V920011

COMMISSION AUTHORIZED

Comment of the Staff of the Bureau of Economics
of the Federal Trade Commission*

on

Proposed Changes in Regulations
of the Securities and Exchange Commission
Governing Registration and Reporting Disclosures
of Small Business Issuers
(File S7-4-92)

June 19, 1992

* This comment contains the views of the staff of the Bureau of Economics of the Federal Trade Commission, and does not purport to represent the views of the Commission or of any individual Commissioner. Please contact staff economist John C. Hilke at (202) 326-3483 if you have any questions regarding this comment.

I. INTRODUCTION

The Securities and Exchange Commission ("SEC") has requested comments on several proposed changes in regulations governing registration and reporting disclosures for small business issuers.[1] The proposed changes relate to Regulation A and Rule 504 of Regulation D under the Securities Exchange Act of 1934. The changes are intended to "facilitate capital raising by small businesses and reduce the compliance burdens placed on these companies by the Federal securities laws" while maintaining investor protection.[2] The staff of the Bureau of Economics ("BE") of the Federal Trade Commission ("Commission" or "FTC") appreciates this opportunity to submit the following comment in response to the SEC's request.

The proposed changes to Regulation A include: (1) allowing small firms to "test the waters" by circulating a written statement to gauge investor receptiveness prior to a possible public offering; (2) adopting a revised disclosure form that is

---

[1] 57 Fed. Reg. 9768 (March 20, 1992). "Comment is requested on the impact of the proposals from the point of view of the public, as well as the entities or persons making filings with the Commission." "The Commission further requests comment on any competitive burdens that may result from adoption of the proposals." 57 Fed. Reg. at 9777.

[2] 57 Fed. Reg. at 9768. Aside from a general interest in reducing capital costs, the SEC believes that these measures may be particularly important at the present time. The SEC notes that small businesses, an extremely important source of economic growth and innovation in the U.S. economy, may be experiencing increased difficulties obtaining capital due to recent disruptions in the banking system. 57 Fed. Reg. at 9768-70.

already in use in many states; and (3) increasing the size of the issue ceiling for the exemption from $1.5 million to $5.0 million. The proposed revisions to Rule 504 of Regulation D include: (1) removing advertising restrictions; and (2) removing resale restrictions on independent investors who purchase these securities.

The staff of the FTC believes that the proposed changes for Regulation A offerings may improve the efficient functioning of capital markets by reducing the costs to small businesses of complying with Federal securities laws without introducing significant new risks for investors. The changes proposed for Rule 504 of Regulation D also are likely to reduce the costs of offering this type of issue. In monitoring fraudulent activity, assuming the proposals are adopted, the SEC may wish to conduct a separate evaluation concerning Rule 504 issues to avoid the possibility that reduced disclosure and more liberal resale of these issues might allow an increase in fraudulent activity. Finally, the staff of the FTC suggests that the SEC may wish to consider indexing the ceilings for these regulations to obviate the need to revise the ceilings repeatedly to take inflation into account.

II. FTC STAFF ANALYSES AND COMMENTS

The FTC is charged by statute with preventing unfair methods of competition and unfair or deceptive practices that harm

consumers.[3] The staff of the Commission provides, upon request, comments to federal, state, and local legislatures and administrative agencies on matters concerning competition and consumer protection issues.[4] In addition, the staff of the Commission monitors the truthfulness of advertising of goods and services such as art work, rare coins, and precious metals, and conducts investigations and recommends enforcement action against possible deception where appropriate.[5] BE staff also has prepared reports examining prospective benefits and costs of various regulations affecting competition in capital markets and investor welfare.[6]

---

[3] 15 U.S.C. §45.

[4] Examples include: "Comment of the Staff of the Bureau of Economics of the Federal Trade Commission in the Matter of Advanced Television Systems and their Impact upon the Existing Television Broadcast Service," MM Docket No. 87-268, submitted to the Federal Communication Commission, January 31, 1992; Comments of the Division of Credit Practices of the Federal Trade Commission Concerning Proposed Revision to Regulation Z, the Implementing Regulation of the Truth in Lending Act, Regarding Home Equity Lines of Credit," submitted to the Board of Governors of the Federal Reserve System, February 28, 1992; and "Comments of the Staff of the Bureau of Economics on Proposed Regulations of the SEC Governing the Payment of Asset-Based Sales Loads by Registered Open-End Management Investment Companies," File No S7-10-88 (rule 12b-1), submitted to the Securities and Exchange Commission, September 19, 1988.

[5] The Bureau of Consumer Protection of the FTC is responsible for FTC investigative activity in this area.

[6] See Hilke, J., Minimum Quality Versus Disclosure Regulations: State Regulation of Interstate Opened-End Investment Company and Common Stock Issues, Washington, D.C.: FTC, 1987 (revised and published as "Mandatory Government Investment 'Advice': The Effects on Investors of State Merit Regulation of Mutual Funds and Common Stocks," Research in Law and Economics Vol. 14, 1991, pp. 113-190); and Hilke, J., Firm

(continued...)

A. Background

The SEC regulates sales of new public offerings of securities under the Securities Act of 1933 and the Securities Exchange Act of 1934. The SEC normally requires prospective public issuers of securities to file a complete set of disclosure documents with the agency and to agree to make periodic additional public disclosures of financial statistics. Once the disclosure documents are completed, the issuer may register the issue with the SEC and begin selling the security. The individual states also regulate new offerings.[7]

Complying with these regulations involves several costs that do not vary in proportion to the size of the issue. These costs can be substantial and fall disproportionately on small offerings.[8] To diminish the disproportionate compliance costs

---

[6](...continued)
Size and Regulatory Compliance Costs: The Case of LIFO Regulations, Washington, D.C.: FTC, 1984.

[7] The regulations of the SEC coexist with the regulations of the individual states. Issuers interested in selling in two or more states must comply with the registration regulations of each such state as well as with those of the SEC.

Nearly all states have some type of disclosure regulations governing securities issues, as well as fraud provisions. Several states also have minimum quality regulations termed "merit review." Firms that have neither registered a security in a state nor qualified for an exemption may not offer the security for sale in that state.

[8] The SEC indicates that compliance costs for small businesses may exceed $200,000 per issue. 57 Fed. Reg. at 9769. Prior SEC studies have found that the costs of making an initial public offering are larger for larger offerings, but that these costs are disproportionately high for small offers. See Simmons, G., Cost of Flotation of Registered Issues, 1971-72, Washington, D.C.: SEC, 1974, particularly page 17.

for small firms (which usually seek to raise relatively small amounts of capital), the SEC established Regulation A. Regulation A dispenses with registration, but imposes disclosure requirements, albeit a reduced set of disclosures. Regulation A is currently limited to issues of up to $1.5 million per year.[9] The SEC also established Regulation D, Rule 504. Under this rule, very small public issues (less than $1 million per year) are not required to make disclosures other than those found in Form D.[10] Currently, Regulation D, Rule 504, offerings cannot be advertised and resales are subject to restrictions.[11]

The SEC has long been aware of and concerned about the costs to small firms of complying with its regulations.[12] Regulation

---

[9] Evidence suggests that exemptions from SEC registration requirements provide net benefits for the eligible firms. For example, when simplified registration form S-18 became available to small firms in lieu of the more elaborate form S-1, more than 90% of small firms utilized the exemption. See Form S-18: A Monitoring Report on the First 18 Months of Its Use, Washington, D.C.: SEC, 1981, Appendix A.

[10] Form D discloses the intent to make an offer and the intended use of the proceeds, but does not provide financial disclosures.

[11] Resales by unaffiliated holders are subject to delays unless the issue is registered with the relevant state(s) or (if state registration is not applicable) the holders undertake a separate SEC registration. 57 Fed. Reg. at 9770.

[12] See, for example, Costs of Flotation for Small Issues, 1925-1929 and 1935-1938, Washington, D.C., SEC, 1940; "Statistical Series Release No. 572," Washington, D.C., SEC, 1941; "Statistical Series Release No. 715," Philadelphia: SEC, 1942; "Cost of Flotation of Registered Issues, 1945-1949," Washington, D.C.: SEC, 1951 ; Sameth, E., "Privately-Placed Securities - Cost of Flotation" (covering 1947-1950), Washington D.C.: SEC, 1952; "Cost of Flotation of Corporate Securities, 1951-1955," Washington, D.C.: SEC, 1957; Simmons, C., and S.

(continued...)

A and Regulation D, Rule 504, represent previous efforts to reduce the disproportionate costs borne by small firms. The present proposals are an extension of this longstanding concern and an effort to reduce compliance costs still further.

B. FTC Staff Experience with Other Regulations

Staff of the FTC has conducted research on the costs of complying with other financial and disclosure regulations that tends to support the SEC's belief that its disclosure regulations entail proportionately higher compliance costs for small firms. The appendix contains a summary of the results from these studies.[13]

C. Framework of Analysis

This comment addresses the following question: Can compliance costs be made less burdensome for small firms without imposing more than compensating costs on investors?

---

[12](...continued)
Muller, Cost of Flotation of Registered Issues, 1971-72, Washington, D.C.: SEC, 1974; Sumanski, J., "Study of Regulation A Issues," Washington, D.C.: SEC, 1975; and Form S-18, A Monitoring Report on the First 18 Months of Its Use, Washington, D.C.: SEC, 1981. Both the Simmons and Muller and the Sumanski studies report compliance costs by size of offering and find that smaller offers involved a higher proportion of compliance costs relative to the proceeds of the offer.

[13] See Hilke, J., Firm Size and Regulatory Compliance Costs: The Case of LIFO Regulations, Washington, D.C.: FTC, 1984, and Boyle, J., "Survey of the Mortgage Banking Industry Concerning Costs and Benefits of Regulations," Washington, D.C.: FTC, 1982.

Efficiently functioning capital markets facilitate competition and economic growth. As the SEC notes, small businesses contribute to innovation and employment growth in many markets.[14] From disrupting pricing cartels to introducing new technologies, small firms bolster the efficiency and progress of the economy.

The costs of complying with regulations are a factor that may discourage firms from entering new markets. The costs of complying with regulations may represent a particular obstacle for small firms because these costs are likely to represent a higher proportion of total costs for small firms than for large firms. Changes in regulations that reduce costs of complying generally, and reduce their disproportionate impact on small firms in particular, can encourage entry and may lead to reduced prices, improved quality, and, a broader range of consumer choices.

As the SEC suggests, the costs of complying with the SEC's disclosure regulations are a form of sunk cost.[15] To make a public securities offering, a firm must incur the costs of filling out disclosure forms, hiring counsel, and conforming sales efforts and advertising to required formats. These costs cannot be recovered by the issuer if the issue fails to attract

---

[14] 57 Fed. Reg. at 9768-9.

[15] 57 Fed. Reg. at 9769.

investors.[16] The SEC further indicates that the total cost of at least some of the steps in current disclosure procedures do not depend on the size of the issue, so the costs of small issues are disproportionately higher.[17]

The current SEC disclosure regulations are designed to protect against the potential detrimental effects associated with insufficient or inaccurate investor information. The benefits traditionally associated with disclosure requirements are better informed decision-making and reduced incidence of fraud. However, if other regulations could be equally effective in protecting investors, yet involve lower costs and improved information for market participants, then adopting these revised regulations will directly improve investor welfare and indirectly improve consumer welfare. In this instance, the SEC seeks to determine whether less costly and more flexible disclosure

---

[16] The costs may also be unrecoverable if the offer attracts investors, but the new firm exits the industry in the near future before the costs are amortized.

The importance of sunk costs in decisions to open new businesses is described in Baumol, W., J. Panzar, and R. Willig, Contestable Markets and the Theory of Industry Structure, New York: Harcourt, Brace and Javanovich, 1982; Sharkey, W., The Theory of Natural Monopoly, New York: Cambridge University Press, 1982; and Baumol, W., J. Panzar, and R. Willig, "On the Theory of Perfectly-Contestable Markets," Stiglitz, J., and G. Mathewson, Eds., New Developments in the Analysis of Market Structure, Cambridge, Mass.: MIT Press, 1986. Also see the 1992 Merger Guidelines jointly released by the Department of Justice and the Federal Trade Commission on April 2, 1992. See, in particular, Sections 1.3 and 3.0.

[17] In effect, the SEC's disclosure regulations may have created an economy of scale, i.e., a relative competitive advantage (lower unit costs) for large firms, that would not exist but for the regulations.

requirements for small issues would be sufficient to maintain the benefits of investor protection in the case of small firms, where the compliance costs of current regulations are believed to be particularly high.

D. Individual Proposals

1. Allow Issuers to "Test the Waters" with a Prospective Offering Announcement: This proposal is likely to reduce the costs of complying with Regulation A by permitting these costs to be incurred after information about the likely success of an offer has been gathered. Under current regulations, small firms must undertake most compliance costs associated with an offering before they have received much information about investor interest in the offer. Allowing small firms to test the waters with a prospective offering notice before undertaking the costs of required disclosures is likely to reduce uncertainty about the prospects of making a successful offer. This may lead more small firms to decide to raise capital and enter new markets if investors do demonstrate interest. In addition, earlier notice of the potential availability of a new issue should allow investors more time to assess the issuer before the issue comes to market.

Under this proposal, small firms that make actual securities sales under Regulation A will continue to deliver to purchasers an offering circular containing financial statements and other required disclosures. In addition, the prospective offering

announcement will be subject to the antifraud provisions of the securities laws. These safeguards seem to forestall the possibility that this proposal inadvertently could reduce investor protection or increase investment fraud.

2. Accept State Disclosure Forms in Lieu of Current SEC Forms: The proposal to allow small businesses to use the same form to comply with both state and federal securities disclosure requirements is also likely to reduce compliance costs and improve the efficiency of capital markets. Savings are likely to come from simply reducing the number of different formats in which disclosure information must be recorded, from a minimum of two forms (SEC form and the uniform state form) to one.[18] According to the SEC, the state form may provide small businesses with a reduced cost option, while maintaining investor protection.[19]

---

[18] The SEC's proposal also would allow firms the choice to continue to use the current SEC form. Therefore, the costs would not increase for firms that would not otherwise be completing the state form, and would use the familiar SEC form.

In addition, the SEC's adoption of the state form (Form U-7) developed by the North American Security Administrator's Association (NASAA) may encourage more states to adopt this form. If so, the SEC's action may potentially reduce compliance costs further for those firms that wish to sell issues in these states. Further, SEC adoption of Form U-7 may encourage firms to sell their issues in more states since the incremental cost of completing disclosures in states that have adopted Form U-7 would decrease. Firms that would have floated their issue only in states where the Federal form was sufficient may now meet both the federal disclosure requirements and those in most states by completing one form.

[19] 57 Fed. Reg. at 9771.

3. Increase the Ceiling for Regulation A Offers and The Possibility of Indexing the Small Firm Exemption Criteria: The SEC proposes to increase the ceiling on Regulation A issues to $5 million from $1.5 million. This will lift the level of the ceiling to make it more consistent with continued inflation and reduce relative compliance costs for a larger number of issuers.[20]

The SEC may wish to consider adjusting the exemption ceiling for small firms under Regulation A (and under Regulation D, Rule 504) on a regular basis to maintain a ceiling that is consistent in inflation adjusted terms over time. For example, the SEC might calculate an increase in the ceiling for exemptions on an annual basis that corresponds to the percentage increase in the prior year's consumer price index. This approach, called indexing, may help to reduce regulatory uncertainty about prospective eligibility for some potential applicants as well as reduce the likelihood that the SEC will need to spend future resources revisiting the ceiling for small business exemptions.

4. Remove Advertising Restrictions on Small Issues Sold Under Rule 504: Efficient capital markets require that potential investors be adequately informed about investment options.[21]

---

[20] The $1.5 million ceiling was adopted in 1978. One million five hundred thousand dollars in 1978 dollars is equivalent to approximately $3.2 million in current dollars.

[21] The staff of the FTC regularly evaluates mandatory disclosures and restrictions on advertising in connection with (continued...)

Providing investment information to investors reduces the investors' cost of evaluating the expected risk and return, reduces uncertainty, and, therefore, increases both the value of the issue to investors and the net proceeds to the offering firm. Advertising often is a lower cost method of disseminating investment information than other available methods, such as using commissioned agents to make individual contacts with investors by mail, phone, or in-person visits.

The SEC's proposal to lift the advertising ban on small firms raising capital under Regulation D, Rule 504, appears likely to reduce costs by allowing the offering firm to use advertising to disseminate information about the offer instead of other potentially higher cost methods. The proposed changes would lower the relative costs of information dissemination for

---

[21](...continued)
the FTC's consumer protection mission and its competition advocacy program. The staff of the FTC has been actively involved in research, regulations, cases, and comments in the area of restrictions on truthful advertising. The staff's research on advertising restrictions includes: "Comments of the Staff of the Bureaus of Consumer Protection and Economics of the Federal Trade Commission on Proposed Rulemaking Regarding Food Labeling," Food and Drug Administration, Docket No. 91N-0384, submitted on February 25, 1992; P. Ippolito and A. Mathios, Health Claims in Advertising and Labeling: A Study of the Cereal Market, Washington, D.C.: FTC, 1989; J. Lacko, Product Quality and Information in the Used Car Market, Washington, D.C.: FTC, 1986; A. Masson and R. Steiner, Generic Substitution and Prescription Drug Prices: Economic Effects of State Drug Product Substitution Laws, Washington, D.C.: Federal Trade Commission, 1985; W. Jacobs et al., Improving Consumer Access to Legal Services: The Case for Removing Restriction on Truthful Advertising, Washington, D.C.: Federal Trade Commission, 1984; and R. Bond et al., "Self Regulation in Optometry: The Impact on Price and Quality," Law and Human Behavior 7:2 (1983), pp. 219-234.

small issues. Lower costs are likely to increase the level of information available to investors and thereby improve capital market efficiency and investor welfare and open new investment opportunities for small firms.

On the other hand, allowing advertising of these issues may entail an increased risk that misleading information will be disseminated. Notably, however, nothing in the proposed regulations relaxes the fraud statutes that the SEC applies to securities advertising.[22] If this proposed change is adopted, the SEC may wish to monitor securities advertising to ensure that its revised Rule 504 regulations do not lead to an increase in the incidence of misleading claims.

5. Lift Resale Restrictions on Rule 504 Issues: Legal restrictions on resale of small issues, such as the current Rule 504 provisions,[23] increase an investor's cost of holding a security, because the investor cannot move capital readily to another area of opportunity. Investors will demand a higher rate of return from restricted issues, and the cost of capital for these small firm issuers therefore will be higher.

---

[22] 57 Fed. Reg. at 9770, 9773.

[23] Resellers of large registered issues are not under this restriction. Registered issues disclose financial performance information as part of the registration process and report updated performance information to the SEC on a regular basis.

The SEC proposes to remove restrictions on resales that apply to securities issued under Rule 504 of Regulation D.[24] Increased liquidity for Rule 504 resales might make investors willing to accept lower expected rates of return. This would, in turn, reduce the costs of issues for small firms, increasing the likelihood of entry and expansion.

While the proposed relaxation of resale restrictions may reduce the costs of illiquidity that fall on both investors and small firms, the proposals might raise concerns about fraudulent resales of 504 offerings. For example, a marketing operation might buy up a Rule 504 offering and then resell the issue at a much higher price while making fraudulent claims about its prospects. Targets of the fraudulent operator might find it harder to check on the truthfulness of claims because there would be no disclosures on file with the SEC subsequent to the initial sale to the marketer.[25]

The staff of the FTC deal frequently with allegations of fraud in the resale of investment-like products such as art work,

---

[24] Resales by affiliates of the issuer would continue to be restricted.

[25] The SEC indicates that many of the same conditions proposed for Rule 504 of Regulation D already prevail under Rule 257 of Regulation A for issues under $100,000. The SEC indicates, however, that very few Regulation A issues take place under Rule 257 (57 Fed. Reg. at 9773 n. 90), hence the SEC has relatively little data on which to base an evaluation. SEC staff has indicated informally to Commission staff that Rule 257 issues are not disproportionately associated with frauds. (Conversation on April 15, 1992.)

coins, and precious metals.[26] A review of a sample of FTC case files indicates that investors frequently rely on the sales agent's persuasiveness, sense of urgency, persistence and misrepresentations about likely risks and returns from these "investments."[27] Law enforcement proved necessary to reduce the problems posed by these fraudulent operators.

If the resale restrictions are lifted, the staff of the Commission suggests that the SEC monitor the type and level of frauds in securities resales to ensure against an increase in fraudulent activity. If fraudulent activity escalates, the SEC may wish to increase enforcement activity, or reinstate some or all restrictions on resale.

---

[26] The states, the FTC, the SEC, and the Commodity Futures Trading Commission (CFTC) all engage in some enforcement activities to curtail investment frauds in off-exchange transactions. Consistent with our experience, the SEC indicated several years ago that its enforcement efforts in fraud cases occur primarily where the transaction is closely related to transactions on the exchanges. Written Statement of John M. Fedders, Director, Division of Enforcement, of the SEC, Before the Permanent Subcommittee on Investigations of the Senate Committee on Governmental Affairs, Regarding Trading in Precious Metals, March 21, 1984. The CFTC has also concentrated its enforcement efforts on practices on the exchanges.

[27] This section of the comment is derived largely from an intensive review of a sample of FTC fraud cases conducted by Paul Pautler, a member of the staff of the FTC's Bureau of Economics.

Fraudulent operators in areas covered by the FTC frequently ignore all the applicable laws. (One exception appears to be the California laws requiring telemarketers to notify the state that they have operations based in California. Compliance with this registration procedure, however, has not prevented subsequent fraudulent activity by some registrants.) If this observation describes the SEC's experience as well, it may imply that relaxation of the disclosure regulations would be unlikely to increase substantially the incidence of investment fraud involving securities issued by small businesses.

III. CONCLUSION

The SEC's proposals to revise Regulation A would allow a small firm interested in issuing securities to test the waters with a prospective offering announcement and allow small firms to utilize a widely used state disclosure document in lieu of the SEC's disclosure form. These proposals seem likely to reduce capital costs for small businesses and thereby enhance competition and the efficiency of capital markets. The SEC may wish to provide greater temporal consistency in the pool of firms eligible for Regulation A by indexing the ceiling under which firms can qualify for Regulation A.

The SEC's proposals to revise Rule 504 of Regulation D by removing advertising and resale restrictions on qualifying issues are also likely to reduce the cost of capital for small firms. These benefits of revising Rule 504 may, however, be accompanied by increased risk of the dissemination of misleading information or fraudulent resales of these issues. The SEC may wish to monitor the marketing practices of newly eligible Rule 504 issuers (and resellers) to ensure against such behavior.

Appendix

Research Results Concerning Regulatory Compliance Costs

Study of the Costs of Complying with LIFO Regulations

BE staff studied in detail the costs of complying with the Internal Revenue Service's (IRS) regulations governing Last In First Out (LIFO) accounting, as part of a project reviewing regulatory compliance costs generally.[28] Use of LIFO leads to more efficient inventory decisions, particularly in a period of inflation. But if LIFO regulations are complex and disproportionately costly for small firms to implement in comparison with large firms, small firms, including potential entrants, may be less likely to adopt LIFO. Such firms are likely to misevaluate inventory options and make inefficient production and investment decisions, including entry decisions, during inflationary periods.[29]

BE staff found that small firms were, in fact, significantly less likely than large firms to adopt LIFO even during a period of relatively high inflation. More than three quarters of small-

---

[28] Hilke, J., Firm Size and Regulatory Compliance Costs: The Case of LIFO Regulations, Washington, D.C.: FTC, 1984. Regulations permitting firms to switch to LIFO had been in place for several years before inflation increased enough in the late 1970s to make access to LIFO a significant economic concern.

[29] Detailed examination of the cost reports suggests that relatively small changes in the regulations could eliminate large portions of the compliance costs, thereby ameliorating the cost disadvantage of small firms without creating additional compliance problems.

firm survey respondents (those with sales under $5 million per year) cited costs of complying with the IRS's rules for switching to LIFO as an "important" or "very important" reason why they had not adopted LIFO. Respondents that used LIFO provided data on their costs of complying with the regulations. The reported costs are listed in Table 1.

Table 1
Stratified Sample Means of Sales and
First Year LIFO Compliance Costs

Group	N	Annual Mean Sales ($ millions)	Mean Total LIFO Costs	Total LIFO Costs as % of Sales*
Whole Sample	199	43.02	$35,583	.083
Sales Less Than $5 Million	58	2.96	$26,292	.888
Sales Between $5 and $10 Million	53	7.33	$23,422	.320

* Ongoing annual compliance costs are $23,242, 65% of the total. Total LIFO costs are equal to 2.9, 30.6, and 11.0 percent of profits respectively for the three groups. Source: Quarterly Financial Reports, 1977-1981, Federal Trade Commission, 1982, Table 2.

Source: Tables 5 and 8 in Hilke, J., Firm Size and Regulatory Compliance Costs: The Case of LIFO Regulations, Washington, D.C.: FTC, 1984.

Study of the Costs of Complying with Disclosure Regulations under the Truth-in-Lending Act

A study of the costs of complying with the Truth-in-Lending Act,[30] commissioned by the FTC in response to a request from the Joint Economic Committee of Congress, indicated that although compliance costs vary considerably from firm to firm, small firms on average incurred compliance costs approximately three times those of larger firms. Table 2 shows the average compliance costs for different firm-sizes measured on a cost per $1,000 loaned basis.

Table 2
Average Annual Regulatory Compliance Costs
By Size of Mortgage Banking Company
(1981)

Group	N	Average Loan Volume ($1,000s)	Average Regulatory Costs	Average Regulatory Cost per $1000 Loaned
Small	119	020,044	$ 17,839	$ .89
Medium	060	085,622	$ 46,236	$ .54
Large	022	276,343	$ 80,139	$ .29

Source: Tables 7 and 8, Boyle (1982).

[30] The Truth-in-Lending Act is Title 1 of the Consumer Credit Protection Act of 1968 (P.L. 90-321). The study is: Boyle, J., "Survey of the Mortgage Banking Industry Concerning Costs and Benefits of Regulations," Washington, D.C.: FTC, 1982.