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**REPORT
of the
INDUSTRIAL ISSUERS ADVISORY COMMITTEE
to the
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C.**

December 22, 1972

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INTRODUCTION

On September 26, 1972, William J. Casey, Chairman of the Securities and Exchange Commission, with the concurrence of the other members of the Commission, appointed three advisory committees to work with the Commission in a review of the reporting and other paperwork requirements of the Commission and the self-regulatory bodies (principally the national securities exchanges and the N.A.S.D.) in the securities industry. The assignment of this Committee was to focus on these requirements as they apply to industrial issuers.

This Report is based on a general review of the disclosure and reporting requirements of the Securities Act of 1933 (the "1933 Act"), the Securities Exchange Act of 1934 (the "1934 Act"), the two principal stock exchanges which account for the great majority of primary exchange listings of equity securities, the National Association of Securities Dealers, Inc. ("NASD") and, to a lesser extent, the blue sky or securities laws of the several states.

The recommendations made in the Report are intended to:

a) enhance the process of integration of disclosure information for use in a variety of contexts;

b) suggest avenues to be pursued in the future to eliminate duplication of effort and compliance; and

c) contribute to effective dissemination of information to the investing public.

The membership of this Committee has brought to its assignment a varied experience with the application to industrial issuers of Federal and state securities laws and the relevant rules and policies of the self-regulatory organizations which are subject to the oversight of the Commission. In addition, the Committee has had the benefit of informal input from a variety of sources, including the New York and American Stock Exchanges, the N.A.S.D., representatives of the Financial Analysts Federation, management of reporting companies, attorneys and auditors.

Nevertheless, the specified time schedule to which the Committee has adhered has not permitted factual research. Therefore, the conclusions and recommendations set forth in the Report reflect the consensus of views of the Committee membership based upon its collective experience and observation rather than upon any new material developed by the Committee. Accordingly, the Committee's recommendations are submitted with deference to and express regard for the experience and judgment of the Commission and its staff and those of the self-regulatory bodies, the State security administrators, underwriters, security analysts, management of corporate issuers, their counsel and independent auditors.

That experience and judgment, when focused on the Committee's recommendations, can only serve to improve them.

Given the limitations referred to above, the Committee at the outset concluded that:

a) it should focus on those disclosures and reporting requirements which have the most general application to industrial issuers, those having evidently restricted application being disregarded;

b) it lacked the expertise (and the opportunity for the requisite self-education) to consider the uses of computerization in the accumulation, storage and dissemination of disclosure data;

c) since the Commission is conducting a special examination respecting the inclusion of earnings forecasts in disclosure documents filed with the Commission, the Committee should not consider this subject matter; and

d) since the Committee was specifically asked to consider the nature and scope of reports provided to stockholders, as well as those filed with the Commission and self-regulatory bodies, it should suggest improvements in such reports even though such improvements might entail an increase in the degree and cost of disclosure dissemination rather than a reduction therein.

The Committee met for full day sessions on five days in the period October 23-December 15, 1972, engaged in individual

conversations and exchanges of correspondence and memoranda and considered documentation submitted by the Commission staff and others mentioned above.

SUMMARY OF RECOMMENDATIONS

1. The Commission should adopt (a) pending proposals for changes in Form S-1 and Form 10 relating to description of business and (b) changes in Form S-7 and Form 10-K to require that the description of business in these forms be confined to a brief summary, together with disclosure of any material changes since the beginning of the fiscal year.

2. The Division of Corporation Finance should review its experience to date in disclosure of "lines of business" and "classes of products or services" with a view to providing more specific guidelines for definitions of such lines and classes.

3. Since the publication of guides for the preparation of registration statements under the Securities Act of 1933 has been useful, the practice should be extended by the Commission to registration statements, annual reports and proxy and information statements under the Securities Exchange Act of 1934. The Commission should make clear that these guides are not mandatory but are to be applied in the light of judgment as to relevance and materiality.

4. Usage of registration statement Form S-7 should be available for exchange offers as well as offers for cash.

5. The eligibility requirement for Form S-7 that a majority of directors have been in office for 3 years is unduly restrictive and should be discarded.

6. In a prospectus included in registration statements on Form S-8, material otherwise distributed by an issuer should not be required to be duplicated.

7. The interest coverage standards for eligibility for use of registration statement Form S-9 should be reconsidered; standards other than interest coverage may now be more appropriate in the light of experience with this form.

8. To facilitate the use of "wrap-around" short form listing applications, the Division of Corporation Finance, in cooperation with the national securities exchanges, should determine what information now required in a listing application but not included in a document filed with the Commission should be so included.

9. Each national securities exchange should permit the use of a Form 10 registration statement or annual report on Form 10-K as the basis for a "wrap-around" listing application.

10. Each national securities exchange should eliminate from the listing application as printed and distributed to its

members and others information and documents (such as the listing agreement) which the exchange requires for its own purposes, but which need not be so distributed.

11. The duplication of jurisdiction between the States and the Federal Government which results in an undue burden of time, effort and expense on issuers can and should be reduced by action of the States to provide an exemption under their respective securities or Blue Sky laws for securities issued by issuers which meet the standards of Section 12(g) (1) and which have registered equity securities under Section 12(g) of the Securities Exchange Act of 1934.

12. Management's annual report to stockholders should not be a filed document under Section 18 of the Securities Exchange Act of 1934 or deemed a part of proxy solicitation or information statement material under Section 14 of that Act. Nevertheless, such reports should be improved by requiring that they include the following:

- A brief description of the business which will indicate, in the opinion of management, the general nature and scope of the business;
- line of business disclosures consistent with those in Form 10-K;

members and others information and documents (such as the listing agreement) which the exchange requires for its own purposes, but which need not be so distributed.

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12. Management's annual report to stockholders should not be a filed document under Section 18 of the Securities Exchange Act of 1934 or deemed a part of proxy solicitation or information statement material under Section 14 of that Act. Nevertheless, such reports should be improved by requiring that they include the following:

- A brief description of the business which will indicate, in the opinion of management, the general nature and scope of the business;
- line of business disclosures consistent with those in Form 10-K;

- a five-year summary of earnings consistent with Item 2 of Form 10-K;
- explanatory comment on material changes in financial condition and results of operations in the past year, as well as on material non-recurring items;
- identification of principal executive officers and directors and, in the case of "outside" directors, the principal business or professional affiliation of each; comment on significant changes in management or control;
- If not adequately covered in footnotes to the financial statements, disclosure in the text of the report of principal accounting policies and changes in those policies.

13. Rules 14a-3 and 14c-3 should be amended to provide that no chart, schedule, "financial highlights" section, graph, figure, or similar material of a financial nature contained anywhere in the report shall present the results of operations or other material financial information, or a comparison of the results of operations or other material financial information for two or more periods, in a light either more or less favorable than the financial statements included in the report.

14. The Commission, the national securities exchanges and the NASD should give further attention to the content and distribution of discretionary news releases and interim reports to stockholders; additional guidelines with respect to content and dissemination would be helpful.

15. Interim earnings should be publicly reported on a basis consistent with Form 10-Q and should be accompanied by comment on reasons for unusual increases or decreases in revenues or income; results for the fourth fiscal quarter should be disclosed in connection with the announcement of results for the fiscal year and material year-end adjustments should be the subject of comment.

16. An event required to be reported by Items 1-6, inclusive, or 10 of Form 8-K or which will be voluntarily reported on that Form as a material item should be publicly reported promptly following its occurrence.

17. News releases which are unlikely to be published in the financial press should be distributed directly to market makers and other dealers known to have an interest in the security of the particular issuer. Dealers receiving such information are obligated to transmit it to others with whom they propose to effect transactions and this obligation should be made clear by rule of the Commission or the self-regulatory

organizations. Such news releases should be promptly mailed to stockholders as a matter of course.

18. Implementation of recommendations 14-17, inclusive, may permit Form 8-K to be changed to a quarterly report. Commission forms should provide that a report previously filed with a national securities exchange can be the basis of a report filed with the Commission.

19. The NASD should review its surveillance procedures respecting interim disclosures by issuers whose securities are quoted in NASDAQ or quotation lists sponsored by the NASD and consider measures, including the halting of publication of quotations, to strengthen implementation of disclosure requirements.