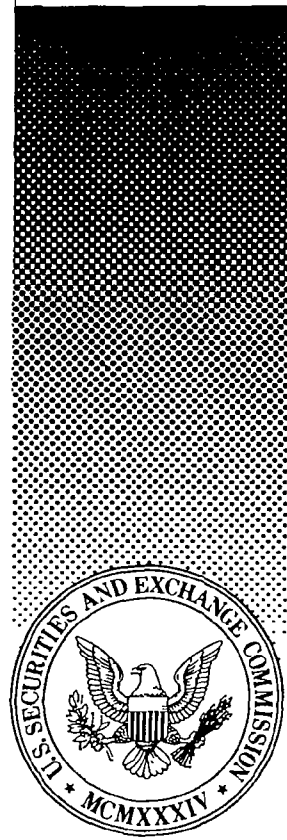


AL 4556
12/15



1 9 9 5
Annual Report

United States
Securities and Exchange Commission



THE CHAIRMAN

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

The Honorable Albert Gore, Jr.
President of the United States Senate
Washington, D.C. 20510

The Honorable Newt Gingrich
Speaker of the House of Representatives
Washington, D.C. 20515

Gentlemen:

I am pleased to transmit the annual report of the Securities and Exchange Commission (SEC) for fiscal year 1995. The activities and accomplishments set forth in the annual report continue the Commission's long tradition of hard work and high achievement. I would like to take this opportunity to offer my views of the Commission's progress in addressing several of the major issues facing the Commission.

Municipal Debt Markets

In recent years, the Commission and the municipal securities industry have taken several major steps to prepare the debt markets for the twenty-first century. The Municipal Securities Rulemaking Board has effectively severed the link between political campaign contributions and municipal bond underwriting business with its Rule G-37. This rule recently withstood a challenge in the U.S. Court of Appeals, reaffirming industry and regulatory efforts to curtail the insidious practice known as "pay-to-play." In addition, the Commission has undertaken a number of enforcement actions to help ensure the integrity of this market.

The Commission has also been concerned about inadequate disclosure in the secondary market for municipal securities. In response, industry and issuer groups offered recommendations that were incorporated into Commission rule amendments and will make up-to-date information more readily available.

In addition, the Commission has met with state and local officials throughout our nation in an open dialogue about the prudent management of public funds. We have stressed the importance of safety and liquidity over risk and return as well as the special responsibilities involved in seeking capital through our public markets.

Promoting Capital Formation

Throughout its existence, the Commission has balanced the need for full disclosure and investor protection against the burden that its rules, regulations, and requirements may impose on capital formation. This year, we undertook two fundamental reappraisals of the way the agency regulates. First, an SEC Advisory Committee on Capital Formation and Regulatory Processes was appointed to examine our regulatory approach and consider how it might be improved. The Committee is considering such questions as whether the Commission should register companies instead of securities. The Commission also created an internal Task Force on Disclosure Simplification, which analyzed the cost to companies (in both time and legal fees) of complying with the agency's form and filing requirements. The Task Force reviewed hundreds of forms and regulations and recommended amendment or elimination of many of them. If implemented in its entirety, the report's recommendations would eliminate or modify one-half of the rules and one-fourth of the forms that affect corporate America.

In recent years, the Commission has created a new, simpler registration and disclosure regime for small businesses seeking capital in the securities markets. During 1995, the Commission proposed to allow small businesses to "test the waters" with registered initial public offerings and we shortened the restricted holding periods for privately placed securities under Rule 144. The agency also worked with Congress to craft a "safe harbor" provision in securities litigation reform legislation that might encourage corporations to disclose forward-looking information by protecting them from some of the liability concerns raised by frivolous lawsuits.

Disclosure Developments

The Commission has launched several efforts to simplify and streamline disclosure. In 1995, the Commission worked with the investment company industry and state securities regulators to develop the "profile prospectus," a clear, one-page summary that accompanies the regular prospectus and is designed to give investors a better understanding of the mutual fund they are considering buying. Pilot "profiles" developed by eight fund groups have been available to investors since August 1, 1995.

Toward the same end, the Commission proposed improved disclosure requirements for money market funds. The new standards are designed to simplify money market fund prospectuses considerably, making them less costly to prepare and allowing investors to focus on a short document that contains the most essential information about the fund.

Enhancing Investor Protections

Under the Commission's regulatory scheme, securities firms and self-regulatory organizations serve as the front-line defense against violations of the securities laws. The Commission's enforcement, examination, and investor education activities back up that defense.

In the past year, the Commission continued its traditionally vigorous enforcement program. Recent notable cases have involved domestic and international insider trading, Ponzi schemes, government securities fraud, misleading disclosures, kickbacks or conflicts of interest related to municipal securities offerings, broker-dealer sales practice abuses, "prime bank notes," and the relatively new problem of unregistered securities offerings over the Internet.

In May 1995, the Commission consolidated its examination and inspection activities into the Office of Compliance Inspections and Examinations (OCIE). The Commission created OCIE to conduct and coordinate examinations of brokers, dealers, self-regulatory organizations, investment companies and advisers, and transfer agents. One reason the office was created was to enable the SEC to better coordinate its examinations with fellow regulators, and I am pleased to report that we have already reached an important agreement with our colleagues that will reduce duplication of effort for us as well as for the firms we examine.

Working with the industry self-regulatory organizations and state regulators, the Commission also conducted a sales practice sweep of small and medium-sized brokerage firms. The objective of the sweep was to identify problem brokers and to ensure that appropriate supervisory mechanisms are in place and, where necessary, to take appropriate enforcement action.

The Commission's Office of Investor Education and Assistance continued its concerted efforts to reach out to investors. With the help and cooperation of the securities industry and state regulators, the office continued its highly popular investor town meetings to offer tips on how to invest wisely. Other outreach efforts during the year include the creation of an SEC site on the World Wide Web, which offers corporate financial information from our Electronic Data Gathering, Analysis, and Retrieval System (EDGAR) as well as SEC News Digests, litigation releases, speeches, testimony before Congress, rule proposals, press releases and investor alerts. For those who lack Internet access, the Commission also created a toll-free investor information line.

International Listings

During the year, the agency worked to reduce costs for foreign companies entering the U.S. markets by simplifying the registration and reporting process while maintaining high U.S. disclosure standards. At a time when cross-border listings in other major markets have either hit a plateau or declined, foreign issuer participation in the U.S. markets has grown dramatically in the 1990s—the Commission had a record 738 foreign listings at the beginning of 1996.

* * *