

Introduction

Conference on the SEC's Interactive Data Revolution

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Every agency head—from the President on down—wants to leave a legacy of his time in office. But few financial regulators have an opportunity to make the permanent changes that will amount to a legacy—changes that will last well beyond their time in office and also improve the functioning of the economic sector under their jurisdiction. In the case of the SEC, much of the chairman's tenure is often taken up with fire-fighting—responding to congressional demands, financial scandals and problems in the securities markets or the global financial economy. There is little time left over for initiatives that can actually improve things for investors, let alone public companies and other registrants. In fact, it probably takes an act of will to break away from the day-to-day concerns of the Commission to think broadly and with vision about the nature of the agency's role and how it can use its authority actually to improve things.

The current chairman, our keynote speaker today, appears to have done this. He has made all the familiar statements about protecting investors and enforcing the securities laws against malefactors, but he has also focused much of his attention on a subject that goes beyond these customary goals. He has recognized that investors have plenty of incentives to protect themselves if they are given the tools, that software companies will produce the necessary applications if the demand is there, and that public companies would be delighted to reduce their reporting and filing costs if only they can be shown how to do it.

Our conference today will focus on one of the key initiatives of SEC chair Chris Cox—an idea he calls interactive data, but also goes by the techie moniker XBRL. Interactive data is a good term for this important development, because it implies communication between a database such as the SEC's files of company reports and a software application that makes use of this data. Another way of saying this is that it is interactive because it would make the SEC's database of company reports machine-readable.

Today, if an investor wants to compare something as simple as the sales of all the pharmaceutical companies, he or she must go to the SEC's website, download their 10-K reports, review the financial statements and input the relevant numbers into an Excel spreadsheet. Even this time-consuming effort is not likely to be sufficient, however, because some companies display their sales net of discounts, while others subtract the discounts later. Thus, something as seemingly simple as sales numbers can require laborious searches through income statements or footnotes.

Interactive data—XBRL—solves this problem by allowing a software application to extract the precisely comparable numbers from the SEC's database of company reports. In seconds. And of course, sales numbers are only one of the hundreds of important disclosures in a company's financial statements and footnotes—all of which become accessible through the use

of XBRL. In the conference today, we will show you how this is done. Obviously, this immediately empowers investors and analysts by making comparisons among companies easy to do. And as you will see, it also has the potential vastly to reduce the costs that companies incur in preparing their financial statements and SEC reports, including the textual disclosure known as Management's Discussion and Analysis, or MD&A.

The same XBRL and interactive data capability will lead one day to better disclosure by companies, going beyond financial statements to indicators that show whether they are adding or destroying value through their operations. These important facts cannot be revealed by financial statements alone, but are vital if investors and analysts are to make the right choices in allocating capital. In our second panel of this afternoon, which will focus on what is called Enhanced Business Reporting, we will discuss these developments and their relationship to XBRL.

All this has been made topical by Chris Cox's effort to bring this country's system of disclosure to investors into the 21st century. And none too soon, one might add. The development of an XBRL taxonomy or classification system has already been completed in the EU, and financial statements prepared in International Financial Reporting Standards (IFRS) will soon be searchable in a way that U.S. financial statements—prepared according to Generally Accepted Accounting Principles, or GAAP—will not.

Many commentators have already noted that a good deal of financial activity has migrated from the United States to the financial markets in London, Paris and Frankfurt. In part, this is the result of our regulatory and litigation system, which has added costs and risks that are not common abroad. To change this will take time, if it is ever accomplished at all. But the failure to adopt ideas like interactive data or XBRL will only place U.S. companies at a further disadvantage in competing for capital with foreign companies, and U.S. financial markets at a further disadvantage in seeking the business of foreign issuers who can choose where they will list for trading.

Under these circumstances, we should count ourselves lucky that the chairman of the SEC is focusing attention on what his predecessors almost wholly ignored. But in a sense we shouldn't be surprised. Chris Cox's career—from the time he received a joint Harvard Business School and Harvard Law School degree, through his work on class action, dividend taxation and budget process reform while in Congress—has reflected a broader vision than his contemporaries. When others have seen difficult or impossible hurdles, he has seen challenges and opportunities. In numerous leadership roles in Congress, he has come to understand that little gets done unless someone commits himself to promoting a new idea or approach.

If he succeeds during his chairmanship in bringing his interactive data initiative to fruition, it will be a great achievement—no less in importance than the regularizing of financial disclosure through the development in the last century of Generally Accepted Accounting Principles. We should all wish him well.

Please join me in welcoming SEC Chairman Chris Cox.