

August 7, 1973

To Our Clients:

Current SEC Projects

The Directors of the Divisions of the SEC gave a panel discussion at the ABA meeting today with respect to projects now being worked on and their thinking about current problems. The following is a summary of the significant matters.

1. Registration and reporting.

(a) Form S-7 will be amended so that it is available for exchange offers.

(b) Form S-8 will be revised to provide more information on resale by optionees and clarify who is an "underwriter".

(c) Form S-1 line of business reporting requirements will be defined and clarified.

(d) The Staff of the SEC is considering requiring that annual reports to shareholders contain descriptions of the business, line of business reporting and financial "highlights" that are consistent with the certified financials. This, together with the pending NYSE proposals in this area, is another step in making the annual report an official disclosure document.

(e) The Staff is considering the 11(d), Reg. T problems of tax shelters and condominiums and is considering §3(a)(12) exemptions on specific conditions.

(f) The Staff is working on interpretative releases re 144, 145, 3(a)(10) and re private placements.

(g) Rule 146 has been redrafted and will be proposed for recomment. The investment representative concept has been changed to dispense with the requirement that he be independent of the issuer, and instead there will be a requirement of full disclosure of relationship to the issuer and affiliates of the issuer will not be eligible. Communications and meetings with qualified purchasers will be permitted, but no big sales meetings. Consideration is being given to deletion of the risk of loss test for purchasers except where the purchaser uses a representative. The access requirement

will be defined so that it can be met either by the purchaser having "clout" or detailed spelled out information -- a kind of prospectus for private offerings. Business combinations will be accommodated by allowing the officers of the acquired company to represent the shareholders and deleting the risk of loss of requirement. The \$250,000 breakpoint will be lowered to \$200,000 or \$150,000.

2. Market Regulation.

(a) The Staff is still pushing hard on combined reporting and tape.

(b) Lee Pickard questions the expansion of the option business. He pointed out that the CBOE was authorized as a "controlled experiment."

(c) The Staff is working on the new net capital rule for final promulgation soon.

3. Investment Management.

(a) The Staff continues to work on the mini-account problem.

(b) The Staff is concerned about the professional qualifications of advisers and analysts and is considering requiring advisers to supply clients with descriptive brochures containing Staff resumes.

(c) The Staff is considering the questions of the standard of care to be used in giving investment advice, proscribing kickbacks and finders fees in connection with advisory accounts and requiring disclosure of the method used to allocate investment opportunities.

4. Accounting.

(a) The Staff is considering requiring that accountants review all financial information in annual reports - particularly the highlights - and also review quarterly reports.

(b) The Staff is considering an SEC policy statement on what is expected of accountants.

(c) The proposals with respect to tax reconciliation, alternative principles and compensating balances are being reconsidered in light of the comments and will be adopted or put out for comment.

5. Enforcement.

The Staff is focusing on "creative accounting" and is bringing injunction actions in this area.

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