



SECURITIES AND EXCHANGE COMMISSION

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NEW PROJECT WILL EXAMINE CORPORATE FINANCE ROLE OF REGIONAL BROKERS

Chairman Harold M. Williams of the Securities and Exchange Commission and Administrator A. Vernon Weaver of the Small Business Administration announced today a major, joint project to assess the role of regional broker-dealers in raising equity capital for corporations.

"This will mark the first time that the government has conducted a comprehensive, empirical study of the part that regional broker-dealers play in capital formation," Chairman Williams said. "It has often been said that these firms are essential to smaller companies attempting to enter the capital markets. This study will try to identify exactly what role regional broker-dealers do play in the process, and whether the recent decline in initial public securities offerings is related to changes in the number or activities of regional broker-dealers."

Weaver said the SEC "has taken many steps in the last year to assist small corporations in their continuing struggle to raise funds for growth.

"However," he added, "this is the first time our two agencies will have undertaken a research task to obtain data on how changes

in the securities industry may have affected smaller firms. The significance of this latest project is that the SEC and SBA will study the securities markets with a focus on issues of capital formation and small business."

The one-year project will be supported jointly by the SEC and the SBA's Office of Advocacy, and will be carried out by the Commission's Directorate of Economic and Policy Research. It will identify all initial public offerings of securities since January 1, 1972 and will trace the role which regional broker-dealers played in them.

The Senate Select Committee on Small Business reported earlier this year that, while in 1972 there were 633 initial public offerings, which raised \$1.7 billion in capital, in the three-year period 1975-1977 there were only 93 such offerings, which raised only \$388 million in new capital.

"A change in the structure or activities of the regional brokerage industry may or may not be an important factor in the recent relative scarcity of initial public offerings," Chairman Williams said. "This study will sharpen the factual basis of the continuing discussion."

"The study," Weaver said, "will be wide ranging but may yield information on those small companies dealing with innovation and high technology -- companies which have the ideas, creativity and entrepreneurial know-how but who lack the opportunity to raise needed capital."

The study will produce an analysis of the types and sizes of initial public offerings and of the extent to which the managing underwriters were regional, as opposed to national brokerage firms. It will also encompass a survey of selected corporations to determine what factors entered into their choice between regional or national brokerage firms to manage the underwriting of their securities.

In addition, the profitability of regional underwriters and regional broker-dealers in general, in relation to the profitability of national broker-dealers and the securities industry as a whole, will be studied.

A second aspect will involve examination of the role which the managing underwriter often plays as a marketmaker for an issue once the initial offering is concluded. This will include study of the impact on the market for a given security in cases where the initial managing underwriter later leaves the securities business, thereby ceasing to make a market in the security.

A third aspect of the study will attempt to document the extent to which research services are provided by regional broker-dealers on an ongoing basis for issues which they have underwritten.

The new study is expected to provide an empirical data base from which the Commission may draw in its efforts to facilitate capital formation by small business, consistent with investor protection.

In March of this year Chairman Williams announced establishment of an Office of Small Business Policy and last month the Commission undertook a joint project with the Department of Commerce to institutionalize a system for monitoring the impact of Commission rules on the ability of small businesses to raise capital. This new joint project with the Small Business Administration expands the Commission's focus on the capital raising ability of small businesses.

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