

MEMORANDUM OF CONFERENCE

Between: Merrill Lynch, Pierce, Fenner & Smith Representatives
and the
Disclosure Study Group

Date: March 1, 1968

Present: From Merrill Lynch:
Donald T. Regan, Executive Vice President
James D. Corbett, Senior Vice President
Robert W. Trone, Vice President
Courtney Ivy, Counsel
From staff:
Commissioner Wheat, Messrs. Phillips, Wexler, Mishel,
Marshall, Millard, Bagley, Shreve, Becker, Ratner, Rowe
and Mrs. Mattison

By: Kenneth L. Marshall

Summary

The major points brought out in the conference with Merrill Lynch are as follows:

1. There was unanimous agreement among the Merrill Lynch people that the annual report to shareholders often does not provide adequate disclosure of changes in the business.
2. Even though the annual report to shareholders does not provide information as to business changes adequate for the professional investor the Commission should not attempt to regulate disclosure in the annual report. The annual report must preserve flexibility and free writing for management to present its viewpoint outside the realm of government restrictions.
3. Merrill Lynch rarely uses the 10-K and 8-K reports which are filed with the Commission because of their inaccessibility.
4. Merrill Lynch and, in their opinion, most of the Wall Street underwriters, would be unwilling to accept disclosures made by the company in their Form 10-K

reports as a basis for disclosure relating to the same item in the 1933 Act statements. They feel that the potential liabilities are too great in this area.

5. The 8-K's and 10-K's are filed too late for use by the professional.

6. Mr. Corbett stated, in his opinion, the schedules to the Form 10-K are very valuable to their research department. He feels that these schedules should be further broken down which would give the research department a picture of the individual operating divisions of the conglomerate company.

7. The issuer needs some sort of new motivation to file his -K reports in timely and complete fashion.

8. The Merrill Lynch people think there is definitely a market for the dissemination of the information contained in our -K report files if such files were on a microfiche basis and made available at a reasonable cost.

9. Merrill Lynch does not find that the information contained in the files of the Commission to be any more reliable than press releases made by management.

10. Quarterly reports should be filed by issuers registered with the Commission in the opinion of Merrill Lynch. The reports should give both income account and balance sheet information.

11. We do not get enough description of the history, experience and age of the management of the issuer in the filings made with the Commission.

12. The Merrill Lynch people feel that there may be possibility for further exploration in the area of predictions being placed in the registration statement.

13. The cover page of the prospectuses should not contain ratios such as the price earnings ratio, the current ratio, the quick ratio, debt to equity ratio, etc. This is not the job of the Commission. It is the job of the investment adviser or the broker, the customer's man, or the advisory services such as Standard & Poor's and Moody's.

14. There are possibilities that pictures should be permitted to be included in the registration statements.

15. Rule 133 should be further refined and Rule 154 eliminated.
16. Prospectus delivery requirements for the seasoned company should be eliminated.

Discussion

On Friday, March 1, 1968, the above-named members of the Commission's staff met with the above-named members of the staff of Merrill Lynch, a New York Stock Exchange member firm, and discussed the attached agenda. The meeting began after 9 a.m. and continued through lunch, concluding after 4 p.m.

The members of the Merrill Lynch group introduced themselves to the Commission group and give us the thumbnail sketch of their backgrounds. Mr. Corbett is the head of the research department and has been with Merrill Lynch for 25 years in various activities. He began with Merrill Lynch as a registered representative. Mr. Regan is Executive Vice President of Merrill Lynch. He is in charge of all sales activities. He has been with the company for 22 years. Mr. Trone is in the underwriting division and is the head of the buying department. Mr. Suttlemyer is the head of this division and was unable to attend today due to transportation problems. Mr. Trone has been with Merrill Lynch for 14 years. He handles underwritings -- some recent registration statements he has prepared have been Riegel Textile and Sinclair Refining. Mr. Ivy is Merrill Lynch counsel.

Commissioner Wheat established a background for the meeting by going into the history of the Acts within which we operate.

Mr. Corbett began the discussion by describing the organization and layout of the securities research division of which he is the director. The division has approximately 316 persons operating in four departments. The portfolio analysis department, employing approximately 100 persons, is the largest department in this division. The senior consultants and analysts, pension fund and institutional service, the portfolio analysis units and the portfolio processing section are contained in this department.

The industry specialist department, employing approximately 70 persons, contains the industry specialist units and the special studies unit. The research services department, employing approximately 100 persons, contains the wire communications section and, under this, the opinions unit and information unit. The statistics section, containing the charts or the technical services side, the correspondence section, and finally, the library section, which is second only to the Standard and Poor's library in New York City. Merrill Lynch is currently putting their files on microfiche. This will cover approximately 4 million pages and will form the basis for an NCR random access retrieval system.

Currently Merrill Lynch covers about 5000 companies. They will offer opinions on about 2500 meaning they will advise a customer to take, eliminate or not take a position in the stock. They will not offer an opinion on a company if they have not made a field visit to its management or if there is otherwise not enough information about the company. They decide whether there is enough information about a company by its history of reporting.

They find it physically impossible to retain Form 10-K's filed by the issuers, even as to those 2500 issuers on which they maintain opinions. The problems are (1) space limitations and (2) the inaccessibility of the Form 10-K's. Mr. Phillips asked if the 10-K's were available on a microfiche at a cost of approximately 50¢ to \$1 per report, would it be useful to Merrill Lynch. The opinions were that this would be real bargain for Merrill Lynch or any other user and the report would be used much more so than it is at present. Their analysts, and in their opinion other analysts, want to have better access to more and more information, and this proposal would help considerably. If the particular 10-K needs to be looked at Merrill Lynch will first go to its own file to see if the 10-K has been placed in that file. If it hasn't been placed in that file they go to Moody's library next or the New York Stock Exchange library.

Merrill Lynch maintains a very large proxy department. They hold approximately \$15 billion worth of stocks at any given time. When their customers have a position in any stock they maintain the proxy on that particular company. They also try to keep a copy of the latest

annual report to stockholders on such companies. They maintain a clipping service, they read all the important papers -- the Times, Journal, Barron's, etc. -- to keep current on the companies.

Their library clips from the paper and sends the clippings to the industry specialist. This is placed on his desk by a messenger and he has his mail and clippings on his desk first thing in the morning.

In addition to the specialists mentioned in the four groups shown in the organization chart there is also a staff economist assigned to the research group and the computer group. In the computer group a 360 IBM computer is used for switching of information purposes. The second IBM 360 is an accounting machine. There is a third 360 on order, which is going to be used for research purposes only. It was the opinion of Mr. Corbett that the state of the art is not advanced to optimum levels yet to have a computer solely for the research department's use, but that the technology is advancing so rapidly that this should come about in the near future.

As mentioned before, Merrill Lynch feels their library is second only to the library of Standard & Poor's in New York City. Their library is set up by industry classification. If a request is made of the library, the requestor of the information would get the complete file on the company. The complete file will contain any annual reports, proxies, registration statements, clippings from papers and various financial services, and any field trip reports received by Merrill Lynch.

Adequacy of Form 10-K Reports

Commissioner Wheat noted that the study group has found in various instances that the 10-K reports do not adequately respond to changes in the business in the annual report to shareholders. The Merrill Lynch group agreed with this statement. Commissioner Wheat outlined the historical background of this present practice which permits the annual report to shareholders accompanying the proxy to suffice for the changes in the business item on Form 10-K. The obvious question arises: Should there be some review of the Commission's policy and require the description of business to be in the 10-K along with other 10-K disclosures? Another question is: Can the report be made more timely? Is the 120-day period for filing the 10-K

report too long? Before the question on the 120-day period being too long or not can be answered, you have to answer just what is the value of the 10-K to the investing public. An alternative question is: Are some of the schedules of such value that they could be filed later (after the annual reports to shareholders have been sent to shareholders)?

Mr. Corbett stated that there should be some review of Commission policy and he would like to see the changes in the business required in the annual report to shareholders and in very great detail. It is his opinion that the top 100 companies do a good job in this respect. He did not disagree with our contention that the companies we had reviewed (we being the study group) had not necessarily done a good job reporting the changes in the business.

As far as the question of timeliness of the report, the consensus of opinion was that the report is not timely at all under the present set up. The 120-day period is too long, as most companies will file the report on the 119th, 120th or 121st day after the end of their fiscal year. Mr. Trone and Mr. Regan both suggested that accounting has advanced to the stage where reports can be generated much quicker. The schedules to the financial statements are necessary to prepare the financials shown in the annual report.

Regulation of Disclosure in Annual Reports to Shareholders

Commissioner Wheat asked whether the annual report to shareholders financial statements should contain 10-K footnotes and financial statements in full. Should the Commission, as it presently does, not attempt regulation in this area? Should the company continue to be given a free hand in the writing and the content of their annual report to shareholders?

Mr. Corbett and Mr. Regan were both adamant on this point -- the Commission should not attempt regulation in this area to the degree that they would stultify the annual report in lawyers' language. The flexibility which annual reports contain must be preserved and the company continue to have their free writing ability. The requirement that changes in the business be reported in the annual report to shareholders is desirable, Mr. Corbett felt. He stated that you can judge management by how they write the annual report to shareholder. According

to Mr. Ivy annual reports prepared by the larger companies are prepared by their public relations department and less and less by management.

Changes in and Availability of 10-K (proposed)

As stated earlier, Mr. Corbett feels that if the 10-K reports were more timely and in microfiche form they would be much more useful. At present the 10-K is much too late for the analysts to use except for the footnotes in the financial statements. Commissioner Wheat made the suggestion that perhaps the basic financial statements in the annual report to stockholders should be in the same form and contain the same data as the 10-K report, but that the company be permitted to provide an alternative presentation of such data. In this way the annual report to shareholders would not contain the schedules as suggested earlier. Whatever is to be done in this area, it should avoid structuring the report in lawyers' language.

Integration

The question now arises: Should the disclosure in 1934 Act documents suffice for 1933 Act registration statement purposes? Mr. Ivy did not feel that this was a good practice. He felt that the 1933 Act liabilities for the underwriter are too great. The underwriter would meet resistance from the company if it attempted to change the company report since the changes might expose the company to 1934 Act liabilities. This presents a tremendous problem for both the company and the underwriter. The question is how do we balance the liabilities or how do the liabilities balance between the company's 1934 liabilities and the underwriter's 1933 liabilities according to Commissioner Wheat.

Shortcomings in our Present Forms

A. Form 8-K

Presently Form 8-K does not pick up adequately changes in capitalization. The item should be filed at an earlier date, since the major changes in capitalization give the professional analysts' insight into the company's strength and weaknesses. They would like to see both the annual report to shareholders and the 8-K earlier.

Research and development expenditures should be explained in both the 8-K and the annual report to shareholders. In this regard Mr. Trone would like to know what the company is doing in the area of new research and development and would like to see the results of past research and development. At present research and development disclosures are not required in our reports. This proposal presents problems from a competitive point of view according to Mr. Ivy.

Mr. Millard asked what use was made of Schedule 17 (“Income from Dividends Equity in Net Profit and Loss of Affiliates”) of Regulation S-X. Mr. Corbett stated that if this were contained in the annual report to shareholders, it would be very useful. Such a schedule, extended back would permit a better analysis of the conglomerate as it would show the results of the conglomerate on a division-by-division basis.

B. Form 10-K

Commissioner Wheat asked what is good and bad with the present Form 10-K. Mr. Corbett stated that his answer would vary with the type of company involved. He will have Merrill Lynch analysts comment on this issue and send his response in a letter. Mr. Corbett also said that some companies issue special reports which go to the analyst but not to shareholders and this is a very complete and detailed report. Of course Merrill Lynch never seeks the tax report.

Commissioner Wheat then posed the following: Suppose Canadian Superior Oil earnings per share for the past five years read \$4, \$3, \$2, \$1 and 20¢. The shareholder seeks this and asks what in the world is happening. The company, from our reports, states that it is pouring more and more funds into the development of their reserves. This being so, should estimates of reserves be shown in the annual report to shareholders or the registration statement or Form 10-K?

Mr. Corbett responded to this by stating in the case of an extractive industry it is of major importance to find out the quality, cost, etc. of the reserves. The fact that Canadian Superior Oil is investing their funds in acquiring new reserves which are of low quality or of high quality may

be highly material. This would help form the basis for a projection of future earnings. Such estimates of reserves, including quality and the cost of acquiring those reserves, are not shown in most reports. The big major oil companies presently furnish a complete report to analysts but the changes in reserves are not shown. The reserves are shown only in an aggregate figure and the analyst must interpret or interpolate what has happened in the past year just from the gross figures shown in two successive years' reports. Reserves or estimates of reserves are just as important as depreciation or depletion.

Commissioner Wheat posed another hypothesis: X Company is making money in the life insurance business and Y Company is really losing money. The analysts looks at the two companies on a comparative basis and tells the average "schnook" investor that X is the only one to buy. Mr. Corbett states this industry is the most difficult to analyze. Merrill Lynch uses convention reports and they have specialists to interpret these reports. He doesn't understand why insurance companies can't show earnings accurately. Commissioner Wheat then asked the group of Merrill Lynch people to tell us where we can improve our reports. Mr. Corbett stated they would analyze the question and send us their answers in a letter.

Quarterly and Interim Reports

Commissioner Wheat called to the attention of the Merrill Lynch people present that neither Moody's nor Standard & Poor's use our 8-K reports because they are filed too late. Commissioner Wheat then asked if Merrill Lynch relies on those releases in newspapers for dissemination of material and if this is sufficient for their purposes. Is the requirement that the 8-K report be filed within 10 days after the end of the month in which the event occurred realistic. Mr. Corbett stated that new motivation was needed to have the company file this report in a timely fashion as with the 10-K report. The 8-K's are not used by Merrill Lynch except when they are doing a report on the industry or on a special report on the particular company. At that time they will look at anything which relates to the particular project at hand but they will not make a special effort under normal circumstances to look at any of the 8-K reports.

Commissioner Wheat then asked how we can make the 8-K useful to the professional. Mr. Corbett stated that putting the reports on microfiche would be his suggestion. Just as a matter of thinking aloud he stated there would be possible problems of having sufficient number of microfiche readers on hand. Perhaps, if there could be blanket orders for the 8-K's or standing orders, this would prove to be the solution for 8-K's usefulness. There was no question that Merrill Lynch would prefer to have access to the 8-K reports as Mr. Corbett stated they would have someone to read it each day.

Mr. Ratner asked, "Is the information or data filed with the Commission found by Merrill Lynch to be more reliable than press releases?" Mr. Corbett stated that his was not the usual case. They usually found press releases to be reliable enough for their purposes plus the fact that they get to know the different managements of each of the companies in which the main interest of the market lies. Commissioner Wheat then asked if we should have the 8-K filed within five days after the event occurred, not as presently done. Would this be an undue burden on the company? Commissioner Wheat noted that there is a problem with filing an 8-K in a company with many different departments. The person responsible for preparing the 8-K may have other jobs to do which usually are more important. As events occur within a company, should he be required to sit down and think for a moment, "Is this event required to be reported on Form 8-K?" That's the undue burden on the company. Commissioner Wheat noted that the exchange wants news releases on highly important events.

Mr. Regan stated that most listed companies do not break NYSE or Amex rules on publicity. That being so, the 8-K is not necessary. It is not timely or accessible. At this point Mr. Ivy interjected that even if the 8-K is required within five days after the event occurs it is still old news if it is published in the New York Times, the Wall Street Journal, Barron's, etc.

At this point Commissioner Wheat pointed out that Form 8-K is useful as a deterrent. Since the company knows that the information is required to be on public record it has a positive reason for disseminating the material to the various wire services.

Dick Phillips then summarized the 8-K discussion. He stated that we would make an assessment on 8-K dissemination and asked that we be given suggestions as to possible changes in the items of disclosure. Mr. Corbett stated that he would have the analysts at Merrill Lynch advise him of how much they use the 8-K reports. When he is advised he will send us the information in a letter. Mr. Corbett asked that Merrill Lynch be advised of any new or suggested 8-K. He also stated that the NYSE microfiches the 8-K reports but this service is not very accessible either.

Commissioner Wheat brought the topic up and went into some of the background material. The NYSE and the Amex require quarterly reports. At some time in the past the Commission proposed such a position, that is, requiring quarterly reports. At that time the hue and cry was so great that Form 9-K resulted. One of our main purposes for looking into quarterly reports is that they go to shareholders, where our 8-K's go to our files and collect dust.

Merrill Lynch agrees that the quarterly reports are desirable. They feel that six months is too long to go without information relating to any of the companies in which they are interested. The information desired in the quarterly reports would be the same information they would like to see in the annual report to shareholders. The quarterly statement, therefore, would be fairly complete. Merrill Lynch will send us good and bad examples of quarterly reports. Such reports are needed to keep up with the company. They find that it is a good way to test management as management is given free writing abilities in quarterly reports as they are in the annual reports. And it is also a good way to test Merrill Lynch research and analysis department's estimates on earnings vs. what actually occurred. They would like to see capsule balance sheet data presented in the quarterly reports and in a section which does not include any financial statements, and they would like to see changes in the business, particularly changes in their material contracts.

Merrill Lynch will write us with respect to their views on quarterly reports. It was decided that we need to define our goals before we plunge into the area and Merrill Lynch's views would be helpful in defining these goals.

Management

Commissioner Wheat asked whether Merrill Lynch gets enough information about management in the various reports, i.e., the proxy statement, the annual report to shareholders or the registration statement. Mr. Regan and Mr. Trone definitely said no. There was no disagreement by Mr. Corbett or Mr. Ivy. The information they would like to receive is a longer history of the management personnel, their experience, their age, and going back beyond a five-year history.

The question was then asked how Merrill Lynch evaluates the various managements. Mr. Corbett stated that the evaluation was not entirely subjective nor was it entirely dependent upon the company interview. Merrill Lynch maintains a "book" on management. This book is not public. They know who has been in trouble in the past -- they dig into management's past if they are not in the Merrill Lynch book.

Mr. Regan then interjected the fact that in 1942 "Investors Reader", a bi-weekly printed by Merrill Lynch in "Time style" on various companies, was designed to give a feel for management. Commissioner Wheat asked if there were any key items of management character not now shown which Merrill Lynch felt is material. Mr. Ivy stated at this point that the prevailing practice is to give as little information about management as possible, that is, only what is required in the instructions to the particular form being used. Mr. Corbett stated that if management has been in jail or bankrupt, this is material information regardless of when it occurred as it pertains to the quality and character of management.

Summary Prospectus

Mr. Trone stated that the current prospectus could be shortened considerably if it were put in proxy form or in form similar to the Standard & Poor's manuals. He stated that S-7 and S-9 are steps in the right direction. He tossed the question back to the study group as to how much does the investor read with reference to options, description of securities, properties, etc.

The consensus of opinion appeared to be that if the summary prospectus was found to be desirable, we should be prepared to give up prospectus delivery requirements.

Predictions

Commissioner Wheat posed the question: Should the Commission require predictions in the prospectus as in British prospectuses? Perhaps predictions should be required to keep tabs on management since everyone predicts anyhow. Most management will not estimate their earnings, according to Merrill Lynch. Mr. Regan stated that people want predictions in the earnings per share area. They want to know what is going to happen in the future and not what happened last year. Mr. Corbett felt that if everyone concerned realized how much of the prospectus is an estimate and only an estimate, it may have possibilities. Mr. Regan felt that if the underwriter and the management can give the public any guidance through the use of estimates, they should do so. If anything unexpected happens, management should have the opportunity to call off their bets.

Such a proposal bothered Mr. Ivy. He presently has trouble explaining the simple matter of declines in sales and earnings in the registration statement when presented on a comparative basis. He always attempts to find out what is the cause of the decline. He feels that it is difficult enough to find out what happened previously. Now the problem arises to predict next year's results!

Dave Mishel questioned whether such disclosure would be given sanction just by virtue of its being in a registration statement. Would salesmen tout it as having been sanctioned by the SEC? No response from Merrill Lynch was given.

Ratios

Commissioner Wheat then asked the opinion of Merrill Lynch on presenting ratios on the cover page. He noted that the Schering report, a copy of which Merrill Lynch had presented to the disclosure study group, shows on the heading certain ratios. Mr. Regan stated that he was against presenting ratios on the cover page in the S-1 prospectus. He stated that it is not the job of the underwriter to present such ratios. He feels the prospectus is dull and colorless as it presently exists. If Merrill Lynch had their way in the matter they would not issue a prospectus

in its present form. At this point Mr. Ivy mentioned the 1928-1929 four-page circular that was presented to prospective purchasers.

Pictures

Commissioner Wheat, after Mr. Ivy's comment, stated that this was evolving to a shorter prospectus and what did the gentlemen think of presenting pictures in the prospectus. Mr. Regan described Merrill Lynch's experience with pictures in a publication. He cited the "Survey and Summary" did not have pictures six or seven years ago and was quite dull. The circulation was very limited due to its dullness. Merrill Lynch added pictures and now 500,000 copies of any particular issue is not an unusual number. He states that if an S-1 can be made more readable he is all for it. Of course, Mr. Ivy would leave out the adjectives.

Mr. Trone gave us the opinion that product photos would be desirable in the S-1. Mr. Regan said to the effect that we have within our own files proof that pictures are desirable. He thinks that the annual report to stockholders is the most widely read document the company files much more so than the 10-K. At which time Mr. Corbett offered his opinion that proxy statements are fairly well read, but again not as much as the annual report which contains all the color pictures which management desires to put in.

Prospectus Delivery Requirements

Dave Mishel asked what the purpose of the prospectus should be. Should it be in the same form as the annual report to shareholders or should it be prepared strictly within the law? Mr. Regan responded that the 1933 Act envisioned non-delivery of the prospectus prior to confirmation. At which point Commissioner Wheat disagreed. Mr. Regan then proposed that Merrill Lynch be allowed to send out the prospectus without accounting for them. That is, isn't it better from the point of view of the public to have delivery of the prospectus three to four days in advance of any confirmation? This would give the customer something ahead of time.

Dick Phillips then brought up the subject of recirculation of prospectuses. He asked if there is any way to classify offerings so as to eliminate the recirculation requirements for some

issues. Mr. Regan felt it is more important to have a prospectus pertaining to a new issuer in the hands of the investor rather than a General Motors offering.

Commissioner Wheat pointed out during the hot issue period of 1961-62 the Division of Corporation Finance took the position of not granting acceleration in a speculative issue unless the underwriter could show redistribution. We then were faced with a problem in that the underwriter would tell us he would take the extra 20 days rather than redistribute the prospectus. The underwriters knew the offering had to be declared effective at the end of the 20-day period anyhow. The state administrators suggested a summary prospectus of a new issue and follow this up with a final prospectus.

Mr. Ivy responded that he envisions trouble with such a practice, especially when the stock goes down. Mr. Ivy also feels that there is too much in legal terms in the prospectus. Rather, it should be in more readable form.

Rules 133 and 154

Commissioner Wheat presented another problem for consideration. In using the 1934 Act filings for 1933 Act registration purposes, what about non-underwritten offerings? What about a non-Rule 133 business combination when common stock is issued to persons deemed statutory underwriters and at some later date the stockholder wants to diversify and sell some of the common stock which he received in the combination? At present they cannot sell without a registration statement. Question: What does Merrill Lynch think of the proposal that in this type of offering, which would be at the market, without extra selling incentives and without selling effort that the person be able to use the 1934 Act reports in a wrap-around prospectus and delivery that document to his broker? Mr. Ivy asked if this was to be an offering without an underwriter to which the answer was yes. With this proviso he felt the idea sounded very good to him. Mr. Wheat pointed out that this can reduce examination time and eliminate many of the Rule 133 interpretative problems, but we cannot figure out how to do away with the private offering entirely. Mr. Ivy then pointed out one thing which would help Merrill Lynch: If we permitted more than the one percent formula of Rule 154 and had it high enough for someone to

dispose of stock in regular-way transactions, they, Merrill Lynch, could spend less time figuring out who is in control. Mr. Ivy felt that it should be tied to some monetary value. He proposes that a limit be raised to \$100,000 in Regulation A fashion so that an offering circular need not be used.

Commissioner Wheat responded that we have parking problems, that is, the shelf registration statement. He feels that if we can separate the reporting company from the non-reporting company and permit the 133 stockholder or the control person in the reporting company to make use of a liberalized Rule 154 scheme this may be the answer. The information given to the purchaser, that is, except the business of the company can be wrapped around their 1934 Act files.

At this point Mr. Regan pointed out that there was a problem with research on a company which keeps issuing stock on a very regular basis. He said that Merrill Lynch could not give an opinion on AT&T for over two years because of the 40-day publicity problem in the post-offering period. Commissioner Wheat stated that the need for prospectus delivery was not with the AT&T-type companies but with the hot issue companies. Mr. Trone felt that S-9 companies could be exempted from the prospectus delivery requirements and the publicity problems. Mr. Regan stated that S-7 companies should also be included in this group.

Commissioner Wheat asked that they present us with their opinions in a letter and tell us when they draw the line between full report and the buy-sell recommendation. Mr. Regan stated that in return for 1934 Act changes concerning companies who have stock listed and file regular reports, we should consider the elimination of prospectus delivery requirements and the publicity problems in the 40- or 90-day period.

At the conclusion of the meeting Mr. Regan and Commissioner Wheat outlined the following areas for Merrill Lynch to consider further and give us their recommendations on:

1. Uncertainties in the law of private offerings, that is, a breach of 1933 Act registration requirements such as Litton, which leaked stock into the market and became

over a \$100 million corporation before it became registered. How do we solve the dilemma of Rule 133 and develop new registration procedures?

2. How do we integrate the 1933 Act requirements with the continuous 1934 Act disclosures? How effective are our 1934 Act disclosures compared with the 1933 Act looking to reduce the requirements of the 1933 Act.

3. Should there be a shift in emphasis to the trading markets away from the 1933 Act registration statement focusing on the lack of information in the volatile market and using suspensions of trading powers?

4. Assist us in looking at our forms and files for improvement.

5. Tell us where our policies are not correct and how we should change the policies. Tell us how we should change to give good, desirable disclosure and where we ought to produce better information.

Tell us whether our forms are good and where they should not be changed. We assured Merrill Lynch that their views on any of these matters will not be published.