 1954, it was customary to register with the Commission specific amounts of securities. Since that date Rule X-12D1-1 was amended to provide for registration of entire classes of securities with the Commission.

There are, provided by the statute, exemptions from registration for obligations of the federal or state governments or their agencies and subdivisions. Thus we have no municipal securities registered under the Securities Exchange Act. The Commission may exempt other securities by rules if necessary or appropriate in the public interest or for the protection of investors. The Commission, for example, has exempted securities of certain banks, certain securities secured by property or leasehold interests, securities issued in bankruptcy, receivership or reorganization, certain warrants, and, on a temporary basis, securities issued in substitution for or in addition to registered securities.

Form 10 is the usual form for the registration of commerical and industrial companies under this Act. Other specialized froms are provided in indicated situations.

The Commission may suspend registration for 12 months, or withdraw registration if it finds there have been violations of the Act or the rules and regulations under the Act. In the Great Sweet Grass case now pending under this provision this penalty may be imposed by the Commission.

The company or the exchange may apply to withdraw security listings and registration. When the action is instituted by the Commission, it is handled by the Division of Corporation Finance. When the action is instituted by the company or the exchange, it is handled by the Division of Trading and Exchanges. The Commission may summarily suspend trading in a security for 10 days. The Great Sweet Grass case is an instance where this has been done in a series of orders by the Commission as a means of preventing trading during the course of the hearings upon the question of permanent suspension of the security. The Commission may for a period of 90 days suspend all trading on an exchange. This has never been done.

The Commission may grant unlisted trading privileges where the following situations exist: securities admitted to unlisted trading privileges prior to March 1, 1934, registered on another national securities exchange, or conditioned upon supplying information substantially equivalent to that supplied by the issuer of a registered security. Such unlisted trading privileges were enjoyed by 883 stock issues and 52 bond issues as of June 30, 1956. Of these, 612 stocks and 3 bond issues were listed on other exchanges, the rest being issues which were permitted unlisted trading privileges when the statute was enacted.

Reporting Requirements

As I mentioned earlier, reports are required to be filed by companies whose securities are registered for listing on a national securities exchange. In addition, Section 15(d) of the Act requires that when a registration statement

is filed under the Securities Act it must include an undertaking to file reports with the Commission in accordance with the requirements of Section 15(d). Those requirements are that reports be filed such as are filed by a listed company when the offering price of all classes of securities included in the registration statement, and the value of all securities of the same class outstanding at the time aggregate $2,000,000. The obligation to file reports under Section 15(d) is suspended if any securities of the issuer are registered under the Securities Exchange Act, at which point, of course, the obligation to file reports as a registered security comes into play; or if the aggregate value of the class or classes covered by the registration statement amounts to less than $1,000,000,as computed upon the basis of the last public offering.

All reporting companies must file annual reports, usually on Form 10-K. Such reports keep up to date the information in the registration statement filed under the Securities Exchange Act, or if the obligation arose pursuant to Section 15(d), keep up to date the information included in the Securities Act registration statement. Semi-annual reports are required of midyear financial data on Form 9-K, and current reports are required to be filed for each month that specified events occur on Form 8-K. Such events are changes in control, important acquisitions or dispositions of assets, the institution of important legal proceedings against a company, and important changes in the amounts or characteristics of securities outstanding.

There is now pending before Congress a bill (S. 1168) introduced by Senator Fulbright, which would extend these reporting requirements to all companies having 750 stockholders or $1,000,000 of publicly held debt and having $2,000,000 of assets. It is presently proposed in the Fulbright bill to repeal Section 15(d). The Commission has not supported this repeal in the past, and, I believe, it may continue to object thereto. The present proposal would also subject such companies to the insider trading liabilities of Section 16(b) which, I believe, the Commission may also continue to oppose. Substantially the same bill was introduced in 1955 as S. 2054, and no action was taken on it pending the Commission's study of insurance companies, which were originally exempted from the bill. The Commission's report of the study on insurance companies was transmitted to the Congress, and the present bill does not exempt insurance companies.

Proxy Rules

The Commission's proxy rules, adopted under Section 14 of the Act relate to registered securities under the Securities Exchange Act and also to registered securities under the Public Utility Holding Company Act of 1935 and under the Investment Company Act of 1940.

The proxy rules require disclosure of pertinent information in connection with the solicitation of stockholders for proxies, consents or authorizations, as well as solicitations not to give such proxies.

The rules also govern the forms of proxies. For instance, they require that means be provided by which a stockholder may indicate on the form of proxy whether he approves or disapproves a particular proposal. The proxy form must state that the proxy will be voted in accordance with the designation made by the stockholder. In order for the proxy to be voted for nominees in an election for directors there must be bona fide nominees named in the proxy solicitation material.

Means are provided by which the security holders may communicate with other stockholders, either for the purpose of soliciting proxies as an opposition group or for the purpose of requiring the company to include in its own proxy solicitation material proposals by stockholders which are proper subjects for stockholder action.

In the recent case of Ostergren v. Kirby in the Northern District of Ohio, the Commission intervened in a management suit against an opposition group to restrain the use of proxies obtained without disclosing a participant in the proxy contest and for the reason that this participant solicited persons who were not stockholders to buy stock for the purpose of voting the stock for the opposition group, or at least not to vote the stock for the management. The inducement for this course of action was a promise or representation that the company would be dissolved to the financial advantage of stockholders. A temporary injunction was entered by the Court on February 18, 1957.

The proxy rules are to be the subject of a special session, so I shall not go into them further.

Ownership Reports and Insider Transactions

Section 16(a), as I mentioned earlier, requires the filing by insiders of ownership reports. These reports must be filed by the owners of any class of registered equity securities with a 10% beneficial ownership, and by the officers and directors of such company. They must report their initial beneficial ownership in each class of equity securities, and they must report each month any change in such beneficial ownership. These reports must be prepared and given wide circulation. Section 17(b) of the Public Utility Holding Company Act and Section 30(f) of the Investment Company Act subject certain companies registered under those Acts to these provisions, as well as to the provisions for the recovery of "short-swing" profits.

Short-swing profits made from the sale and purchase or purchase and sale of equity securities so registered, that is, such transactions effected within a period of six months, are recoverable by the issuer under Section 16(b) and, if the issuer fails to proceed, a remedy is given to security holders to recover on behalf of the company. The Commission has no power or authority to enforce the collection of such claims.

The courts have held that such profits may be calculated by taking the highest sale price and the lowest purchase price during the period, and does not permit the matching of sales and purchases by certificate identification as may be done under the tax laws. The purpose of this provision is to prevent the unfair use of information by insiders.

While the Commission does not enforce these provisions, it has adopted rules which it must interpret. Also, it is occasionally called upon to determine whether there may be such liability for the purpose of disclosure under the proxy rules.

Section 16(c) relates to short sales, which are generally prohibited to insiders; and arbitrage transactions are made subject to Commission rules under Section 16(d).

The Commission has adopted a number of rules under Sections 16(a) and (b). One rule provides that exemption from the reporting requirements of Section 16(a) provides an exemption from the recovery of insider trading profits under Section 16(b). Another exemption is one for a period of 12 months for executors and certain other fiduciaries to permit them to wind up estates. An exemption is provided for sales by odd-lot dealers, and for certain small transactions not exceeding $3,000 in amount. This exemption for small transactions is only one of time, for when another transaction occurs which is of a greater amount, these unreported transactions must be included in the later report.

The rules exempt transactions which are subject to findings by the Commission as to fairness under Section 17(a) of the Investment Company Act of 1940. One of the most used exemptions is the one for stock option plans where the plan is submitted to the approval of the stockholders. An exemption under Section 16(b) is also provided for certain underwriters of security offerings of the issuer.

I shall now turn the meeting over to Mr. Clifton, who will explain some of these provisions in greater detail.

MR. CLIFTON: I shall have to cut my discussion down considerably because of the shortness of time.

Today I'm going to try to set the stage for later discussions on the subject by telling you something about the exchanges themselves. This will give you some working tools which you will be able to use in your day-to-day work, principally on the use of terminology under the Act. What I'm going to tell you is what I have found over the past several years to be most useful, certainly to me, and I'm sure to those of my associates on the staff in doing their daily work.

I'm not going to give the usual textbook explanation of an exchange. I think you can find that in the library. Books are there for anyone who cares to read them.

As a matter of fact, some of the things I shall tell you may not agree with what you have been taught or what you may have read. Perhaps I may make a worthwhile contribution here if what I do tell you would encourage you to go further into these matters, or, as Mr. Blackstone mentioned yesterday, you might do some original thinking on your own part about some of these matters.

If you were to search the financial pages of the daily newspapers, telephone directories, etc., in most of the large cities (and some smaller ones, too), in this country for the years 1928 through 1934, you would find the names of at least 70 or 80 stock exchanges in operation during some part of the time. The largest cities had more than one. New York had at least four exchanges; Chicago had three; San Francisco had three; Los Angeles had three; and Seattle two. Some were organized just in time to be closed by the depression, such as happened in my own home town of Portland, Oregon.

In 1930 my firm joined with 24 other firms in Portland, to form the Portland Stock and Bond Exchange. Each firm paid $1,000 for a seat. The pro-rated monthly expenses for each member approximated $30 to $40 per month. I was the floor trader for my firm. We had a morning and afternoon session. We had everything except business. My firm sold its seat to the exchange in 1932 for $500. Those who stayed until final liquidation later got substantially less.

I mention this particular exchange because it is typical of what happened to at least half of those 70 or 80 exchanges. When it came time in 1934 for the stock exchanges to come in with their applications on the Commission's Form 1 for registration under Section 6 of the Act, or for an order of exemption under Section 5, only 39 exchanges showed up. The Commission sent investigators into the field, and on the bases of the reports from such investigations public hearings were held in most cases, certainly in all those cases where the exchange asked

for an exemption. By June 30, 1936, there were 22 registered national securities exchanges, seven exempted exchanges, and ten more casualties. At the present time, March 1, 1957, about 21 years later, there are 14 registered national securities exchanges, and there are only four exempted exchanges left.

It might be news to some of you that during the 21 years not one single new exchange that was not a successor to an existing exchange has ever been registered or exempted during all that time. At least three applications have been filed during that time: one from Miami, one from Houston, and one from Long Island. The most charitable thing I can say about those three applications is that the promoters of those ideas were unable to convince the staff and the Commission that their exchange could be operated in the public interest within the meaning and intent of Section 6 or, for that matter, Section 5 of the Act for an exemption.

I am not going into the details of registration or exemption of stock exchanges, but I do believe that you, particualrly you new employees, ought to know that the Commission has adopted Form 1 as the appropriate form for the application for registration of an exchange. That form consists of some 20 items, supported by 15 major classifications of exhibits, designed to get the information necessary concerning the organization of an exchange -- its membership, how it conducts its business, etc. Of course these forms contain the two agreements specified in the Act, one under Section 6(a)(1) that the exchange will enforce, insofar as it can, compliance with the Commission's rules and the other under Section 6(a)(4) that the exchange will furnish the Commission copies of any amendments to the exchange's rules forthwith upon their adoption. Form 1 is also the appropriate form for the application for an exemption, because the Commission needs the same type of information to determine whether to exempt it or not. Since the Division of Corporation Finance is directly concerned with certain phases of exempted exchanges, I think I should tell you something about those.

The order granting an exemption to an exchange is conditioned upon the exchange's enforcing, insofar as is within its power, compliance with eight conditions. Administration of two of these conditions is assigned to this Division, namely, Condition (3) which required each issuer of securities listed on an exchange- at the time it became exempt-to file with the exchange, as promptly as possible after the close of each fiscal year, a document setting forth the balance sheet, surplus analysis, and profit and loss statement as a minimum requirement.

The Division also has charge of administering Condition (4) of that order, which requires that after the effective date of the order no security may be listed and continued as a listed security unless the requirements for registration of the security on a national securities exchange are complied with. Of course that means filing Forms 10, 10-K's, 9-K;s, and 8-K;s. However, under Condition (2) of the exemption order all issuers, whether Condition (3) or (4) companies, are exempt from Section 14 and the proxy rules thereunder. Officers, directors, and principal stockholders are exempted from Section 16. Furthermore, by an early Commission administrative ruling the delisting rules which are applicable to a registered national securities exchange are not applicable to the exempt exchange, so the exempt exchange can delist securities without formal proceedings. In other words, Condition (3) of the exemption order freezes those securities that were on the exempt exchange when the S.E.C. came into the picture and Condition (4) says that the exempt exchange may get no more listings unless it complies with the disclosure requirements of Sections 12 and 13 of the Act.

In this Division the work under Conditions (3) and (4) is assigned on this basis: In the first place, the exchange is the one that is responsible for getting the annual reports of these companies under Condition (3). Therefore, many years ago we told the exchange to send those to us all at one time in one transmittal letter. For that reason all of the reports on the same exchange are assigned to one examining section. There are only four examining sections that have these reports assigned to them.

I think it might be well for you to know the difference between a registered and an exempted exchange other than that which I have told you. An exempt exchange pays no transactions tax to the Commission under Section 31, whereas for registered exchanges that tax is 1/500 of 1% or 1 cent on every $500 of transactions. The Federal Reserve Board's Regulation "U" (loans on securities by banks) does not apply to exempt exchanges. However, the Board's Regulation "T" (loans by members of the exchange or brokers and dealers who do business through such members for the purpose of purchasing and carrying securities, i.e., margin trading) is, in effect, made applicable by Commission Rule X-7c2-1(b) which is to the effect that brokers and dealers may make no credit extension on a security listed on an exempt exchange which extension would be unlawful if made on a security registered on a registered exchange. But the principal difference, of course, has to do with companies on an exchange. I have already explained that those companies having securities on an exempted exchange are exempt from Sections 14 and 16 of the Act.

The Form 10 filed under Condition (4) of the order is an application for a listing of securities on an exempt exchange and it is not for registration. You cannot <u>register</u> a security on an <u>exempt</u> exchange. In other words, in writing a letter of comment on Form 10's involving Colorado Springs, Honolulu, Richmond, or Wheeling stock exchanges, you should not refer to such filings as an application for registration. It is an application for listing.

As to the registered exchanges, I cannot possibly go into much detail here. But the thing I wish to impress upon you in your daily work is that there are no two exchanges alike. Let us take one example of matters common to all of them: trading. Last year, of about $35,000,000,000 traded on all exchanges, 85% was traded on the New York Stock Exchange, 8% on the American Stock Exchange; 3% on the Midwestern; 2% on the Pacific Coast Stock Exchange; about 1% on each of the Boston and Philadelphia; and less than 1% on all of the other eight registered exchanges. Section 23(a) of the Securities Exchange Act authorizes the Commission to classify exchanges for the purpose of making rules and regulations. Other than the two broad classification of registered and exempt securities under Sections 6 and 5 of the Act, no classification of exchanges has been made.

In view of the very wide differences between exchanges as to such matters as listing requirements, proxy rules, distribution requirements, and a host of others, it has been my experience that you cannot very well process applications for registration, proxy statements, prospectuses that make reference to future listings on exchanges, etc., without classifying these exchanges in your own mind for practical working purposes. In my own mind, all things considered, I would put the New York Stock Exchange at the top as having the highest requirements. I would put Spokane and San Francisco Mining Exchanges at the bottom as far as registered exchanges are concerned.

As to the requirements for listing, the New York Stock Exchange requires that the company must be a going concern or a successor to a going concern, usually nationally known; it must have substantial assets -- at least $7,000,000 net tangible; it must have a demonstrated earning power -- at least $1,000,000 annually after taxes; it must have at least 300,000 shares held by at least 1500 stockholders; and those shares must have an aggregate market value of at least $7,000,000. The common stock must have voting rights. In consideration of listing the company must sign some 29 agreements, one of which is that it will solicit proxies for stockholder meetings -- something new that came in in 1955; it must publish quarterly reports; it must maintain separate transfer and registrar facilities below Chambers Street where listed securities may be freely transferred without charge.

On the American Stock Exchange, a company merely in the development stage may be listed but it must be qdequately financed for its immediate needs. The stock of the company must be selling at $1.00 or more, and it must have a par value. The company must have at least 100,000 shares distributed to at least 500 people. I cannot go into all of the details and requirements of these and other exchanges. I think the most important thing I can stress here is that you understand that the listing requirements of exchanges, when they are stated at all, are expressed in general terms. They are intended to be flexible and they mean what the exchange wants them to mean. This is not the place to debate whether that is desirable or not, but I want you to understand things as they are now because it is today's work that must be done today.

I should point out, however, that Section 12(b) and the Commission's forms thereunder make no distinction whatever between the exchanges as to the disclosure of information necessary to accomplish registration on the exchange. I would also remind you that the first word in Section 12(d) of the Act is the word "if" -- "if the exchange certifies." Without that certification there is no registration. This means that for a company, regardless of how well its Form 10 is prepared, its securities cannot become registered without the consent, in writing to this Commission, of the exchange. This makes registration of securities under that Act a three-party arrangement: the company, the exchange, and the Commission. Under the other Acts generally there are only two parties: the company and the Commission.

I should like to tell you something about the types of trading in securities there are on the exchanges under the Act.

You know, of course, that securities are traded either on or off the exchanges. Trading off the exchanges is called over-the-counter trading. Trading on the exchanges falls into three classifications under the Act: namely, listed and registered under the Act, listed and exempted under the Act, and admitted to unlisted trading privileges under the Act. There are two additional types insofar as exempt exchanges are concerned: securities listed on exempt exchanges under Conditions (3) and (4), and securities admitted to unlisted trading privileges on exempted exchanges under Condition (5) of the exemption order.

I'm sure that you have heard of other types of trading, such as when issued, when distributed, seller 7, seller 30, ex-dividend, ex-distribution, ude bills attached, and many others. But I would relate these to the types of contracts made on the floor between the members in the sale and purchase of securities since such terms refer primarily to the matter of delivery of securities in settlement of contracts -- not to types of trading.

With that background, I'll tell you briefly how a typical company goes on the New York Stock Exchange. I take that as an example because I think it is the most interesting. The procedure would be something like this: Conferences would be held by representatives of the company with the staff of the Department of Stock List, and the company would submit information on a confidential basis at that time covering the description of the company's business, annual financial statements for a period of 10 years, a schedule of distribution of securities, etc. The matter is treated as confidential as far as the exchange is concerned at that time since the company may not be able to meet the requirements of the exchange, or when the company finds out what those requirements are, it may change its mind. I haven't time to give additional requirements, but one instance I should like to mention. That was a case in which the company was told that if it would take a $2,000,000 intangible item off its balance sheet, the exchange would consider listing it. The company came down to the S.E.C. and asked us to do something about it. They were told the same thing, and so they took the item off after some years of trying to get the exchange to change its decision.