



U.S. Securities and Exchange Commission

Speech by SEC Chairman: Remarks before the U.S. Chamber of Commerce

by

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U.S. Securities and Exchange Commission

Washington, D.C.
April 18, 2008

Thank you, Tom [Donohue] for that kind introduction. Tom has had an extraordinary career in Washington, not just during his remarkable leadership of the Chamber these past 11 years, but also as head of the American Trucking Associations for 13 years before that. And he seems to work harder every day. Despite all the uncertainties in life, we can always be confident that Tom Donohue will "keep on truckin'."

I'm delighted to be with you on what's turned out to be such a beautiful spring day. When the sun is shining and the trees are blooming in Washington, it's hard not to be optimistic — even if it's an election year.

One of the great pleasures of spring is the return of baseball — and as it happens, it was on this day 44 years ago that one of my great heroes as a kid, Sandy Koufax, pitched one of his two "immaculate innings" — striking out every batter in exactly three pitches. That was in 1964, when I was 11 years old and at the height of baseball card fever. I didn't know then that another great player that I'd admired, who'd performed the same feat five years earlier for the Detroit Tigers, Jim Bunning, would eventually become one of my good friends in Congress.

While we're at it, we can observe that this is also the day in history that Paul Revere set out on horseback to warn the colonists in Massachusetts that the British were coming.

It's less well known that another New Englander, William Dawes, also rode on horseback from Boston on the night of April 18, 1775. But Dawes is barely a footnote in history. An article not long ago in the Harvard Business Review makes the case that Paul Revere was more successful at raising a militia, and ultimately became more famous, because of the social networks he cultivated. *[Laughter]*

This article in the Harvard Business Review goes on to say that studies have shown the same correlations between networks like Paul Revere's and success in various commercial ventures. "Networks determine which ideas become breakthroughs, which new drugs are prescribed, which farmers cultivate pest-resistant crops, and which research and development engineers make the most high-impact discoveries," it said.

It might be added that a national business network like the Chamber of Commerce can be a powerful determinant not only of the success of each of its members, but of the fate of free enterprise and the health of our nation's and the world's economy. The Chamber's work in the development of economic policy in areas from education and workforce training to technology and e-commerce, to strengthening our retirement system as the Baby Boomers begin to retire has made invaluable contributions.

In the area of capital markets, which is of special relevance to our work at the SEC, the Chamber has had an especially well-organized focus through your bipartisan Commission on the Regulation of U.S. Capital Markets. That body issued a number of detailed recommendations just one year ago.

And by submitting carefully thought-out comments on a number of regulatory issues facing the Commission over a period of many years, the Chamber has helped to ensure that SEC rulemaking is well-informed and keenly focused, as the law requires, on the costs as well as the benefits of regulation.

Just a few months before I became Chairman of the SEC, the Chamber submitted comments on the implementation of Section 404 of the Sarbanes-Oxley Act. You pointed out that the costs of the auditing standard implementing the law, AS 2, outweighed the benefits. You drew attention to the fact that the lack of guidance for management threatened to change the issuer-auditor relationship in ways that could be damaging to investors and markets. And you urged that the 404 audit and the financial statement audit should be integrated — just as the law requires.

Not long afterward, based on substantial evidence that the 404 auditing standard was indeed burdensome and costly and inefficient, the Commission and the PCAOB, with whom we worked closely, voted to completely repeal it.

Today there is a new, shorter, and completely rewritten standard in its place that is top-down, risk-based, and scalable for companies of all sizes. It's focused not on the capillary, but the jugular — on the issues that investors truly care about, and that have a direct bearing on the quality and reliability of a company's financial statements.

And today, there is the specific guidance for management that the Chamber called for — so that no longer do companies have to try to reverse-engineer complicated guidance for auditors that was never meant for them.

Importantly, just as the Chamber recommended and Sarbanes-Oxley itself mandates, the new guidance for both companies and auditors calls for an integrated audit — and in that way promotes both an economy of effort and higher quality results.

Finally, to ensure that the dragon of needless 404 costs is truly slain, the SEC's Office of the Chief Economist has carefully designed a study to collect and analyze extensive "real world" cost and benefit data on the new AS-5 and on the SEC's new guidance for companies, both of which are being implemented for the first time this year. The study will give us the opportunity to ensure that the investor protections of Section 404 are implemented in the way that Congress intended, and don't impose unnecessary burdens — particularly on smaller companies. In the meantime, the Commission has proposed to extend the postponement of the 404 audit requirement for smaller companies for another year, until their reports due in 2010.

The March 2007 report of the Capital Markets committee also recommended that the SEC work for the continued convergence of IFRS with US GAAP — and for its implementation around the world in a consistent way, free from local exceptions and carve-outs that would destroy the opportunity for a truly high-quality, global set of standards. The committee recommended that the SEC work to build global support for the authoritative interpretation of IFRS through the International Financial Reporting Interpretation Committee — and that, among other ways to do this, we become more engaged in the work of the International Organization of Securities Commissions.

As you know, the SEC has indeed been a strong leader in the international effort to more closely integrate both accounting standards and regulation in an era of global capital markets and international securities exchanges. And we have assumed an unprecedentedly active role in the leadership of IOSCO and its Technical Committee, where the organization's substantive work is done. For the last year, I have served as the Committee's Vice Chairman — the first time any SEC Chairman has done so — and next month in Paris, I look forward to being elected Chairman.

To foster the consistent and faithful application of IFRS throughout global capital markets, IOSCO has established a database for cataloguing and sharing securities regulators' experiences on IFRS's application around the world. And on a bilateral basis, I executed a protocol on behalf of the Commission with the UK Financial Reporting Council and Financial Services Authority, which seeks to avoid conflicting conclusions regarding the application and enforcement of IFRS, and is based on a model arrangement developed by staff of the Committee of European Securities Regulator and the SEC.

Last November, consistent with a recommendation of the Capital Markets committee, the Commission voted unanimously to lift the reconciliation requirement for foreign issuers using IFRS in the United States. It is an important feature of the approach we took in doing so that the reconciliation

requirement is lifted only for issuers who prepare their financial statements using IFRS as promulgated by the International Accounting Standards Board. This was meant to send a strong signal that the dilution of a truly global standard through an accretion of national variations is inconsistent with the very purpose of IFRS. And I am happy to report that there is broad agreement not only in this country but around the world that IFRS must be applied and interpreted consistently across all industries and all jurisdictions.

Last December, the SEC held roundtables on the subject of our Concept Release on the future of IFRS in the United States. We heard from more than two dozen experts, and we've received many more comments since. Already, one thing is exceptionally clear: commenters on all sides of the issue agree that there is a rapidly growing acceptance in the rest of the world of IFRS as a high-quality accounting standard.

Later this year, as a result of a joint effort in the Division of Corporation Finance and the Office of the Chief Accountant led by Wayne Carnall and Julie Erhardt, the staff will formally propose to the Commission an updated "roadmap" that lays out a schedule, and appropriate milestones on which the schedule will be conditioned, for continuing the progress that the United States is making in moving to accept IFRS in this country.

The rapidly increasing interest in IFRS in the United States, and the rapidly increasing acceptance of IFRS in the rest of the world, also reflect a growing consensus that these standards will in fact be able to deliver the high quality, consistency, and global comparability that so many have advocated for so long. These standards weren't started from scratch, of course. They have benefited from the lessons learned over the past century in the development and application of numerous national accounting standards. They also benefit from the collective wisdom and experience of some of the accounting industry's best minds.

Even so, these standards aren't written just for the benefit of the best minds in accounting. IFRS was written for, and must always remain, in the best interest of investors. What investors need is financial information that they know is reliable, and that is consistently applied, understandable, and comparable from company to company.

As even individual investors in the United States become globally active, our nation has a good deal at stake in seeing IFRS fulfill its promise. The United States has witnessed a remarkable growth in our own investors' interest in foreign securities. I came to Washington with President Reagan. When he was first elected, U.S. gross trading activity in foreign securities was \$53 billion. Today it's over \$11 trillion. That's more than the GDP of Japan and China combined. And this isn't just institutional trading: roughly two-thirds of American investors own securities of non-U.S. companies.

The same is true for foreign trading activity in U.S. securities — that has exploded during this period as well. Today, it's over \$33 trillion. That's more than twice the GDP of the European Union. It's for these reasons that our

work on converging to a single global accounting standard is so important.

It's now possible to envision a day in the not-too-distant future when investors worldwide will be able to compare financial statements of companies around the world using globally accepted accounting standards. It's also possible to imagine even more clearly, in our very near future, that investors the world over will be able to exchange financial information at the speed of light — tagged with computer codes in a globally accepted format that lets them analyze and understand financial information with an economy of effort that's never been possible before.

The adoption of a global computer language for financial information goes hand in glove with the concept of a common accounting language. The international movement to employ eXtensible Business Reporting Language for this purpose will let investors easily find and compare business and financial data with the same ease of doing a Google or Yahoo! search today. And it promises to let companies prepare their financial information more quickly, more accurately, and for less cost.

In the coming weeks, following years of evaluation and experience through the SEC's voluntary XBRL pilot program, the Commission will consider a rule for the use of interactive data by U.S. reporting companies that will parallel efforts already underway in other countries.

The advantages interactive data will provide investors are huge. In fact, just a few weeks ago The Motley Fool ran an article about interactive data entitled "The Most Important Shareholder Initiative in a Decade." For those of you who haven't heard me talk about this at any time during the last three years *[laughter]*, or if you haven't read [SEC General Counsel Brian Cartwright's speech on this topic earlier this month](#), let me offer a two-minute effort to demystify the whole thing.

Interactive data means using some fairly simple software to apply hidden computer codes to the numbers and the captions on your financial statements. These identifying codes are called "tags." The whole exercise is really no more than bar-coding for financial information.

Once the identifying tags have been attached to each item of financial information, computer software can search for any of those items simply by looking up the corresponding tag. And if all SEC filings were tagged, your software could do the same thing with hundreds or thousands or even tens of thousands of reports, more or less instantly. And of course, once software has collected information in this way, it can also do wonderful things like make graphs, charts, tables, plots, summaries, calculations, lists — whatever you wish.

You'll be pleased to know that ready-made lists of tags are already available, for free, for both IFRS and U.S. Generally Accepted Accounting Principles. And they're available in several languages. So even though financial statements may have been prepared in English or French or Korean, another

very useful feature of interactive data is that for any supported foreign language, it provides the translation of the name of each tag for an entire set of financial statements. That way people in France or Korea could use software to display the tagged information of a U.S. company in their own language.

In fact, that's already possible for the over 70 companies, including some who are represented in this room, who have been using interactive data in their SEC filings as part of our voluntary pilot program.

And that's interactive data, or XBRL, in a nutshell.

In Japan, South Korea, China, Singapore, Israel, and the Netherlands today, filing financial statements using interactive data is already mandatory. And voluntary efforts are underway in most of the countries of Europe, as well as in Canada and Australia. In the United Kingdom, both the Companies House and Her Majesty's Customs & Revenue are now accepting filings tagged in XBRL. And both Spain and Belgium use it for bank regulatory filings — as does the Federal Reserve here in the United States.

My point, of course, is that financial reporting in XBRL is taking off around the globe. And today we have the benefit of all that experience as well as our own.

I don't have the means here today to give you a demonstration, but I've personally seen financial statements being tagged. And it isn't hard — thanks to the magic of computers, the software mostly does it for you. The software usually makes the right guess, but you can always search for a different tag if you need to. A knowledgeable accountant isn't going to have a difficult time doing this. And once it's done, it's nearly done for good, unless you radically overhaul the left-hand column of your statements.

Our test filers report that data tagging has the potential to make financial statement preparation cheaper and easier, with far less risk of human error. Not surprisingly, the major vendors of financial statement preparation software are already building XBRL tagging capacity directly into the products your companies already use. So in the future, the financial statements that are produced by that software will be tagged automatically.

There's simply no question that the objectives for IFRS are significantly advanced by the widening acceptance of a global computer language for presenting and comparing financial information. As IFRS sweeps the world, the ultimate question — whether it becomes *the* single set of high-quality, global accounting standards — will depend on investors' confidence in the reliability, transparency and comparability of the financial information those standards produce. And the marriage of IFRS with interactive data has the potential to enhance all three.

These are just some of the many areas in which the SEC staff are working intently, and in which I know you have a great interest.

I very much appreciate the high level of participation from the Chamber and your members in the public comment process at the SEC, and in the thoughtful consideration of the many challenges facing America's capital markets in the 21st century.

The Roman playwright Seneca wisely said, "No man was ever wise by chance." At the SEC, we have benefited from the wisdom you have shared with us. And in turn, we have worked hard to provide every American investor with the very best information about the investments and investment professionals to choose from.

So thank you for being here this afternoon and for taking in a little information to go along with your own wisdom and experience. Your support for America's markets, for investors, and for our free enterprise system is of enormous importance.

On behalf of the over 3,600 men and women of the SEC, thank you for the constructive attitude you bring to these enormous challenges. And thank you for inviting me. I'm happy to take your questions.

<http://www.sec.gov/news/speech/2008/spch041808cc.htm>