

The Interactive Data Revolution: Improved Disclosure for Investors, Less Expensive Reporting for Companies

**Remarks of Chairman Christopher Cox
American Enterprise Institute
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Thank you, Peter, and thank you to AEI, for hosting today's conference on a very important topic to American investors. Hopefully your batteries are recharged and you're all thinking more clearly than ever after Memorial Day weekend.

Of course, the anniversary of Memorial Day, May 30, is actually today. And you may not have known that it was founded not by the government, but by a private organization. A retired U.S. Army General, John Logan, the head of a veterans' organization known as the Grand Army of the Republic, proclaimed that on May 30, 1868, Americans should honor the fallen of the Civil War by decorating their graves with flowers. Over five thousand people came to Arlington National Cemetery that first Memorial Day. And while it immediately became an annual event, it wasn't made a national holiday until President Nixon signed it into law in 1971.

So now, to bring us back to AEI after that journey into history: You'll be pleased to know that not only is the John Logan who issued the first Memorial Day proclamation the same John Logan who was a Republican Senator from Illinois and the Republican vice presidential candidate in 1884, but he is also the same John Logan for whom Logan Circle was named — just six blocks from here.

Today at AEI we're talking about another national movement that was started in the private sector — and that the government will eventually sign on to. It's the movement to electronic exchange of financial information that will be standardized across many technologies — including personal financial software, corporate financial preparation software, and the Internet.

To make it sound high tech, which it is, it sometimes goes by the name of "XBRL." In plain English, I call it "interactive data." Either way, what we're talking is very straight forward. For users of financial information, we want better access; more accurate and reliable information; and significant new capabilities.

These are really quite simple concepts. But interactive data — which is truly a revolutionizing and exciting topic — is often bogged down by its own terminology. XBRL isn't an abbreviation that easily trips off the tongue. Not only does calling something "XBRL" make people think you're talking about the Sci-Fi channel, but then there are "taxonomies." I learned during 17 years in Congress that people are natively suspicious of anything that starts with the word *tax*.

It seems to me that we might be approaching this from the wrong end. Instead of talking about all the gizmos that will make markets work better and give investors better tools than they have today, we ought to be starting with the reasons that interactive data will make the lives of investors, companies, and even regulators better. Watchmakers, after all, do not sell their products by talking about tachometers and rotors. They tell you that their watches keep perfect time. You don't have to know anything about movements to be able to tell time — and to know that it's always better if your watch hasn't stopped before an important appointment. With interactive data, the parts and internal movements can be daunting, but the result is to make investing easier and better for the individual and for the market as a whole.

Interactive data is a marriage made in heaven for investing and high tech.

Imagine, if you will, that you are reading the paper one rainy Saturday. It is late morning and you've already read most sections, and then you happen upon the classifieds. Purely out of idle interest, you start reading the lonely hearts section, and you find these two ads cheek by jowl. The first reads: "Young man, eager to work for a secure future, seeks honest mate to help him break out of a traditionalist, hidebound mindset, and explore future possibilities." The other one says: "Young woman, not afraid of the future, eager to explore opportunities. Frowns on secrecy and lies; thrives on open communication and honesty."

You think instantly that these two will notice each others' messages, and are sure to get together. Imagine your disappointment when you notice the same two ads running next to each other the following week, and the week after that, and so on. And you begin to despair that these two may never find each other.

Sadly, this is how it appears sometimes for the traditional world of investment and the 21st century world of high technology. This may be a marriage made in heaven, but somehow they keep missing each other.

Technology has revolutionized almost every aspect of our lives — the way we communicate with one another, the way we listen to music, and even the way we play games. And yet, with one of the most important things we do in life — prepare for the future financially — what do we do? We are still, today, relying on the open-cry pit system of the 1700s and the printed page of the Guttenberg press of the 15th century.

This won't do any longer.

Investing once was just for men — men wearing powdered wigs and knee breeches, no less. And it was once just for rich people. No more. Not in an America where nearly every working mother, every working family, and every retiree is directly or indirectly an investor. Today, the vast majority of working adults and more than 50% of our citizens own stocks. That's a remarkable development. Just 20 years ago, only 19% of our

citizens owned stocks. What's even more remarkable is that this trend is still growing, as our citizens live and work longer than ever before.

When my father was born, life expectancy in the U.S. was 49 years. At the end of the 20th century, the average life expectancy was 77. For children born since then, fully half will live to see their 90th birthday. At least 10% of babies born today should live to be 100. Demographers tell us that because they'll be healthier for much longer, they'll work much longer than their parents.

This kind of revolutionary change in our society will demand corresponding changes in the way we save and invest. Saving for one's future will mean a much longer future than we ever before imagined.

And with the movement away from defined benefit plans to 401(k) plans and defined contributions, the investor is in charge. So at the very same time that people are living and working longer, they're becoming active investors in droves.

But as with any participatory endeavor, the risk of injury increases. This obviously concerns us at the SEC, since our mission is investor protection. And just in time, we have advances in technology that allow for this change in the game.

What we need is something that will give individuals faster access to better information that they can easily use and understand. We need to make searches for information easier. It should be easy to call up information about any company you choose. You should be able to download it and use it in the personal software of your choice. And you then should be able to easily analyze and compare the data with the same information from other companies. We want to make the numbers derived from financial statements vastly more accurate. And we want to allow companies to communicate with investors on a constant basis.

At a time when we have 24-hour news — and even 24-hour pizza delivery — why are we still living by the 10-K and the 10-Q?

If investors are going to be responsible for the growth of their investments, for picking which funds to put into their 401(k) nest eggs, they'll need user friendly, responsive numbers that are easily accessible. Interactive data does that by tagging the information on financial statements and making it interactive.

Say you need to compare the return on investment of all the companies in an industry, or of one industry against another. Interactive data will let you do that. Or, let's say you want to know which company, or which sector, has the lowest beta. Or you have heard that the oil industry is the place to invest for the next few years, and you want to compare oil reserves among companies — and you want to make sure that when you call up the companies' reserves, you don't get reserves for bad debts instead.

The tags give each financial item a unique ID. That way, when an investor summons “revenue” or “prepaid expenses” or “goodwill,” that is exactly what she gets. Think of it, if you will, as every piece of data having its own GPS homing device.

Investors could do this without having to ferret through piles of financial statements. And they could get it faster. From the point of view of the Commission and our investor protection mission, there is a huge advantage in the investor being able to get this information before making her investment.

And the numbers the investor sees using interactive data will be vastly more accurate than they have been up to this point. Most people think that the numbers analysts and investment professionals work with come directly from SEC filings. Even some CEOs think this. But it’s not true. An entire industry has developed to extract information in the financial statements that companies file with us. The error rate from this process is unacceptably high.

According to one study, for example, computers taking down data from the SEC website get the numbers right only 72% of the time. People must then manually check every one of these hundreds of items in every company’s financial statements to get that 28% that was not captured correctly. This is time consuming and, because human fingers are involved, error prone. Even after the human extraction has taken place, the error rate can range between 5% and 20%.

With all of the advancements we have today, and with all of the money we spend on making sure that companies put out accurate numbers, why do we allow this low-tech approach to continue unabated?

Edgar Online, a Connecticut company whose business it is to extract information from our SEC filings and resell it to users downstream, has given us an idea of what the future could be like. They have embraced interactive data, and have already tagged more than 10,000 companies’ statements — including all the 10Ks, and all the 10 Qs — going back several years. Edgar Online says that, thanks to XBRL, it has attained a greater than 99% accuracy rate.

Imagine retail investors having access to better numbers than professional analysts ever dreamed of, and imagine combining this accuracy with the power to mix and match, and to compare and analyze those numbers.

This can’t come a minute too soon, because according to press reports, research budgets have dropped precipitously since 2000 at the seven largest Wall Street firms. Some investment banks, such as Wells Fargo, have scrapped their research business altogether. Coverage has bounced back recently, but reports say that much of the new growth is on the buy-side — in other words, research being sold exclusively to hedge funds and other money managers. This kind of research isn’t available to individual retail investors. And coverage of small cap companies is still down from what it used to be.

As *Institutional Investor* put it recently, “that’s not only a disadvantage for those retail investors who choose to pick their own stocks; it’s also hurting the ability of small companies, long a key driver of the U.S. economy, to raise capital, innovate, and grow.”

That’s why the advent of interactive data is so important at this point. It would help fill an informational gap that could be making markets less efficient. In one case it is making the data more reliable; in the other it is making analysis more widespread.

And even beyond making the numbers more accurate and the research more readily available, interactive data will do one more thing: it will help investors get real time information that today is simply unavailable.

Think about it: isn’t it ironic, in this day and age, that we are still talking about 10-Ks once a year and 10-Qs three times a year, when we live in a world of constant change, 24/7? Just as interactive data and the Internet can make the information within financial statements easier to extract and analyze, Internet technologies and Web services such as RSS and ATOM can get investors current financial information the moment it’s filed. That is, of course, when they need it the most.

Today, any investor who’s looking for financial information first needs to find out when a company releases new information. Then he needs to search for that information on the Internet, or wherever he can find it. But there’s a better way. The same Web services such as RSS that today offer real-time automated delivery of news and sports can enable the automated delivery of financial information to investors as it’s released, based on their individual preferences.

As part of the XBRL voluntary program at the Securities and Exchange Commission, we are piloting the use of an RSS feed for all filings with XBRL documents. This will allow users to be notified of new filings and to have instant access to the data they contain.

For professional analysts, the combination of interactive data and delivery mechanisms such as RSS can fuel the real time update of analysis models and risk screens, all based on user-defined criteria.

Of course, as you all know, this real time communication isn’t limited to numbers. XBRL can also tag narrative, such as footnotes to the financial statements, and Management’s Discussion and Analysis. In this way, the combination of XBRL and RSS can create a constant stream of voluntary disclosure — and in so doing, vastly increase the quality of information that investors receive.

As Peter and Robert E. Litan wrote in the book they wrote in 2000, *The GAAP Gap*, “the history of accounting has involved a continued tug-of-war between those who fear that too much disclosure will expose a company’s secrets to the world, and those who believe that the more sunshine a company lets in, the better off investors, and even the companies themselves, will be in the long run. The clear trend has been in the direction of more

disclosure, both mandatory and voluntary. We are simply advocating an acceleration of the trend.”

This is perhaps why such blue chips as PepsiCo and General Electric this month asked to join the SEC’s XBRL Test Group.

This conference is focused on a good many of the details of implementing what will be, in effect, a giant leap in investor empowerment. So it’s worthwhile to step back a moment from the twigs and branches, and take a look at the forest. Our nation has long been home to the richest, deepest, and most liquid capital market in the history of the world. That market is a mighty engine that continues to power our economy at over 5% growth this year. It’s contributed to the creation of millions of new jobs and a national unemployment rate that’s now down at 4.7%. It’s the source of a way forward for every young American thinking of going to college; it holds the retirement savings of our parents, and indeed, every one of us; it’s the well our nation will tap to support the innovations in health care that will cure cancer and conquer diabetes.

It’s worth doing everything we can to keep that market working and to make it always better. In the end, we’ll all be the better for it. That’s what interactive data, XBRL, and this conference are all about.

Thank you for your work, your ideas, and your inspiration. We at the SEC are grateful for your private sector leadership.