

Fast Answers

The Laws That Govern the Securities Industry

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Securities Act of 1933

Often referred to as the "truth in securities" law, the Securities Act of 1933 has two basic objectives:

- require that investors receive financial and other significant information concerning securities being offered for public sale; and
- prohibit deceit, misrepresentations, and other fraud in the sale of securities.

The full text of this Act is available at: <http://www.sec.gov/about/laws/sa33.pdf>.

Purpose of Registration

A primary means of accomplishing these goals is the disclosure of important financial information through the registration of securities. This information enables investors, not the government, to make informed judgments about whether to purchase a company's securities. While the SEC requires that the information provided be accurate, it does not guarantee it. Investors who purchase securities and suffer losses have important recovery rights if they can prove that there was incomplete or inaccurate disclosure of important information.

The Registration Process

In general, securities sold in the U.S. must be registered. The registration forms companies file provide essential facts while minimizing the burden and expense of complying with the law. In general, registration forms call for:

- a description of the company's properties and business;
- a description of the security to be offered for sale;
- information about the management of the company; and
- financial statements certified by independent accountants.

Registration statements and prospectuses become public shortly after filing with the SEC. If filed by U.S. domestic companies, the statements are available on the [EDGAR database](#) accessible at www.sec.gov.

Registration statements are subject to examination for compliance with disclosure requirements.

Not all offerings of securities must be registered with the Commission. Some exemptions from the registration requirement include:

- private offerings to a limited number of persons or institutions;
- offerings of limited size;
- intrastate offerings; and
- securities of municipal, state, and federal governments.

By exempting many small offerings from the registration process, the SEC seeks to foster capital formation by lowering the cost of offering securities to the public.

Securities Exchange Act of 1934

With this Act, Congress created the Securities and Exchange Commission. The Act empowers the SEC with broad authority over all aspects of the securities industry. This includes the power to register, regulate, and oversee brokerage firms, transfer agents, and clearing agencies as well as the nation's securities self regulatory organizations (SROs). The various securities exchanges, such as the New York Stock Exchange, the NASDAQ Stock Market, and the Chicago Board of Options are SROs. The Financial Industry Regulatory Authority (FINRA) is also an SRO.

The Act also identifies and prohibits certain types of conduct in the markets and provides the Commission with disciplinary powers over regulated entities and persons associated with them.

The Act also empowers the SEC to require periodic reporting of information by companies with publicly traded securities.

The full text of this Act can be read at: <http://www.sec.gov/about/laws/sea34.pdf>.

Corporate Reporting

Companies with more than \$10 million in assets whose securities are held by more than 500 owners must file annual and other periodic reports. These reports are available to the public through the SEC's EDGAR database.

Proxy Solicitations

The Securities Exchange Act also governs the disclosure in materials used to solicit shareholders' votes in annual or special meetings held for the election of directors and the approval of other corporate action. This information, contained in proxy materials, must be filed with the Commission in advance of any solicitation to ensure compliance with the disclosure rules. Solicitations, whether by management or shareholder groups, must disclose all important facts concerning the issues on which holders are asked to vote.

Tender Offers

The Securities Exchange Act requires disclosure of important information by anyone seeking to acquire more than 5 percent of a company's securities by direct purchase or tender offer. Such an offer often is extended in an effort to gain control of the company. As with the proxy rules, this allows shareholders to make informed decisions on these critical corporate events.

Insider Trading

The securities laws broadly prohibit fraudulent activities of any kind in connection with the offer, purchase, or sale of securities. These provisions are the basis for many types of disciplinary actions, including

actions against fraudulent insider trading. Insider trading is illegal when a person trades a security while in possession of material nonpublic information in violation of a duty to withhold the information or refrain from trading.

Registration of Exchanges, Associations, and Others

The Act requires a variety of market participants to register with the Commission, including exchanges, brokers and dealers, transfer agents, and clearing agencies. Registration for these organizations involves filing disclosure documents that are updated on a regular basis.

The exchanges and the Financial Industry Regulatory Authority (FINRA) are identified as self-regulatory organizations (SRO). SROs must create rules that allow for disciplining members for improper conduct and for establishing measures to ensure market integrity and investor protection. SRO proposed rules are subject to SEC review and published to solicit public comment. While many SRO proposed rules are effective upon filing, some are subject to SEC approval before they can go into effect.

Trust Indenture Act of 1939

This Act applies to debt securities such as bonds, debentures, and notes that are offered for public sale. Even though such securities may be registered under the Securities Act, they may not be offered for sale to the public unless a formal agreement between the issuer of bonds and the bondholder, known as the trust indenture, conforms to the standards of this Act.

The full text of this Act is available at: <http://www.sec.gov/about/laws/tia39.pdf>.

Investment Company Act of 1940

This Act regulates the organization of companies, including mutual funds, that engage primarily in investing, reinvesting, and trading in securities, and whose own securities are offered to the investing public. The regulation is designed to minimize conflicts of interest that arise in these complex operations. The Act requires these companies to disclose their financial condition and investment policies to investors when stock is initially sold and, subsequently, on a regular basis. The focus of this Act is on disclosure to the investing public of information about the fund and its investment objectives, as well as on investment company structure and operations. It is important to remember that the Act does not permit the SEC to directly supervise the investment decisions or activities of these companies or judge the merits of their investments. The full text of this Act is available at: <http://www.sec.gov/about/laws/ica40.pdf>.

Investment Advisers Act of 1940

This law regulates investment advisers. With certain exceptions, this Act requires that firms or sole practitioners compensated for advising others about securities investments must register with the SEC and conform to regulations designed to protect investors. Since the Act was amended in 1996 and 2010, generally only advisers who have at least \$100 million of assets under management or advise a registered investment company must register with the Commission. The full text of this Act is available at:

<http://www.sec.gov/about/laws/iaa40.pdf>.

Sarbanes-Oxley Act of 2002

On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002, which he characterized as "the most far reaching reforms of American business practices since the time of Franklin Delano Roosevelt." The Act mandated a number of reforms to enhance corporate responsibility, enhance financial disclosures and combat corporate and accounting fraud, and created the "Public Company Accounting Oversight Board," also known as the PCAOB, to oversee the activities of the auditing profession. The full text of the Act is available at: <http://www.sec.gov/about/laws/soa2002.pdf>. (Please check the [Classification Tables](#) maintained by the [US House of Representatives Office of the Law Revision Counsel](#) for updates to any of the laws.) You can find links to all Commission rulemaking and reports issued under the Sarbanes-Oxley Act at: <http://www.sec.gov/spotlight/sarbanes-oxley.htm>.

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

The Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law on July 21, 2010 by President Barack Obama. The legislation set out to reshape the U.S. regulatory system in a number of areas including but not limited to consumer protection, trading restrictions, credit ratings, regulation of financial products, corporate governance and disclosure, and transparency. The full text of the Act is available at: <http://www.sec.gov/about/laws/wallstreetreform-cpa.pdf>. (Please check the [Classification Tables](#) maintained by the [US House of Representatives Office of the Law Revision Counsel](#) for updates to any of the laws.) You can find links to all Commission rulemaking and reports issued under the Dodd Frank Act at: <http://www.sec.gov/spotlight/dodd-frank.shtml>.

Jumpstart Our Business Startups Act of 2012

The Jumpstart Our Business Startups Act (the "JOBS Act") was enacted on April 5, 2012. The JOBS Act aims to help businesses raise funds in public capital markets by minimizing regulatory requirements. The full text of the Act is available at: <http://www.gpo.gov/fdsys/pkg/BILLS-112hr3606enr/pdf/BILLS-112hr3606enr.pdf>. (Please check the [Classification Tables](#) maintained by the [US House of Representatives Office of the Law Revision Counsel](#) for updates to any of the laws.)

Note: See also [Researching the Federal Securities Laws Through the SEC Website](#).

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