

MEMORANDUM

December 14, 1988

TO: Commissioners
Division Directors

FROM; Chairman Ruder

DR

Enclosed is a copy of the Securities and Exchange Commission Major Issues for 1989 prepared last week. Although the list is not being officially distributed, it is not a confidential document.

Enclosure

December 8, 1988

Securities and Exchange Commission
Major Issues for 1989

The staff of the Securities and Exchange Commission has prepared the attached list of Major Issues for 1989 in order to assist in the transition from the Reagan Administration to the Bush Administration. The list contains those matters that the staff believes will be of particular significance to the Commission during the next year. The order of listing does not reflect the relative importance of these matters. Many of the issues, such as internationalization of the securities markets and reform of the financial services industry, will challenge the Commission and the Administration for the next few years. The main topics are set forth immediately below. A more detailed list is attached.

- I. MAINTAIN A STRONG ENFORCEMENT AND REGULATORY COMPLIANCE PROGRAM
- II. STREAMLINE REGULATIONS/REDUCE REGULATORY BURDENS
- III. ADDRESS COMPLEX ISSUES PRESENTED BY INTERNATIONALIZATION OF THE SECURITIES MARKETS
- IV. ASSESS REGULATION OF CORPORATE TAKEOVER AND RESTRUCTURING ACTIVITIES
- V. MAINTAIN THE STABILITY OF THE NATION'S CAPITAL MARKETS
- VI. SUPPORT INVESTOR PROTECTION AND CAPITAL FORMATION IN CONNECTION WITH REFORM OF THE U.S. FINANCIAL SERVICES INDUSTRY
- VII. STRENGTHEN THE SECURITIES DISCLOSURE SYSTEM
- VIII. RESOLVE IMPORTANT ACCOUNTING ISSUES
- IX. IMPROVE COMMISSION RESOURCES

Securities and Exchange Commission
Major Issues for 1989
Prepared by the Staff of the Commission

I. MAINTAIN A STRONG ENFORCEMENT AND REGULATORY COMPLIANCE PROGRAM

- A. Attack fraudulent stock promotions, with particular attention to the problems in penny stocks.
- B. Strengthen enforcement of broker-dealer supervisory responsibilities.
- C. Investigate and prosecute insider trading enforcement cases against both securities professionals and non-professionals.
- D. Continue pursuit of securities professionals engaged in market manipulation and parking activities.
- E. Strengthen the customer/broker-dealer arbitration system, and determine whether to regulate pre-dispute arbitration agreements.
- F. Enhance investor protection by increasing the frequency and coverage of examinations of mutual funds, other types of investment companies, and investment advisers.
- G. Investigate and prosecute cases involving investor abuse by financial planners and other investment advisers and by securities professionals who manage and sell investment company shares.
- H. Seek authority to levy monetary penalties for violations of the federal securities laws.
- I. Establish and administer the newly authorized bounty system to reward, solely in the Commission's discretion, those who provide information concerning persons who engage in insider trading.

II. STREAMLINE REGULATIONS/REDUCE REGULATORY BURDENS

- A. Address proposals to create separate markets for securities trading by institutions.
- B. Continue to seek repeal or modernization of the Public Utility Holding Company Act of 1935.

- C. Address proposal to permit certain small investment advisers to opt out of many federal regulatory requirements.
- D. Pursue legislation to give securities self-regulatory organizations authority to set initial margin levels.
- E. Address proposals to reduce certain reporting burdens for corporate insiders.
- F. Address proposal to permit the trading of standardized individual stock options on more than one exchange.
- G. Address proposals to liberalize rules applicable to small or private offerings.
- H. Continue to seek reform of the Trust Indenture Act.

III. ADDRESS COMPLEX ISSUES PRESENTED BY INTERNATIONALIZATION OF THE SECURITIES MARKETS

- A. Facilitate cross-border financing activity consistent with investor protection.
- B. Promote efficient clearance and settlement of cross-border securities transactions by encouraging development of international clearing linkages and of compatible automated clearance, settlement, and payment systems.
- C. Monitor automated information, order routing, and order execution linkages between U.S. and foreign securities markets, including derivative index markets.
- D. Continue efforts to develop multijurisdictional disclosure mechanisms.
- E. Pursue means to accommodate and to minimize differences among nations' accounting principles, auditing standards, and auditor independence standards.
- F. Oversee U.S. activities of foreign broker-dealers, investment companies, and investment advisers, and continue to monitor U.S. investment companies that invest in foreign portfolio securities.

- G. Negotiate additional bilateral memoranda of understanding with foreign securities regulators regarding enforcement and regulatory activities, including memoranda for the sharing of broker-dealer, investment adviser, and investment company financial information.

IV. ASSESS REGULATION OF CORPORATE TAKEOVER AND RESTRUCTURING ACTIVITIES

- A. Review takeover laws, rules, and enforcement programs in the current takeover and restructuring environment.
- B. Analyze disclosures made to purchasers of corporate debt.
- C. Seek to assure appropriate disclosure concerning fairness to shareholders in corporate restructuring and going private transactions.
- D. Assess the proper relationship between federal and state law in takeover and restructuring activities.

V. MAINTAIN THE STABILITY OF THE NATION'S CAPITAL MARKETS

- A. Encourage improvement in information, order routing, and execution systems, and develop standards to test capacities of those systems.
- B. Improve and coordinate clearance, settlement, and payment systems in stock and derivative markets.
- C. Develop mechanisms to cope with excessive stock market volatility, including measures to increase available capital.
- D. Continue cooperation and consultation with the Department of the Treasury, the Federal Reserve Board, and the Commodity Futures Trading Commission.
- E. Seek authority to assess risk positions of securities holding companies and to develop a large trader reporting system.
- F. Address proposals to create separate markets for securities trading by institutions.
- G. Consult with exchanges regarding development of portfolio "market basket" trading products.

VI. SUPPORT INVESTOR PROTECTION AND CAPITAL FORMATION IN CONNECTION WITH REFORM OF THE U.S. FINANCIAL SERVICES INDUSTRY

- A. Continue to seek SEC authority to regulate securities activities of banks in fulfillment of investor protection obligations and functional regulation objectives, and, if such authority is obtained, to seek repeal of the Glass-Steagall Act.
- B. Participate in evaluation of financial services reform proposals relating to securities activities of banks and the savings and loan industry.
- C. Review asset-backed securities offerings to determine their appropriate status under the federal securities laws.

VII. STRENGTHEN THE SECURITIES DISCLOSURE SYSTEM

- A. Install the Electronic Data Gathering Analysis and Retrieval System (EDGAR), part of the Presidential Priority System for government computerization.
- B. Strengthen the municipal bond disclosure system.
- C. Modify required disclosures by investment companies in order to provide investors with clearer and more complete information about services provided and costs involved.
- D. Increase review of financial statements and related disclosures of reporting companies.
- E. Improve disclosures of trading by corporate officers and directors in securities of their corporations.

VIII. RESOLVE IMPORTANT ACCOUNTING ISSUES

- A. Respond to questions regarding the role of the Financial Accounting Standards Board.
- B. Act on recommendations of the National Commission on Fraudulent Financial Reporting.

- C. Continue cooperation with the accounting profession, the FASB, and the American Institute of Certified Public Accountants regarding accounting standards, auditing standards, and auditor independence issues.

IX. IMPROVE COMMISSION RESOURCES

- A. Address self-funding issues related to the study requested by Congress.
- B. Seek additional resources for the Commission in order to cope with: (1) the growth in numbers of broker-dealers, investment companies, investment advisers, issuer reporting companies, takeovers, and enforcement matters; (2) the growing frequency and sophistication of Commission litigation, including district court, appellate, and amicus cases, and actions against the Commission; (3) the increasing complexity of financial instruments and financing techniques; and (4) the increasing level of international securities market activities.
- C. Continue to explore the desirability of a self-regulatory organization for investment advisers.

December 8, 1988

Securities and Exchange Commission
Major Issues for 1989

The staff of the Securities and Exchange Commission has prepared the attached list of Major Issues for 1989 in order to assist in the transition from the Reagan Administration to the Bush Administration. The list contains those matters that the staff believes will be of particular significance to the Commission during the next year. The order of listing does not reflect the relative importance of these matters. Many of the issues, such as internationalization of the securities markets and reform of the financial services industry, will challenge the Commission and the Administration for the next few years. The main topics are set forth immediately below. A more detailed list is attached.

- I. MAINTAIN A STRONG ENFORCEMENT AND REGULATORY COMPLIANCE PROGRAM
- II. STREAMLINE REGULATIONS/REDUCE REGULATORY BURDENS
- III. ADDRESS COMPLEX ISSUES PRESENTED BY INTERNATIONALIZATION OF THE SECURITIES MARKETS
- IV. ASSESS REGULATION OF CORPORATE TAKEOVER AND RESTRUCTURING ACTIVITIES
- V. MAINTAIN THE STABILITY OF THE NATION'S CAPITAL MARKETS
- VI. SUPPORT INVESTOR PROTECTION AND CAPITAL FORMATION IN CONNECTION WITH REFORM OF THE U.S. FINANCIAL SERVICES INDUSTRY
- VII. STRENGTHEN THE SECURITIES DISCLOSURE SYSTEM
- VIII. RESOLVE IMPORTANT ACCOUNTING ISSUES
- IX. IMPROVE COMMISSION RESOURCES

Securities and Exchange Commission
Major Issues for 1989
Prepared by the Staff of the Commission

I. MAINTAIN A STRONG ENFORCEMENT AND REGULATORY COMPLIANCE PROGRAM

- A. Attack fraudulent stock promotions, with particular attention to the problems in penny stocks.
- B. Strengthen enforcement of broker-dealer supervisory responsibilities.
- C. Investigate and prosecute insider trading enforcement cases against both securities professionals and non-professionals.
- D. Continue pursuit of securities professionals engaged in market manipulation and parking activities.
- E. Strengthen the customer/broker-dealer arbitration system, and determine whether to regulate pre-dispute arbitration agreements.
- F. Enhance investor protection by increasing the frequency and coverage of examinations of mutual funds, other types of investment companies, and investment advisers.
- G. Investigate and prosecute cases involving investor abuse by financial planners and other investment advisers and by securities professionals who manage and sell investment company shares.
- H. Seek authority to levy monetary penalties for violations of the federal securities laws.
- I. Establish and administer the newly authorized bounty system to reward, solely in the Commission's discretion, those who provide information concerning persons who engage in insider trading.

II. STREAMLINE REGULATIONS/REDUCE REGULATORY BURDENS

- A. Address proposals to create separate markets for securities trading by institutions.
- B. Continue to seek repeal or modernization of the Public Utility Holding Company Act of 1935.

- C. Address proposal to permit certain small investment advisers to opt out of many federal regulatory requirements.
- D. Pursue legislation to give securities self-regulatory organizations authority to set initial margin levels.
- E. Address proposals to reduce certain reporting burdens for corporate insiders.
- F. Address proposal to permit the trading of standardized individual stock options on more than one exchange.
- G. Address proposals to liberalize rules applicable to small or private offerings.
- H. Continue to seek reform of the Trust Indenture Act.

III. ADDRESS COMPLEX ISSUES PRESENTED BY INTERNATIONALIZATION OF THE SECURITIES MARKETS

- A. Facilitate cross-border financing activity consistent with investor protection.
- B. Promote efficient clearance and settlement of cross-border securities transactions by encouraging development of international clearing linkages and of compatible automated clearance, settlement, and payment systems.
- C. Monitor automated information, order routing, and order execution linkages between U.S. and foreign securities markets, including derivative index markets.
- D. Continue efforts to develop multijurisdictional disclosure mechanisms.
- E. Pursue means to accommodate and to minimize differences among nations' accounting principles, auditing standards, and auditor independence standards.
- F. Oversee U.S. activities of foreign broker-dealers, investment companies, and investment advisers, and continue to monitor U.S. investment companies that invest in foreign portfolio securities.

- G. Negotiate additional bilateral memoranda of understanding with foreign securities regulators regarding enforcement and regulatory activities, including memoranda for the sharing of broker-dealer, investment adviser, and investment company financial information.

IV. ASSESS REGULATION OF CORPORATE TAKEOVER AND RESTRUCTURING ACTIVITIES

- A. Review takeover laws, rules, and enforcement programs in the current takeover and restructuring environment.
- B. Analyze disclosures made to purchasers of corporate debt.
- C. Seek to assure appropriate disclosure concerning fairness to shareholders in corporate restructuring and going private transactions.
- D. Assess the proper relationship between federal and state law in takeover and restructuring activities.

V. MAINTAIN THE STABILITY OF THE NATION'S CAPITAL MARKETS

- A. Encourage improvement in information, order routing, and execution systems, and develop standards to test capacities of those systems.
- B. Improve and coordinate clearance, settlement, and payment systems in stock and derivative markets.
- C. Develop mechanisms to cope with excessive stock market volatility, including measures to increase available capital.
- D. Continue cooperation and consultation with the Department of the Treasury, the Federal Reserve Board, and the Commodity Futures Trading Commission.
- E. Seek authority to assess risk positions of securities holding companies and to develop a large trader reporting system.
- F. Address proposals to create separate markets for securities trading by institutions.
- G. Consult with exchanges regarding development of portfolio "market basket" trading products.

VI. SUPPORT INVESTOR PROTECTION AND CAPITAL FORMATION IN CONNECTION WITH REFORM OF THE U.S. FINANCIAL SERVICES INDUSTRY

- A. Continue to seek SEC authority to regulate securities activities of banks in fulfillment of investor protection obligations and functional regulation objectives, and, if such authority is obtained, to seek repeal of the Glass-Steagall Act.
- B. Participate in evaluation of financial services reform proposals relating to securities activities of banks and the savings and loan industry.
- C. Review asset-backed securities offerings to determine their appropriate status under the federal securities laws.

VII. STRENGTHEN THE SECURITIES DISCLOSURE SYSTEM

- A. Install the Electronic Data Gathering Analysis and Retrieval System (EDGAR), part of the Presidential Priority System for government computerization.
- B. Strengthen the municipal bond disclosure system.
- C. Modify required disclosures by investment companies in order to provide investors with clearer and more complete information about services provided and costs involved.
- D. Increase review of financial statements and related disclosures of reporting companies.
- E. Improve disclosures of trading by corporate officers and directors in securities of their corporations.

VIII. RESOLVE IMPORTANT ACCOUNTING ISSUES

- A. Respond to questions regarding the role of the Financial Accounting Standards Board.
- B. Act on recommendations of the National Commission on Fraudulent Financial Reporting.

- C. Continue cooperation with the accounting profession, the FASB, and the American Institute of Certified Public Accountants regarding accounting standards, auditing standards, and auditor independence issues.

IX. IMPROVE COMMISSION RESOURCES

- A. Address self-funding issues related to the study requested by Congress.
- B. Seek additional resources for the Commission in order to cope with: (1) the growth in numbers of broker-dealers, investment companies, investment advisers, issuer reporting companies, takeovers, and enforcement matters; (2) the growing frequency and sophistication of Commission litigation, including district court, appellate, and amicus cases, and actions against the Commission; (3) the increasing complexity of financial instruments and financing techniques; and (4) the increasing level of international securities market activities.
- C. Continue to explore the desirability of a self-regulatory organization for investment advisers.