



SECURITIES AND EXCHANGE COMMISSION

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The Commission released today the final report of its 18-month "Street Name Study." The comprehensive study, conducted pursuant to Congressional directive contained in the Securities Acts Amendments of 1975, was transmitted to the Congress on Friday, December 3.

The 1975 statute mandated an examination of the practice of recording the ownership of securities in other than the name of the beneficial owner -- commonly referred to as "street" and "nominee" name registration -- in order to determine whether the practice is consistent with the purposes of the Securities Exchange Act of 1934 and whether issuer-shareowner communications can be improved while retaining the benefits of the practice. A Preliminary Report was filed with Congress in December, 1975.

In carrying out the second half of the Street Name Study, the Commission made an extensive survey of issuer-shareowner communications during the 1976 "proxy season" and developed comprehensive data concerning the operation of the current system of issuer-shareowner communications and its relationship to, and impact on, securities processing. On the basis of these data, the Commission has concluded that the continued use of street and nominee name arrangements is fundamental to the operation of existing securities processing systems and that, in general, issuer-shareowner communications are being carried out effectively within the current framework. The Commission has identified certain problems in the system, however, which can be mitigated through improved performance by issuers and brokers and has made recommendations to accomplish this.

In addition, the Commission has identified and made recommendations concerning ways in which the existing system could more fully satisfy Congressional expectations with respect to public disclosure of information regarding beneficial owners whose holdings may enable them to influence corporate management or affect the market in an issuer's stock.

Benefits and Problems in the use of Nominee and Street Names

The Commission found that the practice of registering securities in the records of the issuer in other than the name of the beneficial owner of such securities is consistent with the purposes of the Act. The practice benefits investors and the securities industry by facilitating the transfer of record ownership and the clearance and settlement of securities transactions. In addition, it is integral to the operation of securities depositories. At the same time, the Commission found that widespread use of nominee and street name registration causes certain problems. First, it makes communications between issuers and their shareowners more circuitous due to the interpositioning of intermediaries. Second, it tends to complicate regulation by masking beneficial owners of securities. Third, since the jurisdictional provisions of certain sections of the Securities Exchange Act of 1934 are based upon shareholder-of-record standards, the concentration of securities ownership in nominees may have the effect of inappropriately removing or excluding issuers from the jurisdiction of the Act. Established procedures, however, have overcome many of these problems, and the Commission believes that the problems which remain can be mitigated within the framework of the current system.

In light of these conclusions, the Commission recommends that no steps be taken which would discourage the use of nominee and street name registration or diminish the benefits which the practice provides.

Effects on Issuer-Shareowner Communications

Data from the Commission's survey of the 1976 proxy season survey demonstrate that the existing issuer-shareowner communications system is, on the whole, effective in transmitting materials to shareowners in a timely manner and in providing an effective mechanism for the solicitation of proxies. Moreover, the Commission found that most issuers perceive the system as meeting their needs, and all but a small percentage of shareowners, whether they hold stock directly or through a broker or bank, are satisfied with the service they receive.

Interviews conducted by the Commission and the data from the survey indicate that the problems which do exist are not evidence of systemic weaknesses but instead result from failures by individual brokers and issuers. In general, legislative or regulatory action does not appear to be necessary to correct these problems. Rather, the Commission concluded that improved compliance with self-regulatory rules and industry-wide implementation of generally accepted standard procedures for the distribution of annual reports and the solicitation of proxies would resolve most of them.

In view of these findings, the Commission recommends that the established issuer-shareowner communications system be retained, but that certain steps be taken to improve the operation of the system. Specifically:

1. The Commission will review the Study's recommendation that issuers be required to announce record dates for annual meetings in a more timely and effective manner.
2. The Commission has under consideration adoption of pending rules which would require issuers to send search cards to intermediaries at least ten days prior to the record date and would require brokers to respond promptly to issuers' inquiries.
3. The Commission will evaluate the recommendation of the Study that brokers be required to forward all communications which an issuer supplies and for the forwarding of which the issuer reimburses the broker's reasonable expenses.
4. The Commission will ask several of the national securities exchanges to review with their members the procedures under their rules for voting stock held in street name and to amend those rules where necessary in order to correct certain misinterpretations of the procedures.
5. The Commission will ask the self-regulatory organizations jointly to prepare a brochure for distribution to members' customers to help them better understand the benefits and effects of leaving securities with a broker in street name.
6. Finally, the Commission will propose an advisory committee drawing representatives from the issuer, bank, and brokerage communities to focus on developing self-regulatory approaches to implementing greater standardization in the system for transmitting shareowner communications. If the self-regulatory approach proves unsuccessful, the Commission will consider exercising its rulemaking power to effect standardization.

Effects on Disclosure of Beneficial Ownership

In the study, the Commission considers the fact that the practice of registering securities in nominee and street name limits the amount of information readily available to the public regarding beneficial owners of substantial amounts of an issuer's securities. The Commission believes that the Act and the rules thereunder may not fully achieve the scope of disclosure contemplated by Congress. In particular, certain persons whose ownership interest exceeds five percent are not required to report their ownership; implementation of Section 13(f) of the Act, requiring reporting by large institutions, has not been completed; and information about persons who are required to report is not as widely disseminated as may be desirable. Finally, the Commission's powers need to be clarified in order to assure effective enforcement of the disclosure provisions, particularly against foreign persons.

Accordingly, the study recommends several steps to make more comprehensive and effective the system for disclosure of ownership interests by substantial shareowners.

1. The Commission will seek legislation to require brief ownership reports from certain persons owning more than five percent of certain issuer's securities who are not currently required to report under Section 13(d) of the Act. To assure dissemination of information about large beneficial shareowners, the Commission has adopted "Item X," which will require issuers to disclose the name, address and holdings of any person (or group) known to be the beneficial owner of more than five percent of any class of certain of their securities in proxy and information statements, annual reports and certain registration statements. Item X as adopted has not yet been published.
2. In addition, the Commission will complete implementation of Section 13(f) to require reporting by large institutions and will take steps to make such information publicly available.
3. Finally, the Commission seeks legislation to clarify its enforcement powers particularly with regard to persons who hold securities through the nominees of foreign institutions.

Effects on Jurisdictional Standards

The Commission considered the impact of nominee and street names on the jurisdictional provisions of Sections 12(g) and 15(d) of the Act which are based, in part, on shareholder-of-record standards. The shareholder-of-record criteria were intended to provide a certain and easily applied measure of public investor interest. A substantial increase in the use of nominee and street name registration, however, could weaken the correlation between the number of recordholders and the number of underlying beneficial owners.

Since the enactment of these jurisdictional standards in 1964, there has been only modest growth in the total percentage of securities held in nominee name. As a result, the Commission believes that it is unlikely that any issuers have been removed or excluded from the operation of those sections by an increase in street or nominee name registration.

Securities depositories, however, tend to reduce the number of shareholders-of-record by concentrating in a single nominee name the holdings of many nominees. In order to assure that the continued growth of depositories does not affect the jurisdictional provisions of Section 12(g) and 15(d), the Commission will consider the Study's recommendation that the Commission use its power under Section 12(g)(5) to define the "shareholder-of-record" of securities held by a depository to be the person on whose behalf the securities are so held. The Commission also will seek legislation to enable it similarly to define shareholder-of-record for purposes of Section 15(d). In connection with this, the Commission will consider the recommendation of the Study that each depository be required to transmit periodically to each issuer whose securities the depository holds of record a list of the persons on whose behalf the depository holds the security.