

SECURITIES AND EXCHANGE COMMISSION
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The Securities and Exchange Commission today promulgated the requirements under which applications are to be made by business corporations for the permanent registration of their securities upon national exchanges. In drafting the new requirements, the Commission has attempted to secure for the investor the maximum amount of pertinent information succinctly and clearly expressed, while burdening the corporation to the least possible extent.

The new form replaces the temporary form by which listed shares were brought under Federal supervision last October when the Securities Exchange Act became effective. Regulations will shortly be issued governing the precise requirements as to when these forms must be filed with the Commission and the exchanges, as to the conditions under which necessitous delays will be recognized and as to the circumstances that will permit deviation in exceptional instances from the requirements. These regulations will also follow the general principles applied in the case of temporary registration, permitting registering corporations to reserve the right to object to further requirements, and to reserve such constitutional rights as they may claim. The form applies to the great body of industrial and public utility companies whose securities are traded in on exchanges; it does not apply to carriers under jurisdiction of the Interstate Commerce Commission, companies under jurisdiction of the Federal Communications Commission, certificates of deposit, American certificates against foreign issues, government or corporate, insurance companies, banks and holding companies, investment trusts, foreign corporate bonds, securities of corporations in process of reorganization pursuant to section 77 or 77B of the Bankruptcy Act, and securities of corporations in bankruptcy or receiverships. Requirements governing these issuers and these securities will be promulgated later.

A detailed instruction book was issued with the form to assist corporations. Instructions outline the nature of the material expected in the answers to the questions thus making more specific the type of information that is desired.

The requirements are the result of some three months of continuous and intensive study by the Commission's staff. During these months an intensive effort has been made to carry out the essentially reasonable principles of the Securities Exchange Act in a way which will aid intelligent investment and in a manner that American business men will regard as reasonable. To these ends frequent conferences have been held with the financial and accounting officers of leading industrial companies, with representatives of the American Institute of Accountants, the American Association of Certified Public Accountants, the New York State Society of Certified Public Accountants, officials of the exchanges and others including individuals unconnected with any special interests and expertly qualified to serve the public in this field.

An outstanding characteristic of the requirements is that corporations and their accountants are given a wide latitude in the manner of presenting the required data. The Commission's emphasis in this respect has been on substance rather than on form.

The criterion set by the Commission is that it must secure the facts about which "an average prudent investor ought reasonably to be informed."

The Commission recognizes that some even "average investors" will not always appreciate or even grasp the significance of some portions of such information; but it believes that everything that it asks possesses value to the investing public and this should be made available to those who want it, especially those who undertake to give advice to investors.

Corporations are required to set forth in succinct form the information called for by the Securities Exchange Act. This information is broken down so that answers are requested for thirty-five specific questions. In addition corporations are required to present detailed balance sheets, profit and loss accounts, and copies of certain legal instruments important for an evaluation of the securities being registered. In general, the main purpose of these questions is to assemble the facts as to the history and nature of the business, its organization and management, its financial condition, its capital structure, and other factors which might effect the value of its securities in the open market.

The requirements contain a complete set of instructions as to what is required to be shown in the company's balance sheet and income statement. If the company controls other companies, consolidated statements are also required; but here again the company is free to choose the basis and extent of consolidation which will best show the financial situation and earnings of the combined business.

Corporations are warned against burdening their statements with highly technical details which would be of little or no use to investors. In one instance it is stated that "details which are mere mechanics are not to be set forth," while in several other instances the corporation is advised that only a certain number of words should be necessary to answer a question.

Among the practices established by the new form are requirements that corporations disclose their gross sales (in the absence of action by the Commission honoring a request for confidential statement of this item), that earned surplus hereafter be set apart from capital or paid-in surplus, that the market price as well as the book value or cost of marketable investments be shown in the balance sheet, and that securities of the company or its affiliates may not be classified as marketable investments.

Questions are asked which will tell the investor the status of options outstanding, the salaries of directors and principal officers, naming the three most highly paid officers, holdings of the company's securities by principal officers, directors, underwriters, and principal stockholders, and facts about bonus or profit-sharing plans, including the identity of each person receiving \$30,000 yearly or more under any such plan.

The outstanding advances which these requirements represent over reporting practices already in vogue are first, a greater emphasis on the accounting steps involved in income determination, and second, a more complete explanation of the changes which have occurred in balance sheet items during the year under report. It is in these matters that the information of greatest moment to investors is to be found. The requirements give less attention, on the other hand, to historical information concerning the company, since all companies affected are already listed on the exchanges, and have been reporting consistently

under existing exchange requirements. Nevertheless, in addition to financial statements for the current year, leading questions are asked regarding the accounting practices of the company during the last ten years, designed to bring out such major adjustments as may have occurred in principal balance sheet accounts.

As required by law, the financial statements are to be certified by public accountants, after proper audit. No form of certification is prescribed, but it is required that the auditor explain what he has done by way of audit, give the facts as to any matters calling for special mention, and express his opinion about the statements, including any items in the treatment of which he may differ with the corporation's own officers.

The Commission calls attention to that portion of the Securities Exchange Act which permits it to honor the requests of corporations to keep certain information confidential.

The Commission believes that corporations which are adhering to high standards of financial reporting will find it unnecessary to make anything but minor changes in their accounting practices as a result of the new requirements.

It is believed that the regulations call for no information which the great majority of corporations will have any hesitation in disclosing to the general public.