

Renmin University of China

School of Finance



Securities Disclosure in USA

From the Businessman's Perspective

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Preliminary Remarks



- **Our Topic – The financial disclosure required to sell securities in USA.**
- **The Scope – Public markets, venture capitalists, and individuals based on experience with hi-tech ventures.**
- **The Range – From the Theory and Practice to Enforcement and Implications.**
- **With a Treat – A visit to the Nobel Economic Prize (8,000,000 RMB) winners of last week.**

Today's Agenda



- **Start with the treat – A visit to the Nobel Economic Prize winners**
- **Disclosure as an Answer to “Asymmetric Information” waste**
- **Who must Disclose, Why? What? When? in USA**
- **Costs, Benefits, and Enforcement of Disclosure**
- **International Comparison: USA, Europe, Japan**
- **Policy Implications for China**
- **Concluding Remarks**

Nobel Economic Prize of 2001



- **Asymmetric Information – A General Theory**
 - The Laureates' contributions form the core of modern information economics
 - Used car Seller vs Buyer, Job Seeker vs Employer, Lender vs Borrower
- **George Akerlof (61) - University of California, Berkeley (PhD MIT)**
 - Adverse Selection => Downward Spiral (Recursive Lose-Lose)
 - Social Kindness => Contracting Prospects => Social Pain (Unintended Consequence)
- **Michael Spence (58) – Stanford Business School (PhD Harvard)**
 - Symbolic Signalling (Debt vs Equity, “Delay” bargaining, “Lowest” Education)
- **Joseph Stiglitz (58) – Columbia University (PhD MIT)**
 - Self-selecting mechanisms (hi deductables/lo rates, rationing vs raising loans)

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Answer to “Asymmetric Information”?



- **How Symmetric is Disclosure Information?**
- **What’s the Market Effect? wrt Velocity, Efficiency, Size**
- **Is More Information always Better?**
- **Who are the Winners and Losers?**
- **Is there a Viable Alternative?**

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Disclosure: Who? Why? What? When?



- **Who? Securities Sellers across State Lines**
- **Why? The Securities Act of 1933, 34, ... 97 ... SEC**
- **What? A Full Description of the Situation**
 - **Business (Market, Competition, Technology, Future)**
 - **Finance (Securities, Rights, Capitalization, Use of Proceeds, Taxes)**
 - **Financials (Operating Statements, Balance Sheet, Notes)**
 - **Management (Recent Events, History, Risks)**
 - **Principals (Directors, Management, Auditors)**
- **When? Depends: Reporting is Quarterly; Before Funds accepted**

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Costs, Benefits, and Enforcement



➤ **Costs**

- **Venture: Preparation, Secrets, Fees, Lead Time**
- **Investor and Government**

➤ **Benefits**

- **Venture: Financing, Fairness, Awareness, Clarity**
- **Investor, Government, and Society**

➤ **Enforcement**

- **Law, Oversight, Auditors, Liability, Courts, Culture**

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East/West Contrast: Japan & USA

	<u>Japan</u>	<u>USA</u>
Intent	Share Information among Japanese Prevent instability, scandal, and theft	Protect investors, Maintain the integrity of securities markets
Technology	Manual Submission, Digital images, No Internet	Electronic Submission, Digital Data Bases, Internet Enabled

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Policy Implications for China



- **Design a Disclosure System (not just Disclosure Requirements/Law)**
 - **Build Integrity, Liability, Courts, Accounting, and Markets**
 - **Make a System with “Chinese” characteristics and Western experience**
 - **Try to have comparability with the West**
- **Treat Disclosure like a Business**
 - **Market the Benefits, Control the Costs, Adapt to Changes**
 - **Seek Symmetric Information (but not perfection) and include investors and businessmen**
- **Enforce Rapidly, Readily, Fairly, Uniformly, Openly and Forcefully**

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Concluding Remarks



- **Questions and Answers**
- **Thank you, again.**

You can find a copy of this lecture (110 KB) on the Internet at:

<http://globatech.com/disclosure.pdf>