



U.S. Securities and Exchange Commission

Speech by SEC Chairman: Disclosure from the User's Perspective

by

Chairman Christopher Cox

U.S. Securities and Exchange Commission

Address to the Chartered Financial Analysts Institute Conference on Next Generation Asset Management
Washington, D.C.
June 12, 2008

Thank you, Richard [Richard M. Ennis, editor of CFA Institute Financial Analyst Journal], for that kind introduction, and for inviting me to join you this morning. It's an honor to be hosted by the CFA Institute and to have this opportunity to discuss the important disclosure challenges and opportunities facing investors in the early 21st century.

You have an outstanding agenda for this conference, and both Roger Erwin and Michael Mauboussin have gotten you off to a great start. It seems appropriate that after focusing on the appropriate use of benchmarks, and the way market structure influences asset pricing, we change our point of view from the macro to the micro, from the market-wide perspective to the investor's perspective.

In many ways, this organization — and each of you as investment professionals — is perfectly situated to assess what is truly in the best interests of investors. As men and women who manage investments and provide advice to investors about whether to buy, sell or hold, you're intimately familiar with investors' needs for information about companies of all sizes and across every industry sector.

I particularly want to commend you for the work of the CFA Centre, which so ably represents your views to the SEC and other regulatory authorities, standard setters, and legislative bodies around the world. In fact, because the CFA Institute is a truly global organization that includes more than 81,000 investment professionals in more than 126 countries, your views from the investor perspective on issues such as IFRS and XBRL have been especially valuable.

As you well know, these issues go to the heart of the quality of financial reporting and the disclosures provided to investors. When the SEC decided to tackle the problem of the growing complexity in financial reporting, it was natural for us to look to the CFA Institute. Your president and CEO, Jeff Diermeier, is a member of the SEC's Advisory Committee on Improvements to Financial Reporting, and the CFA Centre has provided exceptionally helpful technical support in the form of official commentary.

The Advisory Committee, better known by its acronym, CIFIIR, recently recommended that the SEC mandate the use of XBRL by public companies to data-tag their financial documents, and suggested that we do this on a phased-in schedule based on company size. Jeff and the CFA Institute were an important part of this recommendation, because you have been in the vanguard of promoting XBRL on a global basis for some time.

It only stands to reason that this should be the position of the CFA Institute, because without truly interactive financial information, analyzing and comparing financial statement data is today a needlessly time-consuming chore. To call it cumbersome is all too polite.

Today, if you want to do something as simple as comparing two mutual funds, consider the steps you have to go through to use the SEC data on our EDGAR system. Let's say you're interested in the expenses of the ABC Growth Fund and the XYZ Growth Fund. First, you'll have to decide what's important to you — sales fees, 12b-1 fees, management fees, and so on. Using the SEC's EDGAR database, you'd start by searching for the ABC Fund family. If you've ever done this, and I know many of you have, you'll know this means wading through a variety of complex EDGAR screens before you get to "Find Companies." At this point you'd have to be smart enough to type "N-1A" in the appropriate box. If you don't know that's the form you're looking for, you've already reached a dead end. Then you'd click on "Retrieve Selected Filings," and wade through a few more screens. Finally, you'd find the specific registration statement for ABC Growth Fund that you're looking for.

Once you get a single registration statement for one of the funds, you've got to start the work of finding the expense disclosure within it. Happily, we can now use the full text search function — but even that is a brand-new EDGAR innovation. (When Windows first came along, the idea that you could search through text was remarkable, but today we all know how to do that — and indeed it's become a rather cumbersome chore.) But do it you must, so you type the search term "Fees" in the text box, and then click "Find Next." And with any luck that will get you to the disclosure you're looking for, deep inside the registration statement.

And now, we're at what I'll charitably call "Step 12." In this step, you have to cut and paste the expense data into your own spreadsheet. And once you've done all of that, you can start to manually calculate the total fund operating expenses for the ABC Fund. Of course, there's always a risk of error doing it this way.

At this point, you'd be exactly half done. Since you want to compare all this data to the same expense figures for the XYZ Fund, you'd need to repeat every one of these steps. You'll be pleased to know I won't burden you with all of that in the brief time that I have.

There's little wonder that not too many investors try this at home. It's about as much fun as hanging upside down in a straitjacket.

Of course, some people think this sort of thing *is* fun. As a matter of fact, this is the 85th anniversary — today, this very day — of Harry Houdini's famous performance in New York City, where he freed himself from a straitjacket while suspended upside down, 40 feet above the ground. I believe that was the day they invented the phrase, "don't try this at home." More recently, one of our modern-day performers named Omani, whose real name is Ron Cunningham, was celebrated for doing Houdini one better: according to the London Daily Telegraph, he not only escaped from a straitjacket, but he did it with his pants on fire. In the interests of full disclosure, I should add that this detail was contained in his obituary.

But the truth is, most investment analysts don't want to hang upside down, or set their pants on fire, or have to work their way out of a straitjacket to do their jobs. That's why the CFA Institute and the SEC are so interested in the interactive data that will be available to every investor and analyst when companies and mutual funds tag their financials in XBRL. Even though the proposed SEC requirement that mutual fund fees, performance, and strategies be data-tagged with XBRL won't kick in until December 31, 2009 for the over 8,000 mutual funds that are registered with us, we can already see how it will simplify the work of analysts — because several mutual funds have already been submitting their information in interactive data format on a voluntary basis.

With interactive data, doing the same comparison of two mutual funds that we've just walked through would be a cinch. You'd start by selecting the funds you're interested in from a user-friendly list. Unlike today's EDGAR, the interactive data viewer includes headings for fund families, and sub-categories for each separate class of funds. All you'd have to do is select the funds to compare (and by the way, it's just as easy to select 10 or 20 as two), and then click on expenses. And just like that, the comparison that took you so long to compile the old fashioned way (that is, today's way) is laid out before you. With interactive data, that's all there is to it.

But interactive data isn't just about doing the old work in a new way. Once you've got the expense comparison report in front of you, you'll discover what *interactive* really means. For example, you can expand particular parts of the report, and you can quickly produce a tabular format or a bar chart. Or, let's say you want to make a specific comparison of the expenses you'd incur on an initial investment of \$10,000. You can easily produce a report or a chart that's sensitive to any amount of initial contribution, and any amount of annual contribution. Your report will show you the annual expenses of the funds, side-by-side, for as many funds as you like.

The power of this tool is enhanced by the fact that it draws directly from the source data filed with the SEC. There is no intermediate step of a data provider or service firm mining the data from EDGAR, and loading it into its own database. There's much less chance for errors, and much greater flexibility in using the data.

This example I've just given is only what's already available during our test phase. It's just a hint of what we can expect third-party software providers might develop for you to really tap into the capabilities of interactive data.

That's why the close working relationship that the SEC and the CFA Institute have formed to promote interactive data is such a natural. You've been fully supportive of the move to a full mandate for XBRL-tagged financial information, because you know that the broad comparability it promises will be available only when every company and fund reports this way.

Thanks to your leadership and commitment to this process, the SEC has a much better idea of what's important to analysts as we remake our EDGAR system for the 21st century. I've been particularly impressed with the results of a worldwide survey of your own members that the CFA Institute's XBRL Working Group conducted last summer. When asked how XBRL might affect your evaluations of a company's financial data, you said that you attach great importance to XBRL's ability to improve the reliability and consistency of data in companies' income statements, cash flow statements, and balance sheets. In fact, over 70% of you said that this is "very important."

And at least half of the respondents noted that the timeliness and comparability of data that XBRL can facilitate were also very important in their work. As one respondent put it, "Reliability is most important in that it leads to accurate analysis and comparisons. Comparability is next most important since it allows for companies to be analyzed in a consistent manner. Consistency is important because it allows for easy and accurate comparisons of data."

Another analyst who participated in the survey said that "The greatest effect will be the ability to upload reliable, consistent, and detailed data into my models. Then I would be able to focus on the analysis of the data, which is most important. By having instant data uploaded into my models, I would be able to spend more time on the analysis of the companies' performance and comparison between companies and/or industries."

It's my hope that all of these expected benefits will soon be realized if the use of interactive data in SEC filings becomes the norm. We should be able to look forward to a streamlined financial reporting process, and more timely access for investors, financial analysts, portfolio managers, risk managers, and regulators. XBRL tagging also promises easier identification and comparison of financial data — not to mention the promised benefits of lower costs as the XBRL structure assists companies in generating internal reports.

For our part, the SEC is committed to the complete overhaul and ultimate replacement of the EDGAR model with a reporting system that is centered around interactive data. Beginning in 2006, we committed tens of millions of dollars to do this. Our new system, which will be christened later this year, will use interactive data technologies throughout.

Not only has the CFA Institute been with us all the way, but you've encouraged us to move even faster on mandating XBRL than the CIFI recommendations contemplate, as well to move beyond the face of the financial statements and notes to include the narrative portions and discrete values provided in today's filings.

Through your XBRL Working Group of the CFA Institute Center for Financial Market Integrity, you've done an outstanding job of looking at disclosure from the users' perspective, to help ensure that reporting in interactive data format is implemented in a way that truly meets the needs of investors and analysts. To that end, the CFA Institute has been ably represented at the international XBRL conferences around the world to make the case that interactive data has the potential to significantly advance the valuation process. And you have staked out important principles that the SEC shares to guide the implementation of XBRL reporting programs: You've insisted that the general public should have equal access to all XBRL-tagged information, and we firmly agree. You've urged that regulators develop the necessary infrastructure and protocols to ensure the timely updating of the established XBRL framework, and we have been responding energetically to that call. You've urged the development of data tags that follow approved accounting standards, and in particular IFRS and U.S. GAAP, and the SEC has helped lead the way in doing so.

I want to assure you that I share your enthusiasm, because as you have clearly envisioned, interactive data will enable analysts and investors to enjoy ready access to a rich vein of financial information to a degree that's simply not possible today, including faster searches, significantly enhanced comparison capabilities, and greater productivity that will let you expand your research coverage to a larger number of issuers. This is an impressive vision of a future that all of us are working to build. And I hope it arrives soon, because I don't want you hanging upside down any longer than you have to.

It's really a difficult image to get out of your head, isn't it? Can't you picture the investment consultant, hanging upside down from the office ceiling? Actually, this reportedly really happened once at a well-known capital management firm. When a young analyst walked by and saw the investment consultant hanging upside down from the ceiling, she asked, "What are you doing? What if the boss walks by and sees you?" The consultant told her, "I need a few weeks off. So I'm pretending to be nuts." And sure enough, just then the CEO walked by and saw the man dangling from the ceiling. Naturally, he looked up at him and said, "What are you doing?" "I'm a light bulb," answered the consultant. "You're going crazy," replied the CEO. "Take a vacation." The man jumped down to leave, but then the young analyst started to follow him out the door. "Where do you think you're going, young

lady?" the CEO asked. "Home," she replied. "I can't very well work in the dark."

Very soon, I expect, the adoption of interactive data reporting for securities regulatory purposes will lead investors and analysts alike out of darkness, and into light — not only here in the United States, but around the world.

Just this week, the SEC hosted a Roundtable on interactive data that was focused on the experience of other countries who have already mandated XBRL data tagging in securities filings, or are now preparing to do so. We're learning from their experience that there really are no significant barriers to going full speed ahead. And we're also beginning to see the exciting prospect of investors and analysts being able to use interactive data to compare not only U.S. investments, but companies and funds from around the world.

That's because interactive data is being introduced in nearly every major market around the world. Today, the same XBRL data tags that provide investors with financial summaries from annual filings with the Tokyo Stock Exchange are being used by the U.S. Federal Deposit Insurance Corporation — the FDIC — to organize reports from over 8,300 banks, and by the national securities and banking authorities of the Netherlands, Singapore, China, Israel, Spain, India, Columbia, and dozens more. And the architecture of the XBRL tags themselves will vastly simplify cross-border analysis, because they're being built to accommodate at least 30 different spoken languages. So when you pull up a report from Tokyo or Paris, even though it was prepared in Japanese or French, it will automatically show up on your computer screen in English.

The support that you've shown for the implementation of interactive data reporting not only in the United States but around the world has been matched by your consistent support for the international convergence of accounting standards, in particular US GAAP and IFRS. You have been supportive of our decision to eliminate the reconciliation to U.S. GAAP for financial statements prepared using IFRS, and you have offered helpful insights on our Concept Release on whether, and under what circumstances, U.S. issuers should be allowed to prepare their financial statements using IFRS. That's a vitally important topic the Commission is scheduled to take up in the form of a proposed rulemaking later this summer.

Indeed, we have a great many items on our regulatory agenda for the rest of this summer. This is a busy time for the SEC, notwithstanding the June heat and the rest of Washington's preoccupation with politics. When I laid out the Commission's 2008 agenda in February at the annual SEC Speaks conference, which included a number of technological improvements and enforcement initiatives, some observers were surprised at the ambitious rulemaking schedule. You won't be surprised, however, that the SEC has met or exceeded expectations in that respect. Let me offer you, in these final minutes, a brief cook's tour of what's going on at the Commission.

Just yesterday, we proposed new rules under the Credit Rating Agency

Reform Act that respond directly to the shortcomings we have seen through the subprime experience. Earlier this month, we proposed a new rule requiring mutual funds to provide risk/return summary information in interactive data format to improve its usefulness to investors.

In May, following years of evaluation and experience through the SEC's voluntary XBRL pilot program, the Commission proposed a rule for the use of interactive data by U.S. reporting companies that will parallel efforts already underway in other countries. And after eight years of experience with the current cross-border exemptions for business transactions adopted in 1999, the Commission proposed changes to expand and enhance the utility of those exemptions.

In March, we proposed a new antifraud rule under the Securities Exchange Act of 1934 to address the special problems of "naked" short selling. The proposed rule is intended to highlight the liability of people who deceive others about their intention or their ability to deliver securities in time for settlement. The rule would specifically include people who deceive their broker-dealer about their locate source, or about their ownership of shares.

That same month, we proposed a rule to permit new exchange-traded funds to begin operating without the expense and delay of obtaining an exemptive order from the Commission. Not only would this proposed rule eliminate unnecessary regulatory burdens, and facilitate greater competition and innovation among exchange-traded funds, but it also would improve our disclosure form to provide more useful information to investors who purchase and sell ETF shares.

In March we also proposed amendments to our Regulation S-P to better protect the privacy of consumer financial information, and to strengthen the safeguards for personal information that's collected by financial institutions. And we proposed to require investment advisers to give their current and prospective clients a brochure written in plain English that would provide a clear and current summary of the investment adviser's business practices, conflicts of interest, soft dollar practices, and background. If these proposals are adopted later this year, advisers would file their brochures with us electronically, and we would make them available to the public through our Web site.

In February we proposed a number of changes to our rules covering foreign private issuers which are intended both to improve the accessibility of the U. S. capital markets to overseas issuers, and to enhance the information that is available to investors about these issuers.

All of that is just the new rulemaking that we have proposed in the first five months of 2008. We've also enacted final rules in a number of areas so far this year, starting with the broad authorization of electronic shareholder forums that will open up vast new possibilities for shareholder interaction without need of expensive compliance with the proxy rules. We're still on the frontier of this new technology, but I'm happy to say that now the only limit

to experimentation is the imagination of shareholders, and not federal regulation.

Separately, we have simplified the much-used Form D for private offerings, and changed from paper forms to Internet filing. Our new online filing system not only makes the Form D information accessible from any computer with Internet access, but makes it interactive and searchable.

In April we also changed our rules to require securities futures markets to post their rule filings electronically. That was a big improvement over the existing practice. That same month, we also issued a final rule governing mutual funds' disclosures of their disinvestments in Sudan.

Effective July 28 of this year, we expanded the ability of business development companies to invest in small cap companies that list on an exchange.

And there is much more on the horizon:

In just two weeks, we will consider a rule to streamline the adoption of rules by securities exchanges and other self-regulatory organizations under the SEC's jurisdiction.

We will consider reforming our Rule 15a-6 that governs U.S. investor access to foreign securities directly through foreign broker dealers, to better reflect the continuing internationalization and interconnection among securities markets and market intermediaries.

We will consider the creation of a so-called muni-EDGAR that makes electronic access to municipal securities disclosure free and easy to use.

And we'll consider further rule amendments governing the use of credit ratings — in particular, the way credit ratings are relied upon for a whole host of regulatory purposes.

Possibly as early as this month, we'll consider a proposed rule to deal with the long standing investor protection issue of equity-indexed annuities, and when they should be treated as securities. This is an important issue on which we've been closely collaborating with NASAA and our state securities regulatory counterparts. And it is of particular importance to senior investors.

Early this summer, we also expect to propose amendments to our oil and gas reserve accounting and disclosure requirements, to reflect technological changes in the substantiation of proven reserves.

And you can expect quick action on a proposal for new interpretive guidance on soft dollars.

Next month, the SEC will host a Roundtable on fair value accounting, to help

elicit workable, real-time proposals for dealing with many of the thorny questions of application that have arisen in the current market turmoil. The Commission will also formally consider proposed amendments to overhaul or abolish 12b-1 fees, which have befuddled mutual fund investors for so long.

This summer, we will also consider issuing a new interpretive release on the valuation of fund portfolios; and we will also take up a proposal for across-the-board inflation adjustments to fixed dollar amounts that appear throughout the Commission's rules.

Throughout the balance of the summer, you should look for the SEC to consider:

- adoption of our proposed ETF exemptive rule;
- adoption of a final principal trading rule for broker-dealers and investment advisers;
- new interpretive guidance for broker-dealers and investment advisers;
- adoption of final revisions to Rule 12g3-2(b) regarding foreign issuers;
- adoption of foreign issuer reporting enhancements; and
- adoption of amendments to our Reg S-P relating to account intrusions.

I expect we will also address, yet this summer, a CIFIIR proposal for new guidance on the use of corporate websites. Another scheduled Commission action for summer 2008 is consideration of final amendments to our Regulation SHO, governing abusive naked short selling, to eliminate the options market maker exception. And before summer is out we will likely consider the adoption of mandatory EDGAR filing for exemptive applications with the Division of Investment Management, as well as a proposal for enhanced point-of-sale disclosure to brokerage customers that has been under consideration since 2004.

As you can see, this is quite a laundry list of important topics, and it covers only the next two months. Our agenda for all of 2008, not all of which has yet been publicly announced, is just as busy. But nothing on this agenda is more important than our initiatives to increase the productivity of analysts, and the quality and timeliness of your research. That's because these initiatives, built around the transformation of global financial reporting into interactive data, will particularly benefit the nearly 100 million American investors in our securities markets that you serve, each of whom is searching for ways to sort the wheat from the disclosure chaff. Their thirst for quality information is greater now than ever before.

The truth is there's no one who doesn't appreciate what you do, and who doesn't want more public companies to be covered by independent research.

Companies want research to reduce their cost of capital. Institutional investors and pension funds need research to make the most important decisions about investing their dollars. Portfolio managers large and small, as well as individual investors, want research for the same reasons.

There's simply no question that each of you plays a key role in contributing to our nation's deep and liquid capital markets — and that by that contribution, you're making America and the world a better place. I have no doubt that all of you, because of the work that you do and the research you provide, are destined to play an even greater role in the years ahead. You can be very proud of your calling, and in particular the way that your profession and the CFA Institute have contributed to the highest standards of ethics and integrity. For our part, I can say on behalf of all of the professional men and women of the SEC, we are proud to be your partners.

<http://www.sec.gov/news/speech/2008/spch061208cc.htm>

[Home](#) | [Previous Page](#)

Modified: 06/13/2008