Speech by SEC Chairman: Remarks to the New York Society of Security Analysts

by

Chairman Christopher Cox

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Thank you, Andy [Melnick, NYSSA Board Member] for that kind introduction. It's good to be here with Jan Jackrel [NYSSA President], and to meet this year's volunteer award winners. And I'd like to offer a special greeting to Modest J. Mero, Minister Plenipotentiary from Tanzania. His presence gives even more evidence, if any were needed, of the accelerated globalization of our markets. That's a pressing issue for the SEC even this week, as we've just conducted a Roundtable in Washington on new ways to integrate differing international requirements for securities registration, for broker-dealer registration, and for exchange registration.

I want to make special mention of Irving Kahn, one of this Society's founders. At 101 years old, he's a living reminder of why sound retirement planning based on solid research and analysis is so important. [Applause]. In fact, I think I'd prefer to be in the audience, listening to Irving. I'd be thrilled to hear him describe his many years of promoting the highest ethical standards among securities analysts.

Now for those of you who are fans of a well-known series on HBO, you know that the lives of some people in the Greater New York area don't quite match Irving's and your high standards. [Laughter]. Some of these people may even be targets of our agency's Enforcement Division. [Laughter]. I think you'd have to say that the Sopranos' controversial ending in their last episode has made this a week of ambiguity. Think about what it must be like to be Tony Soprano, or one of his pals. While we're enjoying the fine fare at the Sheraton tonight, Tony and the other fictional Sopranos (and for that matter the real world characters upon whom their roles are loosely based) might instead be pondering an uneasy and uncertain life of munching onion rings in a Jersey diner. They might appear to be enjoying the company of their families, but in truth they'll always have to cock an ear toward that scooted chair, or watch out of the corner of their eye as that stranger walks by their booth. For someone who's led a life of compromised ethics, it can all go black in a moment's notice.

NYSSA has thought about these things from the beginning. And for the better part of a century, you've spared your adherents that kind of fate. You've upheld the highest ethics not only in your profession, but in the markets as a whole. So let's not dwell on such unpleasant subjects as what the next life holds for Tony Soprano. There are more exemplary figures in American business. And indeed, tonight, as it happens, we celebrate Donald Trump's birthday. [Laughter]. It's true - this really is his birthday. But even more appropriate than remembering The Donald is to commemorate, this evening, that day in 1937 - exactly 70 years ago - when Benjamin Graham and a small group of securities analysts decided to turn their casual lunches into a series of educational programs that would eventually become NYSSA. Ever since then, you and this Society have upheld ethical standards that have helped America's capital markets become the greatest in the world - and indeed, in all of history. So congratulations to every one of you for seven decades of invaluable service to the cause of morality in the marketplace.

It's my hope as we meet here this evening that your powerful and good influence that you've exerted across America for so long will now extend across every national border and throughout world, as our capital markets become truly global. Today, we're witnessing this rapid internationalization of capital markets in many ways: We're seeing it in alliances and mergers of U. S. and foreign exchanges, such as the creation of NYSE Euronext; the recent agreement by Eurex to acquire the International Securities Exchange; the stake that Nasdaq has acquired in the London Stock Exchange; and Nasdaq's recent announcement of its combination with the OMX. We're also seeing it reflected in the increased regulatory cooperation around world among securities regulators who have common concerns about investor protection and market efficiency. I'm confident that all of this is just beginning.

Just as the growing investor demand for foreign opportunities - and increased integration of the markets themselves - is forcing each of you to adapt your business model to the new global reality, it's requiring the SEC to rethink our approach to cross-border access by investors, broker-dealers, and markets. It's no longer an option for the Commission to view our markets in isolation. We're part of the larger global marketplace, and we've got to deal with it.

We need to embrace global markets and recognize the great potential benefits they hold for America's investors. We want our investors to have choices, to enjoy lower transaction costs from increased competition and improved technology, to have greater opportunities for diversification, and to have more access to information about foreign investments. At the same time, we've got to recognize and evaluate the potential risks, and we've got to be true to our central mission of investor protection.

Because of the changing nature of the global marketplace, we've begun to talk about the merits of an entirely new approach to these issues, based on the concept of mutual recognition. Under such a system, an American investor could obtain services from a foreign exchange or a foreign broker-dealer if the foreign professionals are supervised by a regulatory regime that is substantially comparable to ours in the United States.

As you know, in our current system, a foreign securities exchange that conducts business in the United States has to register the exchange (and the securities that trade on it) with the SEC. And a foreign broker-dealer that solicits trades by investors in the United States generally also has to register with the SEC - and with at least one self-regulatory organization.

A system based on mutual recognition would eliminate much of that regulatory overlap. It could, for example, permit a foreign exchange to place trading screens with U.S. registered brokers in the United States, without the need of a completely duplicative exchange registration. This approach could also permit foreign broker-dealers that are subject to a foreign jurisdiction's regulatory standards to have increased access to U.S. institutional investors - without the need to also use a U.S. broker-dealer.

Given the SEC's mission to protect investors, this proposed exemption from registration would depend on whether the foreign exchange and foreign broker-dealer are subject to comprehensive regulation in their home jurisdiction. To determine that, the SEC would make a detailed examination of the foreign jurisdiction's regulatory regime, and consider whether it adequately addresses such things as fair markets; fraud, manipulation, and insider trading; and issues such as registration qualifications, trading surveillance, sales practice standards, financial responsibility standards, and dispute resolution.

This approach, if it were properly executed, could expand both the supply of and the demand for analysis of significantly more securities on behalf of participants in U.S. markets. But it could do more. By encouraging the home jurisdictions of foreign exchanges and foreign broker-dealers to provide reciprocal treatment to U.S. exchanges and broker-dealers, mutual recognition would almost certainly expand the demand for analysis of U.S. securities abroad, as well.

As securities analysts, you're undoubtedly feeling the impact of foreign markets more intensely with each passing day. The vanishing sense of distance that's attributable to technology and the interconnectedness of markets can be unsettling. There's no question the world is changing, and doing so faster than ever before. You can be forgiven if you're feeling a kind of vertigo - but all of us had better get used to it.

As the French mystic Simone Weil put it, "We must be rooted in the absence of place." I can think of no better metaphysical anchor in this planetary marketplace than the ethical standards that NYSSA has given us to take with us wherever we go. Armed with our principles of right and wrong, we'll be well equipped to tackle the rapid changes that are coming at us from every corner of the world at high speed.

But how will we deal with the sheer volume of data? How can investors possibly compare the securities of companies from so many different nations? These are difficult challenges, but there are two big movements afoot in global finance that hold the potential to help us meet them. And in the few moments I have left this evening, I'd like to talk briefly about them. They are the global movement to use interactive data to share and analyze many different kinds of financial information, and the growing trend toward truly global, high-quality accounting standards.

There's a revolution coming in financial reporting, and it will profoundly affect everyone in this room. It's called interactive data. Many of you are already learning about interactive data; some of you are already are using it. Perhaps, if your systems are well-designed, you're already using interactive data without even knowing it.

If it's new to you, as it is to most people, then almost certainly you've never heard of the technology that makes it work, called XBRL. XBRL isn't a satellite radio station that competes with Sirius. [Laughter]. It stands for Extensible Business Reporting Language - and, like XML and Sirius, it rocks. [Laughter]. In the same way that satellite radio has given listeners a vast array of new choices, XBRL - the language of interactive data - will give analysts and investors far more flexibility in accessing and using financial data than you've ever had before.

Extracting, analyzing, and comparing financial information will be much faster and easier with interactive data. It will help you to quickly compare the costs of different mutual funds, or to drill down into the financials of one or a hundred public companies. Thanks to interactive data, analysts and investors will enjoy ready access to a rich vein of financial information through tagged data - to a degree that's simply not possible today. Analysts and investors will also benefit from faster searches and enhanced comparison capabilities. And automation of a range of comparisons would not only enhance the quality of your analysis, but also empower you to expand your research coverage to other issuers that normally you couldn't reach.

Nor are the benefits limited to analysts and investors. Companies preparing their financial reports in interactive data will be able to compile and communicate their numbers more effectively and more cheaply. Even we regulators will benefit, because like you we'll be able to digest information far more quickly, accurately, and efficiently.

Already, software developers are busy creating new tools to tap the power of interactive data in a variety of ways. Just last December, the SEC released our own prototype of an interactive data tool, in open source so that everyone can improve it for free. As a result, today any analyst can log onto the SEC's Web site, and not only view interactive data, but use this software tool to immediately generate graphical reports and multiple-issuer comparisons.

One advantage of interactive data that our tool demonstrates - and something that the private sector will undoubtedly find much more interesting ways to exploit - is that it is infinitely adaptable. That "X" in XBRL stands for "extensible," which means that when companies have unique or unusual kinds of data, they can easily label it, describe it, and report it. And when an issuer does report different kinds of data than other companies, those differences will be easier to analyze, because interactive data will make differences in the way that companies report information more immediately obvious to you.

The Commission is currently working on a second prototype XBRL viewer for release in the next few months that will feature graphics and easy-to-use searches that not only you as analysts, but even individual investors can take advantage of. And once again, the source code for this prototype will be freely available on the SEC's Web site, so that the private marketplace can expand the software's capabilities by creating even better tools with more features.

We're also on the verge of gaining the benefits of interactive data to enhance analysts' and investors' ability to compare mutual funds. As you know, almost 100 million individual investors in the United States count on mutual funds to meet their basic financial needs. But just try to compare more than 8,000 mutual funds using paper-based prospectuses, or even the electronic versions of them, not to mention their many and varied classes. That, as I'm sure you know, is nearly impossible. But by tagging this information and making it interactive, we can tame it and make it manageable.

Next week, the SEC will formally consider adoption of a final rule to allow mutual funds to submit key prospectus information using interactive data. Not only will funds have the opportunity to submit simple data in place of complex forms, but all of you will have access to more accurate performance data that will be immediately useful in your own spreadsheets and other software.

A related advantage of interactive data - not just to analysts, but to all of those who participate in our securities markets - is that it will enable the use of cost calculators and other tools to get data directly from our EDGAR filing system, without any intermediate re-keying or other manual labor. In order to give you a taste of what this means in real life, the SEC will soon unveil on our Web site an interactive data version of all of the information in the new summary compensation table for all of the companies in the S&P 500.

As you'll immediately see, putting this information in interactive format will make the discipline we already require from companies far more useful to you as analysts, and far more useful to investors. All of this data, including comparisons of compensation of the CEO, CFO, and three other top executives for companies in the S&P 500, will be instantly searchable and sortable.

As information about compensation of 2,500 of the nation's most highly paid executives becomes available in this far more useful form - without anyone having to sort through thousands of pages of filings - we expect interest in getting access to other information in interactive data format will also grow. And, of course, the most comprehensive data that the SEC requires companies to report is included in their quarterly and annual reports. So last year, the SEC pledged major funding to complete the interactive data taxonomies for all of the U.S. GAAP data in those reports, and we announced our intention to finish all of that work by no later than this fall.

That work is now already complete for many industries, and when the entire project is finished in just a few months, every company in every industry will be able to tag their financial statements, as well as the notes to their financial statements, using interactive data. To make it easy for companies to do this, the ready-to-use data tags will come with a complete set of instructions and user guidance. In other words, in just a few months, every company that wants to will be able to make their main SEC filings using interactive data.

And actually, there's no reason for companies to wait until Fall to get started with interactive data. Already, companies ranging from General Electric to Ford to 3M and Pepsico are reporting their financial information in interactive data, in addition to the regular old-fashioned financial reports they file through EDGAR. And these voluntary filers are finding that there are cost savings and internal benefits that they're realizing right away.

As the message of the benefits of interactive data continues to spread, new companies are continuing to join in the voluntary filing program. And since, as analysts, you're among the main intended beneficiaries, I hope you'll encourage companies to keep jumping aboard this bandwagon - because when every registrant files this way, the results from your standpoint will be extraordinary.

At a Commission Roundtable on interactive data in March, several of our interactive data filers described their first-time experiences with tagging their financial data. They unanimously reported that the process was much easier than expected. In fact, these filers stated that their start-up costs were trivial. They told us that not only did using interactive data require a relatively few hours of staff time, but also the amount of work required fell drastically for subsequent filings.

John Stantial, the Controller for United Technologies, is so enthused about his company's experience with interactive data that he wrote a significant article about it in the Journal of Accountancy this month. At United Technologies, he reported, they have the process of tagging and filing an 8-K earnings release down to four hours. That is truly remarkable for a company of that size. And once United Technology's quarterly reporting process fully incorporates interactive data, their controller estimates they could cut up to 200 hours from their average of 845 hours using the current old fashioned system -- a cost savings of more than 20%.

It also seems likely that interactive data will permit companies to reduce the amount of manual work involved in maintaining their internal controls over financial reporting, permitting them to simultaneously cut costs while enhancing compliance with Sarbanes-Oxley.

It is appropriate here to emphasize that it has been the private sector that has developed interactive data. Through the work of XBRL International and its affiliates in countries around the globe, there's a revolution brewing in the way the world exchanges financial information. There are many other private sector leaders in this effort as well. In the United States, for example, the Investment Company Institute took the lead in writing interactive data taxonomies for mutual funds. And a consortium of accounting, media, and business experts with leadership from former Harvard Business School Professor Robert Eccles is developing interactive data taxonomies that will cover key performance indicators that aren't required by the SEC, but that will be enormously useful to you as analysts.

The interactive data revolution is also important to the Commission's upcoming consideration of the staff's recommendation that we completely eliminate the requirement that foreign private issuers reconcile their financial statements to U.S. GAAP. That recommendation, should it be approved, would go into effect in 2009, with the result that foreign private issuers will simply file their financial statements with the SEC using IFRS. The Commission also plans to solicit comments on whether, eventually, U.S. issuers should be permitted the choice of filing with U.S. GAAP or IFRS as well. These developments are very much influenced by the ongoing efforts of the U.S. FASB and the IASB to converge the standards and principles of U.S. GAAP and IFRS. So it's highly relevant that the team developing the interactive data taxonomies for U.S. GAAP, led by XBRL US, is working closely with the IFRS taxonomy team. Their work is helping the accounting standards convergence project by highlighting where standards are converged, and where they're not.

You won't be surprised to learn that the IASB has been a leader in encouraging use of interactive data. They have also committed significant resources to creating interactive data taxonomies and software tools to take advantage of its power that will make financial information easier for analysts to use. Just this April, the IFRS XBRL team released a Spanish translation, and they've followed that with a French version last month.

These developments are occurring quickly, and as IFRS is increasingly adopted around the world, it is good news for global markets that interactive data will help insure that IFRS is interpreted and applied consistently across borders. Consumers of financial data in the interactive data age shouldn't - and won't - have to worry about whether a company's data is based on a Dutch customization of the base IFRS taxonomy, for example, or a Spanish version. There's absolutely no question that analysts such as yourselves, and other consumers of financial data, will benefit from having readily comparable information derived from applying one set of global financial reporting standards and distributing it across the planet in the same interactive data format. So even while the IASB and the U.S. FASB are working to converge international accounting standards, the U.S. GAAP and IFRS taxonomy teams are working to ensure that the interactive data tags for U.S. and international financial reporting are aligned.

Recent announcements from around the world by governments getting ready to introduce interactive data in their own regulatory systems give us an idea of just how quickly these changes are taking place. The Tokyo Stock Exchange, for example, plans to introduce full interactive data reporting by all companies next year, in 2008. In the United Kingdom, the Parliament has mandated the use of XBRL for all companies' tax filings with Her Majesty's Customs and Revenue Department. And in Singapore, the Accounting & Corporate Regulatory Authority has announced it will accept financial statements by listed companies using interactive data beginning on November 1st of this year. Singapore's ultimate goal, in fact, is that all companies will file one set of financial statements that can be used by several different government agencies, including the Singapore Inland Revenue Authority, the Singapore Monetary Authority, and the Singapore Exchange. The Netherlands has had a similar system in place since the beginning of this year.

These developments are serving ample notice that as governmental authorities all over the world develop interactive data programs, we should get ready for more useful information from companies here and abroad than we've ever had before. We've all experienced the power of the Internet to change the way we live. But every one of you, as analysts, are now on the verge of harnessing that power to transform the way you access and use financial data. This will be a profound and positive change, not only for you, but for all of the customers you serve, and indirectly, for the millions of investors worldwide who depend on the quality and timeliness of your analysis for the protection of their retirement funds, their savings for health care, and their nest egg to guarantee a strong future for their children and grandchildren.

The need for fast, reliable, high quality, and affordable information to make the right investment choices has never been more urgent. Your vocation has given you the responsibility to help America's investors meet that need - and to help you in your work, interactive data is on the way.

Of course, you're not the only beneficiaries. Investors - retail and professional alike - and financial journalists will benefit as well. Not only that, but through its ability to improve the quality and accuracy of information, interactive data will improve the accuracy of financial statements, improve audit quality, and drive down issuer costs. It also helps address concerns about accounting complexity, through its potential to accelerate the development of a set of truly global accounting standards.

But for each of you, the most important thing is that interactive data has the power to make research analysts far more productive than you have ever been before, and to leverage your contribution to America's and the world's capital markets in profound ways. You will be able to cover more companies and cover them far more thoroughly than you can today. And that's particularly important when some of the largest sell-side firms have decided to follow fewer stocks, now that the cost of research can no longer be covered by an analyst's work in investment banking, and at a time when many companies have lost coverage altogether - including a number of NYSE and Nasdaq listed stocks. Increasing the productivity of analysts, and the quality and timeliness of your research, will particularly benefit the nearly 100 million American investors in our securities markets searching for ways to sort the wheat from the 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 this Society 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.

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