

WHITE HOUSE STAFFING MEMORANDUM

DATE: 4/27/92

ACTION/CONCURRENCE/COMMENT DUE BY: TUES. 4/28/92 10:00 am

SUBJECT: REVISED FACT SHEET ON CAPITAL MARKET REGULATION REFORMS

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	<input type="checkbox"/>	<input checked="" type="checkbox"/>	HORNER	<input type="checkbox"/>	<input type="checkbox"/>
SKINNER	<input type="checkbox"/>	<input checked="" type="checkbox"/>	MCBRIDE	<input type="checkbox"/>	<input type="checkbox"/>
SCOWCROFT	<input type="checkbox"/>	<input type="checkbox"/>	MOORE	<input type="checkbox"/>	<input checked="" type="checkbox"/>
DARMAN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	PETERSMEYER	<input type="checkbox"/>	<input type="checkbox"/>
BRADY	<input type="checkbox"/>	<input checked="" type="checkbox"/>	PORTER	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BROMLEY	<input type="checkbox"/>	<input type="checkbox"/>	ROGICH	<input type="checkbox"/>	<input type="checkbox"/>
CALIO	<input checked="" type="checkbox"/>	<input type="checkbox"/>	ROLLINS	<input checked="" type="checkbox"/>	<input type="checkbox"/>
DEMAREST	<input type="checkbox"/>	<input type="checkbox"/>	SMITH	<input type="checkbox"/>	<input type="checkbox"/>
FITZWATER	<input type="checkbox"/>	<input checked="" type="checkbox"/>	YEUTTER	<input type="checkbox"/>	<input checked="" type="checkbox"/>
GRAY	<input checked="" type="checkbox"/>	<input type="checkbox"/>	FINDLAY	<input type="checkbox"/>	<input checked="" type="checkbox"/>
HOLIDAY	<input checked="" type="checkbox"/>	<input type="checkbox"/>	KAUFMAN	<input type="checkbox"/>	<input checked="" type="checkbox"/>
BOSKIN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	SCHAERR	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Bush Presidential Library Photocopy

REMARKS:

Please forward your comments directly to Gene Schaerr, RM. 114, x2607, no later than 10:00 a.m., TUESDAY, APRIL 28, with a copy to this office. Thank you.

RESPONSE:

PHILLIP D. BRADY
Assistant to the President
and Staff Secretary
Ext. 2702

THE WHITE HOUSE
Office of the Press Secretary

02 APR 27 P 4: 20

For Immediate Release

April 28, 1992

FACT SHEET ON CAPITAL MARKET REGULATION REFORMS

In response to the President's regulatory review initiative, the Securities and Exchange Commission (SEC) and the Commodities Futures Trading Commission (CFTC) today announced numerous regulatory changes designed to eliminate unnecessary regulatory burdens, to reduce costs, and to facilitate capital formation.

Vigorous capital markets are essential for business expansion and job creation. Indeed, capital markets are the principal funding mechanism for the operation and growth of U.S. businesses. This is reflected in the fact that the value of all securities traded in U.S. capital markets -- including stocks, bonds, and commercial paper -- exceeds \$12 trillion. In 1991, a record \$700 billion of public and private financing occurred in the U.S. capital markets.

When fully implemented, the steps announced today will facilitate even more vigorous and efficient U.S. capital markets. The changes will help facilitate debt and equity financing for businesses, expand investment opportunities available to investors, stabilize agricultural markets, lower regulatory costs, and promote greater economic efficiency. At the same time, none of the proposed changes will impair the fundamental goals of investor protection and confidence that have made U.S. capital markets the best in the world.

The specific actions, each of which requires approval by the full SEC and CFTC, are as follows:

1. Expanding Choices for Investors. The SEC and the CFTC are taking numerous actions to expand the range of choices available to investors, particularly small investors.

o Streamlining Regulation of Mutual Funds and Other Investment Companies. Registered investment companies are the third largest sector of the U.S. financial system. They manage approximately \$1.5 trillion in assets on behalf of more than 50 million individuals either directly, or indirectly through pension funds and similar vehicles. Although the investment company industry has experienced tremendous growth and significant structural changes in recent years, the basic federal laws regulating this industry have not been amended in twenty years. The SEC's reform program will include the following steps to streamline and modernize the existing

system of regulation for mutual funds and other investment companies.

- Removing Constraints on Asset-Backed Financing. Last year saw \$109 billion of non-mortgage, asset-backed financings (primarily credit card, auto loan, and computer loan receivables). But because securities backed by these kinds of assets are currently subject to the full regulatory scheme of the 1940 Investment Company Act, it is impossible, as a practical matter, to sell these securities through public offerings in the U.S. The absence of an exemption from the 1940 Act increases financing costs for U.S. business and deprives public investors of investment opportunities.

The SEC's reforms will include new rules exempting these types of asset-backed securities from registration as investment companies. By expanding the types of assets that can be securitized without implicating 1940 Act registration, the SEC's new rules will make possible new classes of lower-cost instruments for raising capital.

- Creating New Types of Investment Companies. The 1940 Act currently requires all "open end" funds to offer redemption of shares every day. This makes it practically impossible for funds to invest in less liquid assets such as the shares of start-up companies. As part of its regulatory reform program, the SEC will develop new rules to permit development of a new type of investment company: Its shares would be redeemable on a periodic (e.g., monthly, quarterly or semi-annual) basis rather than daily. This new type of mutual fund will give investors new choices and make it possible for greater volumes of capital to be available for investment in smaller companies.

- Increasing Flexibility. The SEC's reform program will also include changes to permit greater price competition in the distribution of shares of mutual funds and other investment companies. These and other changes will encourage greater innovation in the industry, and a wider range of choices for investors.

- o Lifting the Ban on Trade Options. The CFTC has issued a proposed rule which would permit the offering of trade options on agricultural commodities and would lift the ban on pricing trade options off of exchange generated prices. The proposed rule making would permit agricultural market participants to trade options more uniquely tailored to their specific risk shifting requirements, and would expand investor choices.

- o Expanding the Availability of Foreign Option Products. A proposed rule change would permit U.S. futures commission merchants (FCMs), on behalf of customers located outside the U.S., to engage in transactions in most foreign exchange-traded option contracts, even though those option contracts have not been approved for offer or sale in the U.S. The ability of domestic FCMs to service the full range of investments needs of foreign based clients would be enhanced. The CFTC anticipates issuing a final rule within the next two months.

2. Reducing the Costs of New Capital, Particularly To Small Businesses. In addition to the measures described above, the SEC and the CFTC are taking the following actions to reduce the costs of capital, particularly to small- and medium-sized businesses.

- o Cross-margining for option and futures positions. The SEC has recently approved, and the CFTC is currently considering, rule proposals that establish or expand programs for cross-margining intermarket hedge positions in the options and futures markets (positions in one market which offset the investment risk of positions in other markets.) Existing programs saved approximately \$22 billion in margin deposits in 1991.
- o Replacing Position Limits in Non-Agricultural Markets. The CFTC has developed and proposed a program to eliminate current speculative position limits, aimed at restoring competitive balance for U.S. exchanges and halting the flow of capital to foreign markets. The Commission would grant exemption from speculative position limits for non-agricultural markets, provided that the exchanges substitute reasonable alternative regulatory measures where appropriate.
- o Streamlining Trading Practice Rules. The SEC's reform program will also streamline trading rules that apply to the conduct of participants in a distribution of securities. These rules include SEC Rules 10b-6, 10b-7, and 10b-8. During 1991, the Commission was called upon to exempt from these trading rules public multinational offerings having an aggregate value of approximately \$8.5 billion, non-public international offerings aggregating approximately \$6.5 billion, and domestic exchange offers aggregating approximately \$2.5 billion. The proposed amendments will codify and clarify prior SEC positions, thereby providing greater certainty to the regulated community. This will result in reduced offering costs.
- o Amendments to Regulation A Offerings. Regulation A offerings of securities are less costly than registered offerings, and do not cause an issuer to incur periodic reporting obligations under the 1933 Securities and Exchange Act. The SEC recently issued for public comment proposed revisions to permit more

issuers to qualify to use this type of offering and to further reduce the costs of such offerings by:

- increasing the annual dollar limit from \$1.5 million to \$5 million;
 - permitting the use of a simple question-and-answer format for the offering circular; and
 - allowing companies for the first time to "test the waters" for investor interest before incurring the expense of preparing offering documents. These changes will make it easier for small businesses to raise greater amounts of capital without incurring substantial legal and accounting expenses.
- o Small Debt Offerings. The SEC recently issued proposed rules that will expand exemptions to costly compliance conditions in connection with issuance of corporate debt securities. The SEC's proposed amendments would exempt debt offerings under Regulation A, as well as an additional \$5 million annually, from compliance with the Trust Indenture Act.
 - o Seed Capital Offerings. The SEC recently issued proposed rule amendments to permit companies to receive up to \$1 million annually from the public without regulatory conditions.
 - o Investments by Mutual Funds. The SEC has recently taken two other steps to facilitate investment by mutual funds in small businesses:
 - it has issued proposed rules to increase the dollar amount of securities that may be raised without registration by certain types of investment companies that specialize in small business investing; and
 - it has published a release that allows mutual funds to increase the percentage of their assets that may be invested in the illiquid securities of small businesses.
3. Simplifying Registration and Disclosure Requirements. The reforms announced today include numerous steps to simplify disclosure required under the securities laws. These steps will reduce costs for securities issuers and make it easier for investors to understand disclosure documents:
- o Increased Use of "Shelf" Registration. In the 1980s, the SEC adopted a system for "shelf registration" of securities. Under this system, securities could be registered for delayed offering, thereby eliminating the need for further SEC review, and providing issuers greater flexibility in the timing, size, and manner of distributions.

- The SEC's reform program will include actions to expand the availability of "shelf registration" for all types of investment-grade asset-backed securities. If such a rule change had been in effect in 1991, approximately \$48 billion of registered asset-backed securities could have been registered under these shelf-registration procedures.
- The availability of shelf registration procedures will translate into significant cost savings for registrants.
- o Wider Availability of Rule 144A. SEC Rule 144A provides a "safe harbor" from registration requirements for resales of privately placed securities by "qualified institutional buyers" or QIBs.
 - The SEC's reform program will make it easier for certain banks, insurance companies and pension funds to avail themselves of this safe harbor, thereby adding to the eligible QIB universe institutions with investment assets of up to \$1 trillion.
 - The new rule should increase demand and trading liquidity for securities sold in unregistered offerings, and therefore, reduce the costs borne by issuers, intermediaries and investors.
- o Wider Availability of SEC Form S-3. The SEC program will also include changes to enable an estimated 400 additional issuers, with an aggregate market capitalization of more than \$35 billion, to use a simplified registration form known as S-3. This form permits "incorporation by reference" to a company's periodic disclosures under the SEC's integrated disclosure system. This would reduce by one-half the length of the prospectuses required to offer common stock and other securities for many of these issuers, resulting in significant cost savings.
- o Streamlined Requirements for Insider Reporting. The SEC's program will include steps to streamline reporting by a public company's officers, directors and significant shareholders of transactions in the company's securities. These steps will include action to address cash-only employee benefit plans and other broad-based employee benefit plans.
- o Simplifying Broker-Dealer Registration and Reporting Requirements. The SEC's program will finalize amendments to the basic registration form for broker-dealers to clarify and simplify disclosure requirements. The staff is also working with state regulators to develop a one-stop filing system for state and federal registration of broker-dealers.

- o Simplified the Disclosure System for Small Businesses. In addition, the SEC has recently proposed simplified "junior" disclosure forms that can be used by small businesses to comply with securities registration and continuous reporting requirements.
- o Reducing Paperwork Burdens for Commodity Pool Operators. The CFTC, in coordination with other regulators, has developed a bifurcated disclosure document format to be used by operators of "commodity pools" -- i.e., [define] -- in the raising of capital. This will enable pool operators to provide simplified disclosure to investors by moving many of the detailed performance data to a second section which would be available upon request.
- o Relieving Commodity Pool Operators and Trading Advisors. A regulation has been proposed which would permit registered commodity pool operators, under certain circumstances, to claim relief from most of the disclosure, reporting and recordkeeping requirements for pools offered or sold to qualified eligible participants in certain private offerings, resulting in a significant reduction -- possibly up to 90% - - in the costs of offering commodity fund participations to institutional and other qualified investors.
- o Eliminating Exchange "Low-Volume" Futures Report and Extension of Dormant Contract Exemption Period. The CFTC will eliminate a report that requires futures exchanges to prepare and submit low-volume futures reports. The CFTC has also issued a proposed rule that would increase, from three to five years, the amount of time that an exchange may commence trading in a contract upon designation without being required to seek Commission approval.
- o Expediting Registration of "Associated Persons." The CFTC is working with the National Futures Association (NFA) to expedite a "direct entry" registration process now being tested in a pilot program. This program permits ___ to enter required information directly into the NFA's computer system. It reduces the time required to grant temporary licenses [for what?] by eliminating the delays associated with processing paper registration applications.
- o Reducing Reporting Level Burdens. Rule amendments were proposed to reduce the volume of large trader reports and customer identification reports the CFTC requires by raising the threshold reporting levels for 19 commodities. The CFTC will also seek to further reduce reporting burdens by harmonizing Commission reporting levels with those of the exchanges.