

Public Filings 101

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Origins of Public Company Disclosure



Origins of Public Company Disclosure

- 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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