

## Public Filings 101

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## Origins of Public Company Disclosure



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- New York Stock Exchange established in 1792
- Securities market largely unregulated for over 100 years
- Fraud, manipulation, insider trading
- Stock market dominated by wealthy insiders with access to information
- The Roaring Twenties:
  - Period of great urban economic growth and prosperity following World War I
  - Ordinary Americans now investing in the stock market
  - Margin buying: over \$8.5 billion out on loan!



## Origins of Public Company Disclosure

- Fraud and manipulation continued: stock pools
- “Blue Sky” Laws emerge
  - adopted in all but one state (Nevada)
  - to protect public from “blue sky merchants”
  - weak terms, ineffective enforcement
  - did not apply to interstate securities offerings: Investment Bankers Association
- 1929:
  - production had surpassed purchasing power
  - stock market bubble



## Origins of Public Company Disclosure

- By mid-1932, the stock market had lost **85%** of its value
- The Pecora Commission:
  - First witness called: Charles E. Mitchell, head of National City Bank (now Citibank)
  - Uncovered a wide range of abusive, fraudulent and manipulative practices in the banking and securities industries



## Origins of Public Company Disclosure

- In response to public outcry, Congress enacts the Securities Act of 1933
  - First major legislation to regulate the offer and sale of securities (original issuances)
  - Requires offers and sales of securities to be registered with the SEC (absent exemption)
  - Primary purpose is to ensure that buyers of securities receive complete and accurate information before they make an investment decision
    - Fundamentally rooted in a philosophy of disclosure
    - Unlike state blue sky laws, does not impose "merit" requirements – it is not illegal to sell a bad investment, as long as all the material facts are adequately disclosed
- Securities Exchange Act of 1934
  - Created the U.S. Securities and Exchange Commission
    - Protect investors
    - Maintain fair, orderly and efficient markets
    - Facilitate capital formation

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