

# Toward Greater Transparency:



21<sup>st</sup> CENTURY

DISCLOSURE INITIATIVE



Modernizing the Securities and Exchange  
Commission's Disclosure System





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## Modernizing the Securities and Exchange Commission's Disclosure System

21st Century Disclosure Initiative: Staff Report<sup>1</sup>

January, 2009

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<sup>1</sup> This report was prepared by staff members of the U.S. Securities and Exchange Commission's 21<sup>st</sup> Century Disclosure Initiative and expresses their views. The Commission has expressed no view regarding the discussion, analysis, findings, or conclusions contained in this report. We thank the many members of the staff who generously contributed their time and expertise.



# INTRODUCTION

The mission of the Securities and Exchange Commission is to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. An important tool supporting this mission is disclosure. To fulfill its function, the disclosure system provides for full, fair, and timely disclosure of material information that is accessible and easy to use. In June 2008, the Chairman established the 21<sup>st</sup> Century Disclosure Initiative to examine the current state of operating and investment company disclosure and to develop a high-level plan to modernize the present disclosure system. Modernizing the disclosure system will improve transparency by making disclosure information more accessible and easier to use.

This will be no simple task. While we must have a system that provides information for all users of disclosure—investors, analysts, the media, accountants, lawyers and others—the system must also support the compliance function of disclosure. However difficult, improved transparency in the 21<sup>st</sup> century marketplace is critical.

A study recently completed by the Commission's Office of Investor Education and Advocacy provides insights into how investors use the current disclosure system. This study found that the majority of

individual investors were at least somewhat satisfied with proxy statements, mutual fund shareholder reports, mutual fund prospectuses, and operating company annual reports. That is a good thing, because it means that we are generally seeking the right information from companies and funds. But the survey also suggests that many investors do not actually read disclosure documents. Instead, they gather information that is contained in these documents from other sources.

Respondents in the survey indicated that too much legal or technical jargon gets in the way of clarity, the documents can be too long and wordy, and information is sometimes hard to find in the reports. Not surprisingly, almost half of all respondents reported that they turn to financial advisors or brokers as their most important source of investment information. So it is not that the disclosure documents contain unimportant information; it is that the time required to extract the relevant information makes such activity too burdensome for many other than the professional investor. This Initiative seeks to find ways to help investors access relevant disclosure materials with less effort and cost, while also making them easier to use. In this sense, we seek to democratize investment information.

The Commission's current electronic filing system, developed in the early days

of the Internet, is now at least fifteen years old. When the Commission mandated the use of the EDGAR (Electronic Data Gathering Analysis and Retrieval) system in 1994, it revolutionized disclosure because filers could submit their disclosure forms electronically instead of by mail or in person. EDGAR also democratized disclosure information by making it available to anyone online at no cost instead of requiring payment for copies made at the Commission's headquarters or regional offices or through a third party. However, because EDGAR is essentially a document-based disclosure system containing information that is searchable but not interactive, it is no longer leading-edge technology.

Recognizing the need to bring its systems more in line with modern business technology, the Commission has started to move to IDEA (Interactive Data Electronic Applications), a platform that will allow it to make major advances in its disclosure system. This Initiative focuses on developing a system that will take advantage of the IDEA platform.

Below we describe the possibility of using modern technology to move from a document-based disclosure system that requires the repeated filing of the same information in often lengthy static documents to an interactive data disclosure system that avoids redundancies and makes the information more accessible. We propose that the Commission study the use of interactive data as the foundation of a modernized disclosure system that better serves the needs of investors, filers, and the Commission. Designing and implementing

a disclosure system using interactive data poses a number of challenges, including the maintenance of current audit, content, timing, liability, and delivery requirements that are embodied in our regulations and laws. However, these challenges are surmountable. A disclosure system based on interactive data could not only continue the effectiveness of the current disclosure regime but would also strengthen it by improving transparency for all users.

We believe that the Commission should consider establishing an advisory committee composed of investors, filers, information intermediaries, and other market representatives to consider the ideas expressed below and make its own recommendations to the Commission for the creation of a disclosure system whose foundation is interactive data. Because we believe that it is vital that all the divisions and offices of the Commission be involved in the development and execution of the system we describe here, the transition to a new system requires an enterprise-wide approach to planning and execution.

As the Commission moves into its 75<sup>th</sup> year, it faces new challenges to increase transparency. Now in the midst of turmoil in the world's capital markets, the Commission has the opportunity to demonstrate the leadership it has provided since its founding in 1934. The Commission should lead the way in fostering greater transparency for investors.



## EXECUTIVE SUMMARY

Below we consider how the Commission could transition its disclosure system from the document-based approach born of 1930s technology to an interactive data-based approach using 21<sup>st</sup> century technology. The many benefits of such a transition are discussed throughout the pages below. To achieve the goal of an interactive data disclosure system we focus on four guiding principles:

- **Disclosure information and other data should be submitted and stored in an interactive format.** Electronic tagging of financial and non-financial information should be explored and encouraged, including block tagging of narratives or more detailed tagging of information contained within narratives. Further, the data should be structured so that we can realize the full power and benefits of data tagging. Companies should submit required disclosure information electronically in a centrally-organized company file that would satisfy compliance requirements and would avoid the filing of redundant information seriatim, on form after form, year after year.
- **The Commission should consider establishing a data warehouse, with a principles-based framework for managing the data.** A new enterprise-wide data warehouse, established and maintained through strong data principles, would provide a single, consistent, and integrated source of all data needed by Commission staff to better accomplish their missions and would allow the Commission to be a more effective regulator. Commission review, enforcement, inspection, and risk management activities would be improved because the agency would be able to use powerful technologies to use and analyze data.
- **The Commission should consider providing for multiple submission methods for disclosures.** Filers should be able to file disclosure information directly into a Commission-maintained portal as they currently do with Form 3, 4 and 5 filings, upload disclosure information as they currently do with most EDGAR filings, or take advantage of technology that would allow their internal software to interface with Commission software so that disclosure information could be transferred seamlessly between systems.
- **The Commission should consider providing for multiple dissemination methods for disclosures.** Disclosures could be accessed directly from the Commission's website for investors seeking official filings and raw data, or it could be disseminated through other

channels that could allow it to ultimately feed directly into third-party models or other applications.

Although not discussed in detail, we believe that the Commission should consider establishing an advisory committee composed of investors, filers, information intermediaries, and others to further develop the ideas outlined below. Such a committee would give the Commission insight on how to develop a modernized disclosure system with maximum input from the primary users of the system.





## BACKGROUND

### A. Document-Based Disclosure and EDGAR

From its inception in 1934, the Commission's original paper-supported disclosure system required companies to draft documents and deliver them to the Commission. The Commission made these documents available to the public at its headquarters and regional offices for the cost of copying. Between 1984 and 1996, the Commission designed and implemented EDGAR, which enables companies to submit their disclosure documents electronically. In 1995, the Commission made disclosure documents accessible on its website for free download. This was an historic and revolutionary development and changed the way companies communicated with investors.

Although the Commission has worked to improve the usefulness of EDGAR to investors and filers, EDGAR's basic functions have remained unchanged. Because EDGAR is still a document-based system, users often must search through lengthy documents to find the information they want. EDGAR does not, for example, allow a user to easily compare fiscal periods for a single company or information between companies or groups of companies, or develop long-term analyses. EDGAR makes company information more accessible than it was before,

"People are still amazed that you don't have to go to the SEC public reference rooms anymore."

David Copenhafer, Former Director of EDGAR Services, Bowne & Co., Inc.

and the application of data tagging to EDGAR documents promises even greater access. But a simple combination of these technologies will not make the information as accessible as it could be using the technology that has become available since the introduction of EDGAR.

### B. Data Tagging and Interactive Data

Data tagging is a technology that as applied to business reporting and disclosure can make information more accessible and easier to use. Data tagging refers to the use of standardized electronic labels, or data tags, to identify individual components within an electronic document or a larger set of data, similar to the use of bar codes to track merchandise. After tags are applied, the data is said to be interactive. Interactive data can be automatically processed by software applications that interface with databases, financial reporting systems, spreadsheets, and rendering tools.

"[T]he data is trapped in an iceberg of paper in these current systems, and if we could just tag that data it would be instantly available. That iceberg would melt, that data would be freely available, and it would be accurate, it would be complete, it would be timely, it would be relevant, and it would be comparable."

Alfred Berkeley, Chairman, XBRL-US

Data tagging relies on standardized sets of tags called markup languages. The markup language XBRL (eXtensible Business Reporting Language) was first designed for the specific purpose of tagging financial disclosure information. XBRL tags have also been developed for some types of non-financial disclosure information. One approach, known as block tagging, is to apply a single tag to an entire narrative, or to individual paragraphs within a narrative. Another approach, known as detail tagging, is to apply tags to individual elements or concepts within the narrative.

XBRL tags correspond directly to components of financial statements or narrative disclosures. When disclosure information is converted into interactive data using XBRL or another markup language, investors and other market participants can easily search for, analyze, and compare entire disclosure submissions as well as discrete pieces of information formerly trapped within paper or electronic disclosure documents. All of these features could mean much greater transparency in disclosures for both financial and non-financial information.

## C. Global Growth and Regulatory Response

As we have seen in the current economic crisis, the world's capital markets are closely related and in many instances interdependent. In international capital markets, companies raise capital around the world, just as people and institutions invest globally. Thus, the marketplace requires the flow of information. In the modern marketplace information flows electronically, not on paper forms, and data tagging helps this flow of information. A fully interactive disclosure system will improve transparency, accessibility, and usability, and help U.S. markets remain competitive with markets abroad.

Now that information flows instantly around the world, foreign regulators are updating their disclosure systems. They are using interactive data to make information more accessible and easier to use for investors worldwide. Indeed, twenty countries are moving to use interactive data. For example, since early 2008, Japanese filers have been required to report financial statements with the Japanese Financial Services Agency using interactive data. In 2005 the Spanish regulatory agency, the Comisión del Mercado de Valores, established a mandatory all-electronic filing system that uses interactive data. The China Securities Regulatory Commission has required that all companies listed on the Shenzhen and the Shanghai Stock Exchanges use interactive data. The Israel Securities Authority receives filings in interactive data from public companies, mutual funds, and investment advisers. The Securities Exchange Board of India requires the

100 largest companies to file financial statements in interactive data.

Like these other regulators, the Commission is actively moving toward better use of technology to support investment and capital-raising activities in the global market.

#### **D. The Commission's Interactive Data Initiatives**

In September 2004, the Commission established a voluntary interactive data filing program using XBRL. Companies in this program convert certain sections of their disclosure documents to XBRL-formatted files and submit them as exhibits. In July 2007, the Commission created a voluntary program for mutual funds to submit the risk/return summary found in fund prospectuses in XBRL format. In 2008, the Commission proposed making both of these programs mandatory.

The Commission's current approach to XBRL has been to develop ways to translate disclosure documents on the current paper forms into XBRL-formatted files. A further step is required. The Commission should adopt a modernized disclosure system, designed specifically for interactive data, which will realize the full power of data tagging, identify ways to consolidate and simplify the current disclosure regime, and make better use of modern technologies.

As we describe in the next section, the Commission should consider creating and implementing a modernized disclosure system. The system, organized around a data warehouse, could be flexible to incorporate multiple methods of submitting

and disseminating information. This modernized disclosure system would make information more accessible and easier to use, thus serving and protecting investors.

#### **E. 21<sup>st</sup> Century Disclosure Initiative**

The Chairman established the 21<sup>st</sup> Century Disclosure Initiative to consider how to take this next step to a modernized disclosure system. The Initiative was launched as the current financial crisis was gathering. Seventy-five years ago, when Congress established the Commission, the country was experiencing a period of low investor confidence in our capital markets driven by the great crash of 1929. A fundamental purpose of the Commission was to restore investor confidence by requiring the disclosure of reliable information. The current market turmoil similarly involves a lack of investor confidence in our modern capital markets. A modernized disclosure system would improve transparency and, in turn, investor confidence, by improving the accessibility of information through the use of technology that was not imagined 75 years ago. Indeed, a modernized disclosure system that harnesses the power of new technologies could improve the transparency of complex financial instruments that have only recently been introduced into our financial markets.

The Initiative seeks to outline a system of disclosure that responds to the demands of investors, reflects the information technology used by filers, and assists the Commission as it carries out its duties. We sought contributions from the public through a website where we made available our strategic plan, background on

the Initiative, and our contact information. In addition, the Commission held a public roundtable on October 8, 2008, to discuss the different possibilities for modernizing disclosure. The roundtable was webcast live (and is archived at <http://www.sec.gov/spotlight/disclosureinitiative/roundtable.shtml>), and it was televised and webcast by C-SPAN. A transcript of the roundtable is available on our website.

Panelists included a representative from the American Association for Individual Investors, an analyst from the CFA Institute, a former SEC Commissioner, a former director of the Division of Corporation Finance, other investor representatives, senior officers from large fund complexes and large and small operating companies, representatives of information intermediaries, and distinguished law professors. Panelists described the current disclosure system and provided helpful observations about its functioning in light of current technology. Panelists focused on features they believed should be built into the optimal disclosure system to improve access to information for small and large investors. They considered how the filing system could be improved to assure efficiencies and improve the quality of disclosure. Panelists supported harnessing technology to modernize the disclosure system, and they identified key issues that should be considered in designing a modernized disclosure system.

In connection with the roundtable, the Commission asked the public to provide comments on the need for a modernized disclosure system and what such a system might look like. These comments are archived

on the Commission's website at <http://www.sec.gov/comments/4-567/4-567.shtml>. Commenters applauded the Commission's Initiative to modernize the disclosure system and improve transparency, and largely supported a modernized disclosure system based on interactive data. Some raised specific concerns.

# IV A MODERNIZED DISCLOSURE SYSTEM

*The Commission should design and implement a modernized disclosure system in which interactive data replaces plain-text disclosure documents.*

Under the Commission's current document-based disclosure system, electronic documents patterned on paper forms are the primary means of submission, storage, and dissemination of disclosure information. These electronic documents contain disclosure information in a plain-text format. The Commission should design and implement a modernized disclosure system in which interactive data replaces documents.

At present, an investor seeking a particular piece of information about a company must first find the correct document, which is frequently complicated by the filing of amendments to the original document, and then review an often lengthy static file. The basic search option is a plain-text search. All complex analyses and comparisons between different periods or companies require the investor to manually extract the underlying information or use a third-party service that has done so.

Unlike plain text, interactive data can be automatically processed by software.

"...if we get it right [we could] do something which sometimes is rare in regulation, which is to reduce costs for the issuer community and at the same time improve investor protection."

Steven Bochner, Partner, Wilson Sonsini  
Goodrich & Rosati

Each discrete piece of information can be individually searched for and identified, automatically compared with other data, and seamlessly plugged into models, calculations, and other applications. Replacing plain text with interactive data would improve transparency by making information more accessible and easier to

"This credit crisis, from my point of view, is based on a lack of trust, and the trust is based on a lack of information. ...One of the documents that a person was trying to analyze on a complex mortgage-backed security was 2,300 pages long, and the implications of that, as Phil Moyer at EDGAR Online says, only the sales side has read these documents."

Alfred Berkeley, Chairman, XBRL-US

“The rhythm that has developed around the periodic system is a rhythm that I think has considerable substantive importance to it and contributes to the reliability of the disclosure that the SEC gets...”

Alan Beller, Partner, Cleary Gottlieb Steen & Hamilton

use. Filers, too, could make their reporting processes more efficient by simplifying the process of filing disclosure information and by eliminating redundancies. Further, interactive data could enable the Commission to perform a wide range of analyses to aid in its mission. A modernized disclosure system could unlock the power of interactive data while maintaining all of the functions on which investors, filers, and Commission staff rely.

The need to improve transparency is evident. As disclosure documents have continued to grow longer, reflecting more complex business arrangements and new disclosure obligations, plain-text format may not always be the most efficient in meeting investor needs. The financial crisis of 2008 revealed the dangers of opaque, complex, financial instruments that are difficult to understand and analyze.

This section sets forth a high-level plan for a modernized disclosure system. For further study, we (a) discuss basic principles for a modernized disclosure system; (b) describe the possible features and implementation of a modernized disclosure system; and (c) project how a modernized disclosure system might serve investors, filers, and the Commission’s mission.

## A. Governing Principles of a Modernized Disclosure System

To be more accessible and easier to use, the system should:

- Accept, store, and allow dissemination of disclosure information in an interactive data format.
- Use an interactive data format that is standardized, expandable, and open.
- Use a data platform that is versatile and interoperable, allowing it to interface with different and new systems.
- Substantially reduce redundancy and duplication of effort.

To protect investors, the system should:

- Retain the content of material disclosure information.
- Retain the statutory reports and filings.
- Retain the periodic reporting schedule.
- Preserve the current liability framework.
- Preserve officer certifications, auditor functions, and other requirements.

## B. Features of a Modernized Disclosure System

*A modernized disclosure system should use interactive data, in a company file, for all information required to be disclosed under the securities laws. A modernized disclosure system should also include a versatile and interoperable platform composed of a data warehouse, multiple submission methods, and multiple dissemination methods.*

In this section, we describe the features of a modernized disclosure system. Interactive data would be its common language. A new platform would be constructed for the submission,

storage, and dissemination of disclosure information in an interactive data format and organized in a company file, with a new data warehouse serving as its centerpiece. New processes would facilitate the submission of filers' information in interactive formats. New processes would disseminate disclosure information to investors and others in ways that would maximize the power of interactive data. This section broadly describes each of these elements. The functional specifications should be developed later.

Designing and implementing a modernized disclosure system would be more than just a technological undertaking. While developing a common interactive data format and the multi-part platform, the Commission would also need to address various disclosure concepts. We summarize those concepts below.

### **1. Disclosure via Interactive Data, Not Forms**

In a modernized disclosure system, information required to be disclosed under the securities laws should be submitted in an interactive data format and into a company file.

Interactive data would be the common language of the system. All information required to be disclosed under the securities laws would be submitted to the Commission in an interactive data format. Rather than requiring filers to draft and transmit plain-text documents based on forms, the Commission would require filers to submit interactive data corresponding to specific components of disclosure. As we have explained, this transition would

"I think it fair to say that there is universal agreement that we need to get to a structured database, it should in one sense or another be tagged."

Professor Joseph Grundfest, Stanford Law School,  
former SEC Commissioner

not require any changes in the content of disclosure information or the periodic reporting schedule. What would change, however, would be the need to file lengthy forms over and over. Instead, filers could submit specific disclosure information into a centrally-located company file that would contain all information about that filer. New information would be added according to existing disclosure requirements and schedules, but the need to file form after form with often repetitive information

"...you can imagine rather than an S-1 or a transaction document being the first kind of coming out party for a company going public, it is a '34 Act filing, let's call it a C-1, a core registration or a company filing. And that is the document and that is the place that has the business section, the company information. And then that is supplemented by periodic and current reports, maybe we will continue to call them 10-Qs and 8-Ks, maybe we will call them something else. Maybe they will be appended to, maybe they will be a part of the core company registration."

Steven Bochner, Partner, Wilson Sonsini  
Goodrich & Rosati

would disappear. All of the information that is currently supplied in reports would be contained in the company file, and any user would be able to effortlessly call up and print familiar statutory reports, such as registration statements, periodic reports, or mutual fund prospectuses. We discuss the possible organization of this company file in more detail later, but the basic approach would be central to the modernized disclosure system.

“In order to realize the full power and benefits of the XBRL format, however, it is first necessary to structure content so that it can be tagged and consumed in a way that is most meaningful to users. As a result, information frameworks containing explicit definitions and related references must be developed so that corresponding XBRL taxonomies can be created and data can be tagged.”

Comments of the Enhanced Business Reporting Consortium

All individual components of disclosure would be tagged. For disclosure information that is contained in financial statements, the Commission has required XBRL as an interactive data standard. The Commission has participated in the development of an XBRL taxonomy for financial statements in U.S. GAAP. We believe that XBRL represents the most attractive method of tagging financial statements for a modernized disclosure system.

For non-financial disclosure information, especially narrative disclosures, the

Commission should consider the different possibilities for data tagging. Currently, mutual funds may voluntarily provide the narrative portions of the prospectus risk/return summary with block tagging. In addition, efforts are underway to develop XBRL taxonomies that would detail tag important concepts within narrative disclosures, such as the management’s discussion and analysis (MD&A) section of the Form 10-K. Even without a consensus around any particular method of detail tagging for concepts within narrative disclosures, a modernized disclosure system could begin by requiring that narrative disclosures be block-tagged. This would be an important step because it would improve comparability over periods of time or across companies.

We believe that replacing plain text disclosure forms with interactive data would require the Commission, or the advisory committee whose appointment we recommend, to consider changes to the current disclosure requirements. First, the Commission might consider what reorganization of the regulations would be required to support a company file approach to disclosure.

Next, the Commission could examine its regulations to better adapt them to interactive data, as opposed to plain text. This examination could be conducted in a content-neutral fashion, without changing the substance of the information required to be disclosed. We suggest that the Commission consider five principal questions as it examines the structure and format of each disclosure requirement:

1. What is the purpose of the requirement?



2. Does the relevant form, rule, or regulation as written elicit information in service of this purpose?
3. Does the form, rule, or regulation as written call for the submission of information in a standardized or structured format that facilitates interactive data tagging, comparability, and understandability?
4. Can the disclosure requirement be written in a way that would improve the standardization of the disclosure while serving the purpose of the disclosure requirement?
5. Does the requirement call for the disclosure of understandable information written in plain English?

Finally, the Commission may need to address the impact of interactive data on such important disclosure concepts as liability, delivery, context, prominence, placement, auditing, and officer certifications. The modernized disclosure system would need to ensure that the reports and filings required by statute are readily available.

## 2. Data Warehouse and Data Management

The modernized disclosure system should incorporate a versatile and interoperable data warehouse in which disclosure information is stored.

The system should be centered on a data warehouse designed to load, store, analyze, extract, and disseminate disclosure information in an interactive data format. Disclosure information should identify contextual information such as date and time of submission, filer identity, and the statutory report or

filing to which the data belongs. Updates should be stored separately so that a complete data history is maintained and can be reconstructed any time. The data warehouse should be able to instantly provide any information by any filer. A user should be able to quickly view and retrieve any company's most recent annual report, and, for example, should also be able to retrieve the earnings per share data from a company's quarterly income statements for the previous three years.

The data warehouse could also serve as the cornerstone of a new, enterprise-wide approach to data management. SEC staff could copy disclosure information from the data warehouse, perform analyses and computations using the information, and separately store the transformed data. The source data would be maintained, unchanged, in the data warehouse. The Commission's offices and divisions could use the separate compilations of data to serve their individual missions, with the master version maintained in the data warehouse.

## 3. Submission Methods

The modernized disclosure system should incorporate submission methods that exploit the advantages of interactive data.

The platform should include systems and processes to enable filers to easily submit disclosure information in an interactive data format. As described above, filers should file their disclosure information by submitting interactive data corresponding to specific, predefined components of required disclosure. Interactive data would make the filing process more efficient. Here we describe three possible submission methods.

We believe that the Commission should investigate these methods and others.

One possible method for submitting interactive data is the direct transmission of interactive data files by filers to the Commission. The filer, using software that first validates and error checks the data, securely transmits it to the Commission. Upon receipt the Commission performs its own validation to ensure the data conforms to business and data rules. This method is already in use by participants in the Commission's voluntary XBRL program.

A second possible method for submitting interactive data is the use of online templates. A filer would log into the Commission's secure filer portal and enter its disclosure information. In the process the data would be automatically validated, tagged, and stored in the data warehouse. This method has been in use since 2003 for the submission of Forms 3, 4, and 5 and is being phased in for the submission of Form D. The filer portal could use text-boxes, a question-and-answer format, or another process to lead filers through the disclosure requirements.

"At no point will the information be taken from the consolidation system and placed into Word or another document format. For management's review and approval, a report will be run and disseminated, and any changes will be made directly in the consolidation system, which will automatically update the report."

Comments of Margaret Smyth, United Technologies Corporation

A third possible method for submitting interactive data is the use of an application programming interface (API). An API is a set of computer communication standards that enable software programs operating on one computer to communicate directly with software programs operating on another computer via the Internet. Under this method, a filer's internal accounting and business software systems could communicate directly with the Commission's software. This process could provide for appropriate reviews by the filer's employees, attorneys, auditors, and certifying officers and for the secure transmission of information to the Commission. The Commission would administer the acceptance of data into the modernized disclosure system. This method could substantially reduce human error by automating processes that are now performed manually.

#### 4. Dissemination and Interfaces

The modernized disclosure system should incorporate dissemination methods that exploit the advantages of interactive data.

The system could flexibly disseminate disclosure information to investors and other users. Different users would have different levels of access to information. A filer could have access to all of its own filings, both public and confidential. Investors would have access only to public information. Commission staff might have different levels of access, determined by their roles.

The system could disseminate public disclosure information in at least two ways: (a) an open, intuitive web-based interface that might include feeds and downloads;

and (b) a high speed, real-time, continuous commercial dissemination facility. The web-based interface should allow investors to review and print statutory reports, perform flexible searches, and perform basic investor analyses on some or all of the data. The possibility of feeds and freely downloadable interactive disclosure data illustrates one of the modernized disclosure system's chief advantages: users could import the data into customized software applications as diverse and numerous as their own needs.

### C. Possible Operation of a Modernized Disclosure System

*A modernized disclosure system should be designed to enhance transparency for investors; to improve efficiency for filers; and to provide the Commission with new enforcement and compliance tools.*

In this section, we describe what the experiences of investors, filers, and Commission staff under the new system might be like. These descriptions are not recommendations, but rather are intended to illustrate a few of the potential benefits of a modernized disclosure system.

In the current system, filers extract data from their internal accounting and business software and compile it in a static document based on one of the Commission's forms. Once EDGARized for filing, the document is transmitted to the Commission. Through EDGAR, the document is disseminated to investors and the public as a plain-text file. Some investors, or their vendors, convert information from the plain-text file to interactive data in order to perform their own searches, comparisons, and analyses.

“Go look at Bloomberg and Thomson and these companies that create the experience for the end user. I think all these service providers should be involved in the design process because, in some sense, they have already invented the wheel and they have got things on the market that are market tested and people use.”

Douglas Chia, Senior Counsel and Assistant Corporate Secretary, Johnson & Johnson

In a modernized disclosure system, disclosure information would be compiled by filers in an interactive data format. It would remain in that format throughout the rest of the process. Some costs of converting the disclosure information and some opportunities for manual error could be eliminated.

From the filer's point of view, a modernized disclosure system would function as a company file system. Filers would maintain individualized accounts and submit their disclosure information using streamlined electronic processes. From the investor's point of view, a modernized disclosure system would be a source for all of the disclosure information that the current system provides, with

[B]ut one of the benefits of the kind of system that we are discussing today is that it takes disclosure and makes it more transparent.”

Professor Hillary Sale, Chair in Corporate Finance and Law, University of Iowa College of Law

“And this kind of a system which would allow us, assuming information is disclosed, to access it across companies, compare it, see where the shifts are and what the dynamics are would be extremely valuable.”

Professor Hillary Sale, Chair in Corporate Finance and Law, University of Iowa College of Law

better accessibility and usability. From the Commission’s point of view, a modernized disclosure system would provide both statutory reports and powerful new enforcement and compliance tools.

### 1. Experiences of Investors

A more powerful web-based interface, together with freely downloadable disclosure information in an interactive data format, would benefit investors.

For investors, a modernized disclosure system would improve accessibility and usability. Using the Commission’s public web-based interface, investors could have access to the same statutory reports, both current and historical, that are currently

“Democratization of financial and business information in open source reporting standards such as XBRL promises eventually to give individual investors the same kind of analytics capability that used to only exist for those who could afford typical \$1,000 and up subscriptions from data aggregators.”

Comments of Liv Watson, IRIS Business Services, and Brad Monterio, CMH Partners/Colcomgroup

available on EDGAR, with the addition of powerful and customizable tools for searching, comparing, and analyzing. Investors could benefit from directly downloadable disclosure information in an interactive data format.

The Commission’s current public web-based interface serves investors as the authoritative source for disclosure documents. The web-based interface of a modernized disclosure system would also serve this function. **Figure 1** illustrates how a web-based Commission landing page might appear to investors. The interface could provide company- and fund-based pages for investors’ use, and provide an entry into the modernized system for filers.

Investors could then click through depending on their needs and interests. These pages would allow investors to view the filers’ statutory reports and other filings. **Figure 2** illustrates how the web-based interface might also offer more powerful search tools.

For example, an investor might be able to search for all technology companies with earnings per share greater than \$2.00 and with the phrase “consulting services” in their business descriptions. A modernized disclosure system’s web-based interface might also permit quick comparisons of disclosure information from different periods or across different companies. For example, an investor might be able to view an operating company’s MD&As for the past three years, with each new version redlined to highlight changes. Or an investor might automatically generate charts showing net income gains, by percentage, for several companies, represented by lines on the same graph.

The Commission might also consider allowing investors to customize their experiences with its interface, for example, by selecting favorite companies or generating and storing customized metrics. **Figure 3** illustrates how investors could access information through an accessible and easier-to-use web portal.

If the Commission were to make disclosure information downloadable in a standardized interactive data format, software applications could automatically download and read the information and process it, performing calculations and analyses to meet many information needs. These applications might permit investors to specify their own metrics and apply those metrics to companies or groups of companies. Or the investor might wish to combine disclosure information with publicly available information from sources other than filers. Analysts and market observers might even find a market for expanded coverage of small private issuers. A modernized system would improve accessibility and usability. Better transparency would result.

## 2. Experiences of Filers

**Filers' reporting processes would be more efficient because interactive data could allow more automation. Company files could be established to maintain core company information and manage filers' interactions with the Commission.**

For filers, a modernized disclosure system could make the reporting process more efficient, as well as help them better manage their interactions with the Commission. This section describes the possible impact of a modernized disclosure

system on filers' reporting processes and the possibilities of an electronic web-based interface for filers.

As noted above, the Commission could choose to create a web-based interface for filers that would serve as a "one-stop shop" for the filers' relationship with the Commission. The interface could allow filers to set up company accounts within the disclosure system and allow them to transmit their disclosure information and receive individualized communications. A company account could govern the transmission of disclosure information to the Commission in an interactive data format by providing an upload location for interactive data transmissions, offering interfaces for direct data entry by filers, or allowing filers to adjust the configurations of API-based data transfers, depending on the combination of submission methods chosen by the Commission. The interface could also serve as a portal for communications between filers and the Commission by storing comment letters and responses and other communications for easy access.

The Commission could allow companies to file "core" company data that would become part of every relevant statutory report. Companies would only change their core data according to the schedules currently prescribed by our disclosure rules. For example, a company's description of its business might be considered core company data. If the company's business did not change for several years, the same business description would automatically be incorporated in each annual report subject to certification. If the company's business changed so that the business

Figure 1

Figure 2

Figure 3



description was no longer accurate, the company could upload a new description into its core data according to current reporting requirements. The periodic reporting schedule would not change. Similarly, a mutual fund company would only supply new information to its company file when updating its prospectus, and then update core information or ensure that the core information has not changed. In this way, companies could avoid filing duplicate materials, but all of the information that is currently contained in a statutory prospectus would be available to investors.

### 3. Experiences of Commission staff

Advanced data management techniques and new enforcement and compliance tools could be developed to take advantage of the capabilities of interactive data and a data warehouse.

A modernized disclosure system should provide Commission staff with the same information and functions that are available in the current document-based disclosure system as well as permit the Commission to develop new tools and data applications to pursue its

“But the basis of all this is a consistent database that persists, that gets changed over time, that has records of what the changes were, but you don’t repeat it. It is one consistent database with snapshots in time. And that would be much more useful for all kinds of things, including longitudinal things. Ideally, you could do the same query against multiple databases for different companies and compare the companies and so forth.”

Esther Dyson, Investor

mission. The system should also serve the Commission’s mission by providing an enterprise-wide approach to data management.

Information that is filed through amendments to reports and registration statements must also be captured in a manner that does not negatively affect the enforcement function. The staff’s ability to investigate matters and bring cases under existing authorities such as Sections 5 and 17 of the Securities Act, Sections 10(b) and 13 of the Exchange Act, Sections 34, 36, 37 and 48 of the Investment Company Act, and other provisions, should not be affected by any transition to a new information system. As described above, the system would also need to be built to ensure that reports, in their complete form, are readily available. These reports would need to address such concerns as prominence, placement, and the total mix of information contained in statutory reports.

Having addressed these and other concerns, a modernized disclosure system

should allow the Commission to adopt advanced data management techniques. As we have discussed, the data warehouse could be a broad-based platform for all the Commission’s data and serve as the source for the disclosure information needed for many of the staff’s activities.

From this base we envision more sophisticated monitoring systems that can integrate filed disclosure data with other internal and publicly available information to create alerts and reports. Human resources could be better deployed based upon information gleaned from automated reports and red flags. The result would benefit investors and markets.



# V CONCLUSION

We have described the possibility of using modern technology to move from a document-based disclosure system to an interactive data disclosure system. We believe that the Commission should study the use of interactive data as the foundation of a modernized disclosure system that better serves the needs of investors and filers. We also believe that the Commission should consider establishing an advisory committee to consider the views above, and make its own recommendations to the Commission regarding the creation of a modernized system. Furthermore, we believe the transition to a new system requires an enterprise-wide approach to planning and implementation as it is crucial that all of the Commission's divisions and offices be involved. A disclosure system using modern technology and based on interactive data would improve transparency for all users.







21<sup>st</sup> CENTURY

DISCLOSURE INITIATIVE

