U.S. Securities and Exchange Commission

Speech by SEC Chairman:
The Promise of Interactive Data

by

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Thank you, Jim [Glassman, Senior Fellow, American Enterprise Institute] for that kind introduction. It really is a pleasure to be introduced by Jim Glassman. He is the consummate optimist. And it's always nice to be introduced by someone who's upbeat.

Of course it takes a true optimist to write a book, right on the eve of the dot-com crash, titled "Dow 36,000." I had to laugh the other day, when I was doing a little Internet research on Jim — because I knew he was going to be introducing me — and I found his book on Amazon.com. And you know how Amazon always tells you, "Customers who bought this item also bought" some other book? And you know what the #1 book that customers who bought Jim Glassman's "Dow 36,000" also bought was? It was John Kenneth Galbraith's "The Great Crash of 1929."

No wonder hedge funds are so popular these days.

But truly, I am grateful, Jim, for that kind introduction. And of course none of us ever wishes to be introduced by a pessimist. You all know the classic definition of an optimist and a pessimist. The pessimist says, "This is terrible. Things can't possibly get any worse." And the optimist says, "Sure they can."

Besides Jim Glassman, who has no peer when it comes to understanding the intersections of technology and investing, I'd like to recognize Sir David Tweedie, who, as a matter of fact, *is* a peer. It's an honor to join in this program with a man who has made so many contributions, in so many ways, to the development of the world's capital markets, including service as head of Britain's Accounting Standards Board, and who now is leading the International Accounting Standards Board.

With apologies to Sir David, I can't help but observe the significance of our meeting in Philadelphia today. After all, this is where the Declaration of Independence was born, as the patriots united behind the battle cry of "no taxation without representation." And here we are today, Brits and Americans from both sides of the Atlantic, uniting behind a battle cry of "no taxonomies without documentation."

Well, let me tell you, I am absolutely committed to that objective. XBRL-US intends to document every taxonomy that's necessary to produce financial statements for any industry using US GAAP by no later than mid-yr 2007. And because the SEC strongly supports that goal, we have contributed major funding to quickly complete the taxonomy writing process. In that endeavor, we're fortunate to have the participation and commitment of the Financial Accounting Foundation, the Financial Accounting Standards Board, and many of their able leaders — including Bob DeSantis and Bob Herz, both of whom are participating in this conference.

This job of completing the XBRL taxonomies for U.S. GAAP is already finished for many industries. And more than a year and a half ago, the staff of the Public Company Accounting Oversight Board recognized that the current U.S. GAAP taxonomies, because they were developed by a widely recognized group of experts using due process, meet the regulatory requirement of providing the "suitable and available criteria" that auditors need to do their jobs.

Because this is an international conference, it's worth noting that the SEC is committed to doing everything in our power to ensure that XBRL remains a truly international, stateless, and open source standard. All of the XBRL software development that we do, and that we support, will be open source. It will be contributed to the global effort to eliminate friction in the exchange of financial information, so that company data can travel at the speed of light, 24/7, with built-in automated quality control.

At the SEC, we're excited about the way that interactive data is already providing us with the capability of real-time reporting and real-time analysis. And in the days ahead, across the Commission's thousands of professional staff in a dozen offices throughout the country, it will free up human capital to perform the subtle analyses and make the careful judgments that machines can't replicate.

Interactive data will do the same for millions of analysts, business journalists, investment professionals, and individual investors across the country, and around the world — not to mention the companies that use XBRL themselves, who will have the benefit of real-time financial reporting for an endless variety of internal management control purposes.

Beyond the many uses that companies, investors and analysts will make of interactive data, it's easy to imagine more that the world can do with this powerful new capability. As Sir David and I follow the roadmap to 2009 that our agencies have laid out, by which we hope to eliminate the requirement

that reports using International Financial Reporting Standards be reconciled to U.S. GAAP, it is already possible to imagine that XBRL taxonomies — written without bias toward any particular set of accounting rules — could be used to instantly translate any given set of financial data from one accounting system to another. So even if the world is never quite possessed of a global accounting Esperanto, we will still be able to speak the same language.

Of course, the United States is strongly committed to the establishment of a high-quality, comprehensive set of generally accepted international accounting standards in cross-border securities offerings. We've long believed that this will promote global capital formation, and that it will make it easier for foreign issuers to access America's capital markets and list in the U.S. I have no doubt that the widespread use of XBRL, and the exploitation of the many possibilities of interactive data, will accelerate the development of a set of truly global accounting standards.

The fact is, the XBRL development effort is already completely international. Not only this international conference, but also the ongoing work of XBRL International and its member organizations around the world, are ample demonstrations of that fact.

I want to commend the XBRL International Assurance Working Group, which met at the World Congress of Accountants in Istanbul last month, and will meet again here on Thursday. The Working Group is absolutely right to consider how the adoption of XBRL might improve the audit process. Just last month, in a report issued at the Global Public Policy Symposium in Paris, six of the world's top accounting firms extolled the benefits of XBRL, and firmly stated their belief that its adoption will significantly lower both internal and external audit costs.

From our vantage point at the SEC, it's also clear that interactive data will significantly improve audit quality. Last month, the SEC's Deputy Chief Accountant, Scott Taub, noted that over half of recent public company restatements were the result of misapplying basic accounting rules. Only about 5% of restatements were due to deliberate errors, or to fraud. So there is an enormous opportunity for automation to help corporate finance staffs and auditors avoid simply missing things — and to avoid the kinds of unintentional mistakes that can have big consequences.

Because it's so flexible, XBRL can ensure that the right information is classified properly at each step where it's implemented — potentially without the need for any human judgment or intervention, and therefore without the risk of human error. Interactive data can improve quality and accuracy for vast categories of material information, from the moment of an initial transaction to the ultimate disclosure of a public company's aggregate data.

Just consider the areas that cause a large number of restatements: mundane but detail-laden issues such as lease contracting, income tax accounting, and revenue recognition. Now imagine that a company's lease is itself an XML

document, with XBRL fields, so there's almost no chance of error in moving info from the lease to the company's accounts. And supposing that same company classifies its income according to accounting rules that properly apply XBRL codes — and hardwires its revenue account to its invoicing system. Significantly reducing the chance of error in this way can go far toward eliminating the over half of accounting restatements that are unintentional and result from misapplication of accounting rules.

You may have heard that the SEC is waging an all-out war on accounting complexity. That's because today's overly complicated accounting standards are difficult for many filers — and can themselves be a source of accounting errors. But the noble work that the Financial Accounting Standards Board is undertaking to codify its standards, and reduce the level of accounting complexity, will take time. In the meanwhile, automating the process of applying today's excruciating accounting detail using XBRL can save companies valuable time and money, and get users of financial reports much more accurate information than they've ever had before.

And I should point out that not only can XBRL help reduce errors in the first place, but it can also help detect them after they occur. Here's an interesting example of how that might work. Just this year, a group of students at Emporia State University in Kansas won the Sixth Global XBRL Academic Competition at Bryant University by creating a software application that continuously identifies tagged transactions which should come to the attention of internal or external auditors. It's not hard to imagine that in the very near future, companies of all kinds will be able to rely on interactive data to flag anomalous data and fix accounting errors in real time.

In this example, as in so many others, the enormous contribution of interactive data is that it makes human beings more productive. Instead of spending time on backward-looking, manual re-checking of stale data, companies and their employees can spend more time on forward-looking, strategic thinking.

And interactive data will make investors more productive, too. Instead of wading through incomprehensible financial disclosure that's mandated by the SEC, investors can have access to meaningful information in a form that they can use. Financial intermediaries will be able to offer their retail customers decision-making tools that make comparative shopping easier, and performance tracking more accurate and more meaningful.

As the arbiter of the way that every public company in America shares their financial information with the public, the SEC has an important role to play in this technology revolution.

We need to get out of the way.

After all, it's our 1930s-era reporting standards that are acting as a brake on the rapid adoption of better disclosure technology that's shelf-ready right now.

By scrapping our 1980s-era EDGAR system and moving to a 21st century interactive data platform, we're not leading the XBRL revolution — we're just observing what's happening all around us, and all around the world, and keeping up with the times.

By contributing resources to the XBRL taxonomy writing effort for US GAAP, we're not being early adopters — we're just insuring that government-mandated reporting requirements don't inhibit companies and investors from using modern tools that the private sector has already developed, and that the entire planet is voluntarily embracing.

That's why, on September 25, I announced a series of contracts that will completely rebuild the SEC's public disclosure system and make it interactive. I'm pleased to announce that today — a mere 70 days later — the first product of those efforts is available to the public. Today, on our website at sec.gov, we've launched a demonstration release of our new software for viewing and analyzing the interactive data filings that are already being submitted by a broad cross section of U.S. companies. It's now available for a test drive by investors, analysts, bus journalists, academics, your Mom or Dad — or anyone who wants to try out our new software to get a sense of the possibilities of interactive data.

Because this new software is for demonstration purposes, you can be sure it's just the beginning. In the very near future, we'll enhance the capabilities of the demo version, and make it even easier for all of the SEC's customers to use.

It's important for everyone in this audience to know that despite our enthusiasm for interactive data, the SEC has no intention of getting into the financial analysis business, or the financial software business, and we won't attempt to compete with web-based financial portals or other financial service providers. In fact, because all of our software development is being contributed to the public domain, we hope to stimulate the private sector development of software that uses SEC data feeds, so that investors will have better and faster information from the analytical tools created by securities analysts, private software developers, web publishers, and other media outlets that rely on publicly disclosed financial information.

A great example of private sector leadership in this area is being provided by the Investment Company Institute, which even now is busy writing XBRL taxonomies for mutual funds to adopt voluntarily. Tagging mutual fund data will enable funds to automate the "risk/return summary" provided by each fund. If you Google "risk/return summary," you'll find out that this is the graphic historical comparison of the fund to its index — as well as other key fund data that the SEC requires every mutual fund to produce. But you'll also find that commercial vendors are selling fancier, more detailed versions of these disclosures.

They're expensive to make. And whether they're paid for up front by mutual

fund companies or information providers, in the end, they're paid for by investors. So not only will interactive data empower investors to make faster and more detailed comparisons among funds, but also it will cut the costs that investors have to pay for this information.

When it comes to satisfying investors' concerns, there's no limit to the usefulness of XBRL. There is so much data out there that could be tagged — earnings releases, analyst research, credit ratings, mutual fund strategies and styles, and plenty of industry-specific information — that the only remaining question is not whether this is good for investors, but how fast can we get this better information to them?

And that's where all of you come in.

Even now, six years into the 21st century, far too many people still think XBRL might be a new car model, or maybe a newly discovered medical condition.

There are more than 10,000 public companies in the U.S., and many of them aren't yet aware of the possibilities.

So what can every one of you do to continue to build XBRL awareness as broadly as possible? The enthusiasm of the crowd here in Philadelphia needs to spread to beyond the largest accounting firms, to the medium and smaller firms, to the law firms, the financial printers, the institutional shareholders, the exchanges, and every other Wall Street and professional services firm that can help.

I've been greatly encouraged by the progress that's been made over the past year in providing XBRL toolsets — whether for taxonomy development, instance creation, validation, rendering, or analysis. And as you know, there's a lot of work going on this week related to technical questions, including XBRL's core standards, its renderability, the use of calculations, versioning, formulae, functions, and dimensions. You are the ones who have accepted these important challenges to the future of business information. I hope you'll add to that mission the role of ambassador.

In doing so, you'll be performing a vital and urgent national service of updating disclosure technology for the benefit of all. You'll be serving a cause with the potential not just to change how a bunch of suits in New York and London do their jobs, but to change the lives of every person in the world for the better.

Every one of you here this morning is building a better future in which business information can be used more efficiently and productively to find ways to conserve energy, to ship and produce healthy food less expensively, to bring life saving drugs to market more quickly, or to reduce pollution.

You're not just writing code — you're changing the world.

What better place than Philadelphia to start another world-changing revolution? I'm excited by everything I've seen here, and I know you are too. Thank you for all that you're doing. We at the SEC are proud to be your partners.

http://www.sec.gov/news/speech/2006/spch120506cc.htm

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