



## U.S. Securities and Exchange Commission

### **Speech by SEC Chairman: Giving Investors the Information They Need, In a Form They Can Use**

*by*

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*U.S. Securities and Exchange Commission*

Keynote Address to the 39th Annual Securities Regulation Seminar  
Los Angeles, California  
October 20, 2006

Thank you, John [Hartigan of Morgan, Lewis & Bockius LLP] for those kind words, and for inviting me to this seminar. Besides John Hartigan, I want to extend the SEC's thanks as well to the Los Angeles County Bar Association for sponsoring this conference, and to the very impressive group of co-sponsors, including the California Department of Corporations, the National Association of Securities Dealers, the North American Securities Administrators Association, and the Business Law Section of the California State Bar. And I'd like to thank Randall Lee, who does an outstanding job leading the SEC's Los Angeles office, for convincing me a year ago that this is an event not to be missed.

The SEC is strongly committed to making this event a success, and to that end, as you know, our Director of Enforcement, Linda Thomsen, Brian Cartwright, our General Counsel, Marty Dunn, Deputy Director of the Division of Corporation Finance, Paula Dubberly, our Associate Director in the Division of Corporation Finance, are here as participants as well. We'd also like to claim agency credit for our alumni, Judge Stanley Sporkin and Sy Lorne, being here with us today. This truly is an outstanding conference, and as we approach its 40th anniversary, I think we can all agree it's getting better every year.

It's good to be back in southern California, and to see so many of my former colleagues. Since I can't be in California as much as I'd like, I'm trying to bring as much of California to the SEC as I can. Brian Cartwright has brought a California perspective to everything we're doing in the agency. Eric Sirri, our Director of Market Regulation, is a graduate of Cal Tech, UCI, and UCLA. Conrad Hewitt, our Chief Accountant, is well known to all of you as California's former chief financial regulator. And his new deputy, Zoe-Vonna

Palmrose, comes to us from the USC Marshall School of Business. Yet another Californian, our new Deputy Chief of Staff and Counselor, Mike Halloran, comes to us from having run the worldwide corporate and securities practice group at Pillsbury Winthrop Shaw Pittman — and from having served as President of the Board of Trustees at Boalt Hall. I don't think California has ever been better connected to the work of the SEC than it is today.

I have to say, when you've spent as many years going back and forth as I have, you can really appreciate the difference between California and DC. Washington is nice enough, as far as it goes, but these days it seems there are only a precious few people left doing the Lord's work in the Devil's city — and so it's awfully nice to be here and gain some distance from the page scandals, the intern scandals, the money in the deep freeze, and Jack Abramoff's ongoing contest with Terrell Owens for top billing in the daily scandal sheets. Of course, even here in California we have our scandals. But at least in LA, when somebody like Mel Gibson or Parris Hilton gets arrested, we can chalk it up to Hollywood irresponsibility — and *that's* completely different, because we know we'd never let someone from Hollywood actually get elected to office.

I guess all of that first hand experience in Washington with corruption, sin, and lawbreaking is why Congress has thought it necessary to create 40 million laws to enforce just 10 commandments. Well, for our part, at the SEC, we've been trying to go in the opposite direction.

We're trying to simplify things. From the forms issuers must file, to the accounting standards they use — the SEC is waging an all-out war on complexity. Just four months after I became Chairman, the Commission put a wide-ranging package of new rules into effect to simplify the U.S. public offering process. We broadened the scope of permissible communications both before and during an offering. We liberalized the rules for shelf registration statements, and completely eliminated the need to physically deliver final prospectuses in almost all cases. A new category of well-known seasoned issuers can now benefit from automatic shelf registration procedures — without having to worry about potential staff review.

In just a few months, we'll finalize our e-proxy rules, to further advance our goal of tapping the enormous power of technology and the Internet to simplify and improve disclosure. And we're going to be relentless in seeing to it that the language in which both regulation and disclosure are written is plain English.

Since this is a gathering of lawyers, it goes without saying: you're all multilingual. Everyone here speaks Legalese. But even so, I'd be willing to bet you'd appreciate a good John Grisham novel more than a big fat 10-K, any day of the week. So let me ask you a question. Take off your lawyer hat, and put on your investor hat — the one you wear when you figure out what to do with your 401(k), your IRA, your 527 plan, or your lifetime savings. When you get that prospectus or that proxy statement in the mail — do you immediately plunk down in a comfortable chair and read it?

How many people here actually read all of the stuff that comes in the mail courtesy of the SEC? [Laughter]

O.K. — and tell the truth now — how many of you throw it away? [Most hands raised]

Just as I thought.

Well, it goes without saying, that's a sad irony. Because the SEC is the investor's advocate, and you are our customers. Any enterprise has to be concerned if the customers are throwing away the products.

And the truth is, you're not alone. Here in California, in New York, and across the country, today's consumers are frustrated and confused by the enormous amount of financial information that's dumped on them — and which really isn't intended for retail consumption. For the man or woman who's simply trying to get a straight answer about mutual fund fees and costs, or retirement planning, today's one-size-fits-all disclosure isn't working.

But satisfying investors' needs isn't a matter of eliminating the detailed information and replacing it with summaries or consolidations.

That would simply be dumbing down the data. And it's a fact that even the smallest of small investors benefits from the work of financial intermediaries who slog through these mountains of data.

And yet, what about *those* poor shmucks — the expert financial analysts? Even they deserve better than what they're getting from the disclosure that the SEC mandates from every public company and fund in America. Picture yourself as an analyst, mining information from the SEC's website today. You log onto EDGAR — and you begin your comparison of 20 companies in an industry by looking up first one company, then the next, and the next, and so on. With each company, you've got to pore through separate reports to search for what you need. There's no way to simply describe all the information you're looking for, and quickly download it. And if you don't know which particular form holds the buried treasure you're hunting for, you're out of luck.

Even when you are fortunate enough to find what you're after, your work is only beginning. Because converting that financial data into a format in which you can actually use it — your spreadsheet, for instance — means manually re-keyboarding every piece of data yourself. The only way this could be less efficient is if the SEC required the use of a quill pen and an inkwell.

Not surprisingly, financial firms — who can afford it — usually end up getting the bulk of their information about companies not from the companies themselves, nor from SEC filings. Rather, they buy the data from middlemen all over the world, from a global industry devoted to re-keying SEC financial information. And you can't blame them. Compiling numbers has become

exorbitantly expensive.

But now imagine you're checking out the SEC of the future — say, six or eight months from now. And what you discover is that all of the information you seek is intuitively organized — by company, or by fund. And now you can request exactly the information you want from any number of companies' reports, by entering a single request. No more slogging thru countless tables and footnotes. No more hand picking the relevant information, piece by piece. Instead, the data spring to life, and they do the work for you.

This isn't just a dream, it's soon to be reality. And to make sure the dream comes true, the SEC recently committed over \$50 million to do what's necessary to give these very capabilities to every investor — from the professional analyst to the amateur stock picker — in the very near future. And by that I mean months, not years.

I've talked to many audiences around the country about the promise of interactive data, but today, I want to actually show you how this technology works. A picture is worth a thousand words, seeing is believing — and by the time you see what interactive data can do for you in just a few minutes, you'll be a believer, too.

[Chairman Cox begins live demonstration of four software applications using XBRL data from SEC website]

Even though the SEC's interactive data initiative is brand new, and filing your reports in interactive data format is still voluntary, there are already two dozen companies offering products and services that'll let you unlock the potential of interactive data — and put its analytical power within your reach right now. They use the language of interactive data — called XBRL (for *eXtensible Business Reporting Language*) — to convert what today is static data into dynamic, moveable, interchangeable parts. That way, you can mix and match the information, and slice and dice it in any way you choose.

[Chairman Cox shows slide with logos of 22 companies pursuing interactive data products and services. Please visit <http://www.xbrl.org/ProductsandServices/> for updated information.]

For those of you who have never seen what XBRL itself actually looks like, here's a page of raw code. As you can see, it's gibberish — the same as if you looked at a screen of HTML code, instead of a beautiful web page. Hopefully that's the last time you'll ever see XBRL code for the rest of your life. But now let's see what all that hidden code will let us do. I've got four different applications here on my desktop, and just very briefly I'll show you some of what's possible. (Bear in mind that my random selection of these four applications should in no way be taken as an implied endorsement.)

The first application I'm going to show you is Hitachi's Xinba XBRL Reader and Analyzer. It comes from Hitachi America in Brisbane, California — and

it's a desktop tool that lets you work with SEC data right inside a Microsoft Excel spreadsheet. It costs about \$400.

There, you can see the Xinba toolbar — it barely takes up any space. Since just about everybody in this room has Excel already loaded on their computer, using this couldn't be easier.

I'm going to show you what Xinba does automatically when you open up XBRL data inside Microsoft Excel. As you'll see, it instantly lists the correct labels for every piece of data, and it automatically populates every field. And even though what I'll be showing you is what you'll get automatically, with no effort, you should know that Xinba also lets you create your own templates to view and analyze financial information. It's really a slick way to create your own customized financial reports in no time flat.

Now, I've already got some company files (from the SEC website) ready to demonstrate on my laptop, so we can use these to see how Xinba deals with raw XBRL data straight from SEC filings.

[Chairman Cox displays 3M Company information from Q2 2006 Form 10-Q]

As you can see, just like magic the numbers all hop into their correct places. Up until now, the numbers in SEC's EDGAR system have been lifeless and unresponsive — kind of like an old dog that won't come when you call him. And it has required a lot of work to hand copy the information from EDGAR into a spreadsheet. But now we can bring the data to life, and make them do the work for us. With XBRL, the numbers just leap from their virtual filing cabinet, and come right to you, assembled as you wish — like obedient servants awaiting your next desire.

Another nice thing about using XBRL from the SEC website will be that you can easily navigate from one section of a financial report to another, all the while staying inside your Excel spreadsheet.

[Chairman Cox moves to income statement within same SEC filing]

And there you have it. Now what's in our spreadsheet is 3M's income statement, from another section of the same report.

Now so far, I've been using data that was previously downloaded from the SEC — but we can also use Xinba to view and analyze XBRL data live from the SEC web site. We'd do that by using an RSS feed from the SEC. Let's see what this would look like, using a custom style sheet I've made up in Xinba.

[Chairman Cox displays Dow Chemical financial information arrayed in custom stylesheet]

And there you have it — with no more effort than that, the Dow Chemical data can be loaded into our Excel spreadsheet directly from the SEC website,

via RSS feed. And again, because each piece of information has its own unique label, the Dow Chemical numbers hop right into place in my customized template. It's as if each number has its own little GPS homing device.

So that's Hitachi's Xinba software. Let me show you just a couple of others.

This is the SavaNet XBRL Reader, made by a New York City company that offers it for free to individual investors — you can just download it from their website. Just like the Hitachi product, the SavaNet Reader lets you view and analyze data for one company, or for several companies. So let's start by downloading 10-K information for a handful of companies.

[Chairman Cox loads Form 10-K financial information for Dell, Pepsico, and 3M]

As you can see from the list on the left hand side of the screen, all of the data for all three companies have been loaded. And the program has begun with summary information for Dell, which is the first company on the list. And even though these data have been downloaded in real time, all of the information has popped up in this easy-to-read format. Of course, just as before, the data are completely interactive. We can easily work with any or all of these numbers.

And we're not limited to just numbers. Let's say we want to grab some text, such as information about Dell's accounting policies, from the footnotes to the financial statements. We just click the Notes tab at the top, and the SavaNet Reader cheerfully displays Dell's accounting policies from the Form 10-K. Or let's say we want to go to some other section of the 10-K, such as detail on employee stock benefits, from the notes to the financials.

[Chairman Cox displays information on benefit plans from footnotes to financial statements in Form 10-K]

And here you can see we have before us the details of Dell's stock option plans. If we scroll down, we can see more. The SavaNet product also lets you create charts to view any of this information. So if we want to see a graphical representation of this stock option data, we just click the Chart button on the toolbar — and just like that, we have a chart showing us the potential dilution, assuming various levels of exercise of Dell's outstanding stock options.

So far we've been looking at just one company, but remember, in addition to Dell, we loaded information for Pepsico and 3M. So now let's use SavaNet to look at multiple companies, simultaneously. As you'll see, we can easily do comparative analytics, chart trends, and calculate valuations. We can also combine the XBRL data with information from other XML feeds. So just to give you an example of what this looks like, let's do a quick comparison of revenues, share prices, and EPS for these three companies.

[Chairman Cox uses software to create chart of comparative information for the three companies]

And once again, there you have it — just as fast as you can think of it. You could just as easily compare Return on Equity across all companies in an industry, or EBITDA across all manufacturers, or the ROI of all companies in the Russell 3,000. All it takes is a few clicks of a button.

Quickly, here's another XBRL software product, called I-Metrix. Like the Hitachi and SavaNet products, this is an information and analysis tool. It's made by EDGAR Online, in Norwalk, Connecticut, and it costs about \$500 per month — which gets you not only the software, but also access to EDGAR Online's database of eight years of XBRL financial information for over 10,000 U.S. public companies.

Let's open up I-Metrix — this takes us to their homepage on the Web — and pick one of the ready-made templates for viewing whole industries. We can look at commercial banks. By clicking the Generate Template button, we create a comparative analysis in Excel.

As you can see, I-Metrix has automatically generated a bank peer group comprising Wachovia, Bank of America, Wells Fargo, and so on. Now let's drill down into some of this information. Let's pick Investment Banking Fees and Commissions — and with a double click, we can navigate to the underlying source in the official document on EDGAR.

And now we're on the EDGAR website, looking at the very amount we chose in Excel, nicely highlighted on the SEC form. Now let's exit out of Internet Explorer and go back to our comparative analysis. And before we do something fancy with comparative analytics, let's see what else we can learn about those Investment Banking Fees and Commissions. As you can see from this menu, one of the things we can do is view the XBRL definition — the taxonomy — for this particular number. That way, if we care to, we can better understand the detailed definition.

And now, since we've got data from all of these banks loaded into our spreadsheet, how about a quick variance analysis?

[Chairman Cox uses software to create bank peer analysis, showing variances from average of peer group]

Quick as a wink, you get just what you ordered. Here we've got differences of 30%, plus or minus from the average for the peer group, color-coded in red and green.

Now remember, I'm using pre-built templates from Edgar Online. But I-Metrix also lets you build your own custom analyses. So let's quickly try one of those. To make life especially easy, I-Metrix gives us a wizard. Let's look up a few companies — Dell and Microsoft. And then by telling the application

to Run a Query, we bring in the data for these companies from EDGAR Online, for analysis in our Excel spreadsheet. This is barely more effort than using the pre-built templates.

The last application I want to show you is Crossfire Analyst, from Rivet Software in Englewood, Colorado. This is an enterprise-level application that might be used by investment management companies, banks, or even regulators — in short, any organization that wants to collect and analyze large amounts of data. And just like most of the others, it works nicely with Microsoft Excel. The company says it will be available for purchase beginning in December.

I'm going to use the Crossfire Designer feature within Analyst to do a completely custom data analysis of a few companies, using data pulled down in real time from the Internet. So let's begin by building the components for the analysis.

[Chairman selects income statement items from a menu]

Now I can just drag "Revenues" from this list over to the spreadsheet — and notice that Crossfire automatically populates all the cells, based on the XBRL labels. I can do the same by dragging "Cost of Goods Sold" onto the spreadsheet, and again, the software knows exactly what to do with the data. Now, from this list inside Crossfire, we can select the companies for the analysis. I'll drag Adobe onto the spreadsheet ... and how about 3M ... and GE. Now we need to choose a time period, so we'll scroll to a list of dates under Reporting Elements, and then double click 2006. And now, by double clicking the highlighted area, we tell Crossfire to refresh the data and build the analysis.

Voila! We just built our own custom analysis from scratch, using the XBRL taxonomies, and then instantly downloaded live data from the SEC.

That's how interactive data works — and it will only get better from here. I predict in the not-too-distant future that you'll be able to search for numbers and financial data on the web just as easily as you search for documents today.

How many of you saw St. Louis play the Mets last night? The game was knotted up for nine innings, tied 1-1. But then Yadier Molina hit a game-changing homer in the ninth, and everything that had happened up to that point didn't matter any more. Right now we're on the cusp of the same sort of game-changing revolution in the securities arena. Perhaps this revolution won't deliver the same adrenaline-pumping thrill of a National League championship game. But it's every bit as significant in our world as Yadier Molina is in his.

What we're envisioning at the SEC is a new way of delivering the numbers in financial statements — here in America, and around the world — that is so fast and so flexible, it will slash untold hours of waste, cost, and inefficiency



from our economy, and make our capital markets vastly more efficient. Just as importantly, it will level the playing field for tens of millions of average investors.

We can't ever forget it is those investors who have made our nation's capital markets the richest, deepest, and most liquid in the history of the world. The importance of our capital markets to the prosperity of our nation can't be overstated — and everyone in this room has a huge stake in that relationship. Not only as investors, but as securities professionals who are critical to the process of capital formation, every one of you is a contributor to our nation's success.

The capital markets are a mighty engine that continues to power our economy as we enter our 20th straight quarter of uninterrupted economic growth. They've contributed to the creation of millions of new jobs, and a national unemployment rate that's now down at 4.6%. They're the source of a way forward for every young American thinking of going to college. They hold the retirement savings of our parents, and indeed, every one of us. They're 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 our capital markets working well, and to make them always better. In the end, we'll all be the better for it.

That's what interactive data — and your own vocations as key players in our capital formation process — are all about.

Thank you, each of you, for your work, your ideas, and your integrity. We at the SEC are doing our part to meet your needs as investors and as practitioners, and to fulfill our statutory mandate to promote capital formation. And we're proud to be your partners.

*<http://www.sec.gov/news/speech/2006/spch102006cc.htm>*