THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Amended 6/29/06 & 7/13/06

In the Matter of:)

) File No. 4-515

INTERACTIVE DATA ROUNDTABLE)

Administrative Proceeding

PAGES: 1 through 188

PLACE: Securities and Exchange Commission

100 F Street, N.E., Room L-002

Washington, D.C.

DATE: Monday, June 12, 2006

The above-entitled matter came on for hearing, pursuant to notice, at 9:44 a.m.

For the United States Securities and Exchange Commission:

Commissioner Christopher Cox, Chairman

Commissioner Cynthia A. Glassman

Commissioner Paul A. Atkins

Commissioner Roel C. Campos

Commissioner Annette Nazareth

C O N T E N T S

C O N T E N T S (Continued)

C O N T E N T S (Continued)

P R O C E D I N G S

9:44 a.m.

SESSION ONE: IMPROVING THE QUALITY OF MUTUAL FUND DISCLOSURE

CHAIRMAN COX: Good morning and welcome. Thank you all for joining us today. And welcome to our first in our series of roundtables on interactive data. Our aim is to make financial disclosures more user friendly to the average investor. I'm Chris Cox, the Chairman of the Securities and Exchange Commission. We have all of our commissioners here and an outstanding panel. I'm very much looking forward to this.

I should start by telling you that we at the Securities and Exchange Commission hope to lead by example here. We have recently launched on our website a beta version of a full text search capability to allow investors to search the entire content of SEC filings. We welcome feedback as we seek to expand and enhance this new web tool for investors.

I see a lot of surprised looks here. This is a new announcement I think for most of you and we consider this to be a very big deal indeed.

We have also launched a separate search to help mutual funds investors more quickly identify information on their fund and share class. Previously, details on a specific fund share class were nearly impossible to dig out of our electronic database. As with the full text search, we encourage and welcome your suggestions on how we can improve this capability.

It has been six years since the dotcom meltdown and yet during all of that time, consumer appetite for new uses of the Internet has been increasing nonstop. Nielson Media Research now reports that the total number of Americans with home Internet access is over 200 million. The PEW Internet and American Life Project reports meanwhile that the growth rate of high speed Internet to home users has doubled in the past year. These same surveys show that large majorities say that the Internet has improved their ability to get health care information, to shop, to pursue hobbies and also to do their jobs. And the Internet continues to grow as a central source of news for tens of millions of Americans.

The time is well past when we should think of the Internet as a medium that's accessible only to an economic elite. According to the New York Times, the digital divide is rapidly closing.

The Internet, this great instrument of national and international communication, is also a critical engine of American productivity. Wharton School Professor Jeremy Siegel points out in his book, "The Future for Investors," that going back to Gutenberg and even further back all the way to Silon's invention of paper in China almost 2000 years ago, every time we open up a new communications technology, invariably it has led to expanded economic opportunity and growth.

So the question for us today is how do we put the current communications technology to the service of the American investor. How do we harness the Internet which is serving so many customers in so many other ways to deliver the maximum benefit to those in our regulated capital markets.

In many ways, the American investor is still waiting for the Internet revolution. Yes, many people have embraced online trading. Still more do research and check quotes by the Internet, but most of America's more than 90 million investors are not enjoying anything close to the full potential of the Internet to provide customized financial information.

Some of our morning panelists have the unenviable task of digging into the dense documents that we see in today's status quo. Their job is to fish out the data and retype it into their own more user friendly services. But they and all American investors can at least imagine the possibilities if all company and mutual fund financial information were available to everyone for free in real time directly from the source and in a format that allows the investor, the analyst or the financial publisher total control. They could use this information for comparison, for further research or for new analytical tools, whatever they chose.

Today most investors are still receiving stacks of paper, that high tech invention of 105 A.D. Whether these stacks are corporate proxy materials or mutual fund prospectuses or other reports, investors typically find them equally difficult to understand.

Yes, these documents have allowed countless Americans to treat insomnia without resorting to pharmaceuticals but they have also proven deeply flawed as vehicles to inform the investor.

For mutual fund investors who are the focus of this morning's discussions, the mailed prospectus is too often a dense blob of legalese, difficult to search, time consuming to read, impossible to navigate quickly. For these reasons, the mutual fund prospectus seems almost designed for digital distribution. It's a document that almost nobody wants to read in full but from which many people want to glean key facts.

Interactive data, the tagging of these key facts so that they can easily be identified and extracted offers the possibility of dramatic improvement over traditional disclosure delivery for mutual fund investors.

Let me emphasize one important point here. I believe that the Internet offers powerful new ways to put investors in the driver's seat when it comes to the financial disclosures they want, the way they want them. The Internet offers investors more control and expanded choices. But one choice that will always remain is to continue to receive paper. Interactive data is not a replacement for paper. It is a compelling new option and I believe a superior option for investors who will be free to choose. Many investors would welcome a choice.

Instead of a dense unsearchable morass of lawyerisms, imagine disclosure documents with the flexibility of your favorite website giving you access to basic information and then myriad options to drill down more deeply for more information on a particular topic or to make a comparison.

Think of how that capability that we now have with flash demonstrations, pop-up references and instant cross-referencing that can happen on a web page. Think of how that could improve life for the average investor, from the novice to the professional money manager.

So let's imagine an investor having instant access to exactly the items that she is seeking and enjoying the ability to make comparisons among funds and across time. She is able to immediately examine expense ratios or performance and instantly compare these numbers to those of competitors.

Or maybe what she really cares about are the top 50 holdings of a given fund.

Interactive data means liberating all of the individual facts in large disclosure documents so you can easily call up what you want without having to read the 60-page blob.

Recent evidence suggests that it isn't just average investors who have difficulty navigating that blob. James Choi of the Yale School of Management along with colleagues at Harvard and the University of Pennsylvania recently presented mutual fund prospectuses to students at Harvard and MBA candidates at the University of Pennsylvania's Wharton School.

They found that even students at these elite American universities when given fund prospectuses end up choosing higher fees when selecting among funds tracking the exact same stock index. Of course, it's not our job to tell people which funds to select or how much to pay for fund management. What is our job is to provide investors with easy access to the information that they want in order to make an informed decision. That is why I found it particularly troubling that at the outset of the study the students ranked expenses as their most important investment criterion. And yet they seemed unable to invest on that basis when given mutual fund prospectuses to read.

On the other hand, when given simply summaries of the expense data, the students apparently opted for substantially lower fees. If true, these findings suggest that even graduate students with a high level of financial literacy and undergrads with SAT scores in the 99th percentile have difficulty comprehending a mutual fund prospectus.

The obvious solution is to move away from a dense document of legalese and toward a simple summary that allows investors to drill down for more detail on whatever topics they choose. And the obvious medium to deliver those enhancements is the Internet.

I am happy to report that the spread of interactive data for investors of all types has recently gained a new champion. Just a few days ago I received a note from UCLA computer science Professor Leonard Klinerock. As some of you know, Dr. Klinerock created the basic principles of packet switching back in the 1960s and his computer at UCLA was the very first node of the Internet. In fact, his team at UCLA sent the very first message over the Internet so normally I value his opinion on matters such as this.

Here is what he has written to us, quote: "We are likely to be surprised, even amazed at what the individual investor will be able to extract and deduce from this wealth of information once we transform the paper data in SEC filings and annual reports into an interactive electronic live format. No longer will the well endowed financial firms be the only ones who can afford to compile comparative data, but now even the individual investor will have the same access on a level playing field. One's ingenuity will be the limit to evaluation and decision making. Making accurate real time interactive data available through the Internet so that it can be instantly processed and compared on a personal computer using one's favorite software package is an obvious beneficial and urgent proposition. It's hard to believe that financial reporting is only now emerging from the dark ages and catching up to the 21st Century."

So with that to set the scene, I want you to know I'm very much looking forward to hearing from our panelists on ways to encourage more investor friendly communications. And leading what I am sure will be a thoughtful discussion this morning are my colleagues, Buddy Donohue and Susan Wyderko.

Buddy, as you perhaps know is our new director of the Division of Investment Management. Susan is most recently acting director of the Division of Investment Management. Unfortunately, as in sports, we at the SEC sometimes lose our players to free agency and so we are sad to learn that our director of the Office of Investor Education and Assistance which is Susan's main job will soon be leaving the Commission. But I want you to know that she has been extraordinarily effective and respected leader and most recently served investors in a very distinguished way as the acting director of the Division of Investment Management. So these two leaders of the SEC I think are extraordinarily well equipped to help lead us in this panel discussion this morning.

We have very much to learn from all of those on our panel who are gracious enough to participate. I want to thank each of you very much for being here. I very much appreciate it. All of us on the Commission do and I look forward to listening now to the rest of the day's events. Thanks very much.

Over to you, Buddy.

PANEL ONE: WHAT TYPES OF INFORMATION ARE MOST USEFUL TO MUTUAL FUND INVESTORS?

MR. DONOHUE: Thank you for the kind introduction, Chairman Cox. I am very pleased to be here both as the new director of the Division of Investment Management and as a moderator for today's roundtable.

Before I begin today I need to note that the views expressed today by me and all the SEC moderators throughout the day are our own and do not necessarily reflect the views of the Commission or of our colleagues on the staff of the Commission.

For all the reasons the Chairman just outlined, the interactive data initiative promises to improve the quality of disclosure to the average investor to revolutionize how investors access, use and ultimately understand information. We want to empower investors to make better decisions for their families, their retirement, their healthcare, their education and their savings.

It makes sense to start our discussion with the investment that ordinary Americans rely on more than any other, the mutual fund. At the SEC we already require mutual funds to disclose a great deal of important information in a number of filings.

I have with me documents filed for one particular fund during the past 12 months. You can see that the sheer volume of this information would make it difficult for the most diligent investor to unearth the nuggets that he or she seeks. Much of this information is delivered directly to investors typically in paper. Funds provide the prospectus to each investor who purchases shares and many funds send a new prospectus to every existing shareholder every year. For those investors who want to go beyond the prospectus funds make statements of additional information available upon request. In addition, funds provide the shareholder reports to each shareholder twice a year. When a mutual fund holds a shareholder meeting, the fund sends its proxy statement to the shareholders.

Other reports are available through the Commission's EDGAR website. These electronic only documents can provide information to investors and others who both know about them and know how to find and use them. These include semiannual reports on Forms N-CSR and N-SAR as well as quarterly reports of portfolio holdings on Form N-Q. In addition annual proxy voting records filed on Form N-PX generally are available as electronic documents posted on fund websites. Particularly savvy investors can also use EDGAR to review the other information contained in Part C of the mutual fund registration statements.

These SEC filings do not include the myriad of fund advertisements, sales literature and other materials that funds choose to use in communicating with their shareholders. These too add to the total mix of information confronting investors.

Now, I don't want to suggest that any of these documents is not useful or does not contain information that could be important to an investor. I believe quite the opposite in fact. That buried within this paper are probably all the essential data that a typical investor would need and want as well as a great deal of other important information that is used by financial advisors, retirement plan sponsors, third-party analysts and other intermediaries who help investors.

To state the obvious, though, the average investor with access to this stack of paper or even with access to the online equivalence of this paper will have a difficult time figuring out what the critical information is much less finding and digesting it in a timely manner and will have an even harder time comparing it against the information in the similar stacks of disclosure for other comparable funds.

It's a lot of information and I think it is time we confront two questions head on. First, is there a better way to highlight the key information that is critical to a typical investor? We need to find a life raft to throw out to the millions of mutual fund investors to keep them from drowning in this sea of information. Perhaps a short summary of the most essential information.

Second, how can we tame this massive data and make it usable whether for a fund investor or one of the many intermediaries who digest the information and repackage it for the investors. It is here that interactive data holds so much promise. Perhaps interactive data could help investors quickly pull up and compare the after-tax return information for five different funds at a glance or it might allow a retirement plan fiduciary to track changes in the portfolio holdings of a fund to better assess how closely the stated objectives and strategies of the fund are followed. Or perhaps it will give an aggressive financial journalist the opportunity to move from a portfolio manager's name and background in a prospectus to the detailed information about that manager's potential conflicts in the statement of additional information to the most recent Code of Ethics provisions governing these conflicts filed with Form N-CSR. The possibilities are endless and full of great promise.

The purpose of the two panels this morning is to discuss how we, the policy makers, investor advocates, industry leaders, academics and others can start to realize this promise. The task is daunting but the reward, the empowerment of the individual investors, is great.

Before I proceed with the panel, I would like to say a special thanks to my co-moderator, Susan Wyderko. As acting director of the division, Susan was instrumental in moving forward the division's thinking on interactive data and improved mutual fund disclosure as well as in providing the impetus for today's morning's roundtable session. We would not be having today's discussion without Susan's inspiration and efforts.

And with that I'd like to ask Susan to introduce our panelists.

MS. WYDERKO: Thank you, Buddy.

We are very lucky this morning to have two very distinguished groups of panelists coming from a wide range of perspectives. I want to thank everyone this morning for your time and your energy that you are devoting to us.

We have divided our discussions this morning into two general topics. The first panel which you see before you right now will focus on the types of information that are most useful to mutual fund investors. The second panel will focus on how the Commission can better leverage the power of the Internet to provide mutual fund investors with better information.

Now I'm going to briefly introduce the panelists. I encourage you to look for more information on the Commission's website. They are a very distinguished group.

Farthest away from me is Barbara Roper. Barb is the director of Investor Protection at the Consumer Federation of America. She is a leading spokesperson on investor protection issues.

Next to Barb is Don Phillips. Don is the managing director of Morningstar and he is responsible for corporation strategy, research and corporation communications.

Next to Don is Henry Hopkins. Henry is a vice president and chief legal counsel in the T. Rowe Price Fund Group and a very distinguished member of the investment company bar.

Next in line is Bill Dwyer who is managing Director of National Sales for Linsco/Private Ledger with responsibility for retirement and management of the firm's financial advisors.

Finally, but not least, we have Elisse Walter who is senior executive vice president at the NASD. Among other things, Elisse oversees the Investment Company regulation and leads NASD's investor education efforts.

I'm going to start by inviting each of our panelists to provide a brief perspective on the information that is most useful for fund investors.

Barb, I'm going to start with you. I know the CFA has done a lot of research in this area, so let's start with you.

MS. ROPER: A wise man once said that giving investors the information they need in a form they can understand is what distinguishes investing from roulette. We are pleased to participate in today's roundtable because we believe the review that the SEC is undertaking has the potential to greatly enhance the useability of the information that mutual fund investors receive.

For the past 18 months CFA has been engaged in a research project in which we have asked many of the questions that we're discussing here today about the information that mutual fund investors need and find useful.

We started with the literature review where we looked at the recommendations of experts from regulators, industries, investor advocates, personal finance writers and others. And what we found was agreement to the point of near unanimity about the basic factors that investors should consider when selecting a mutual fund.

These closely track the content of the original fund profile with highest priority given to investment objectives and strategies, risks, costs, and past performance particularly as it relates to the volatility of past returns.

When you look at a more detailed level, there is more variation in the recommendations on the best way to evaluate risk, for example, or the relative importance of costs, but our research suggests that the general question of what information is essential to an informed mutual fund purchase has really been answered to the general satisfaction of experts from all constituencies.

We also found that that information is widely available to investors and it comes from a lot of different sources and in a lot of different formats. And while the quality and usability varies, it is often quite good.

There are two areas where we think there is a need and a possibility for improvement. One, narrative risk disclosures often consist of little more than boilerplate that does little to assist an investor who is seeking to determine whether one fund is more or less risky than another comparable fund.

And, second, the fee table is too cluttered and it is too hard to get the key information about what you're paying for the fund and what you're paying for the services of a broker or adviser in recommending that fund. But, as I say, we have a general agreement among the experts about how investors should go about selecting a mutual fund.

Unfortunately we're releasing a survey today, a consumer survey that shows that many/most investors' actual mutual fund purchase practices don't remotely resemble the expert recommendations. There is not time to go over that in detail here but the gist of it here is that there are significant differences in the factors they consider most important, the value they place on the prospectus and other written disclosures and the degree to which they research the funds that are recommended to them by financial professionals.

So what are the reasons for the gap?

Two leap to mind. If you look at what the experts recommend you do to select a mutual fund, it's too much work. The handful of people who are willing to do that much work already work for Don.

(Laughter.)

Secondly, the expert recommendations treat everyone as if they were a direct purchaser of mutual funds. And, as you know, most people purchase their funds either through a workplace-based retirement plan, where they typically choose from a relatively limited menu of funds, or through a financial professional who makes the selection for them.

It is unreasonable to assume that they will either want or need the same information as the direct purchaser. Our research suggests that even the direct purchasers don't necessarily want as much information as the experts think they need.

So what are the implications of that for how we do mutual fund disclosure?

Well, one of the implications for us has been that CFA has abandoned our former opposition to the sale of funds from an abbreviated disclosure document. It seems pointless to continue to insist on full prospectus delivery to all investors when most investors do not appear to find the prospectus of great value.

It also seems to us that given investors' somewhat limited attention spans for these issues, we need to make it as easy as possible for them to get the information they really need and to understand the information they get.

Before you immediately conclude that the original profile is the right approach, however, we would encourage the Commission to study the really innovative approaches that many fund companies and others take when they prepare these abbreviated disclosure documents for use on their websites.

Many of them are able to provide somewhat more detail than the original profile provided but in a user friendly format that gives the investors far more control over how they access that data and how much information they choose to review.

I also think it is important to keep in mind the different needs of different types of investors. And I would just like to suggest that for those who invest through financial professionals the most important information they need may have nothing to do with mutual funds. Our research suggests that most of these investors do little or no research of the funds that are recommended to them.

Arguably the information they need is the information that helps them make an informed selection among financial professionals. And unlike information about mutual funds that is not information that is typically readily available.

So we would like to encourage the Commission to seriously consider developing a plain English disclosure document that brokers, financial planners and investment advisors alike would be required to provide to all prospective clients that covers the key issues including conflicts of interest that are relevant to the selection of a financial professional.

And before I close I would like to make a couple of comments about the Internet disclosure issue. Our survey offers both sort of hope and caution on that. CFA is a strong supporter of making greater use of the Internet to communicate with investors because we believe it has the potential to both reduce the cost and improve the quality and timeliness of disclosures.

When we asked investors about their willingness to use the Internet, however, we found on the positive side vast majorities of investors have access to the Internet and are willing to use it for at least some purposes, but there does remain resistance among certain investors, particularly older investors, for certain purposes.

One of the things that we found that I think is perhaps most relevant to our discussion today is that current investors, those who identified themselves as current investors who had bought most of their funds through a financial professional, just under half said they would be willing to use the Internet to receive periodic disclosure documents. And just over a third said they would be willing to use the Internet to communicate with their financial professional.

I think we need to understand the reasons behind and the intensity of that resistance if we are going to develop Internet disclosure policies that benefit all investors.

MS. WYDERKO: Thanks, Barb.

Don, Morningstar has a lot of experience providing investors and intermediaries with information about mutual funds, so let's hear from you.

MR. PHILLIPS: Thank you very much, Susan. Thank you for the opportunity to participate in this discussion.

First, before I start, I would like to say that clearly there is something about the system that works very well. We often get hung up on ways that we can improve and that is also important, but something does work.

At Morningstar we are now tracking funds around the globe and nowhere else are costs as low and as transparency is great is in the United States. So there is something very right about the system.

And also in the aggregate, if you look at investor dollars, they tend to flow to lower cost organizations and the better performing funds. So there is something that is working with the system, but the reason the system works so well is that we are constantly asking how can it improve. And that is why I think this discussion is timely.

Clearly, there is room for improvement on the current prospectus. I would argue that there are two major audiences it serves and it is not serving either as well as it might. One is the individual investor who is trying to make a decision. I think Chairman Cox correctly described the situation. It's bombarding investors with way more information than they can handle and that they can intelligently assimilate. It is not helping them make decisions. And that is why the move towards a simplified prospectus makes all the sense in the world to get some minimum level of disclosure out there to people at the point or near the point of the purchase agreement.

But as Barbara mentioned, the vast majority of investors aren't making their decisions in isolation. They are putting money into a fund with the help of some sort of a professional, whether it's a financial advisor or whether it's an employer who is selecting funds for a 401(k) plan, whether it's the press or third-party research companies, these are people that have a professional and sometimes even a fiduciary responsibility to out and seek out all of the information.

And the current dense prospectus in a non-electronic form isn't the tool that the need. Even the early tagging efforts here have been done mostly with the legal mindset, not with the database management mindset. And so I think there is ample opportunity to improve to get the information out there. So you can have firms like Morningstar spending our time and energy thinking about what this information means not simply on the processing of the information. I think all parties will benefit from that.

I think what you need are two different documents because there really are two different needs. Perhaps a simplified print document also available electronically for individuals, the focus is on the information investors need to know. And then a tagged electronic document that helps the individuals who want to make further inquiries but also helps this professional audience that's focused on information that investors as shareholders have a right to know. And this may be more detailed information than would come up in any summary of 10 or 12 points that would go into the summary.

I would give just an example. While much of the focus I'm sure will be on what goes into the simplified document, a tremendous amount of benefit can come from the information that goes in the longer document.

For example, one of the SEC's recent initiatives is to require disclosure on fund managers' compensation structure. Not the exact dollar amount that they're paid, but what is the structure, what incentives does that create. Now I would argue that very few investors have actually read this, but I would argue that it's making a difference in the retail market and it is helping investors.

In the wake of this required disclosure, we have had major fund companies come to us and say, "We're rethinking our compensation structure." Some major fund groups have come to us and said, "In the 1990s we simply gave managers more money if they ran a bigger fund. It was more profitable to the firm. The PMs knew that, they asked for more money, we had to give it to them."

Now in the wake of having to disclose this, we can go back and say, "That's really not a defensible practice." And we're tiering their compensation more to be performance relative to peers saying if they beat their peer group, we'll get the assets. But under the former system, these fund companies are saying, they were in fact incentivizing managers to be out promoting their fund not managing it.

On another scale, a major no-load fund company came to us and said that a marketing consultant had told them in the Nineties the way to move the needle in the no-load world was to get a lot of individual years where your fund was in the top decile. And they structured all of their compensation to get single year performances in the top decile. And they said, "We got a lot of that type of performance. The problem was we were in the top decile one year and we were in the bottom decile the next year." And they said, "The marketing consultants were right. When we're in the top decile we got a lot of assets, but we were attracting the most fickle types of investors, people who loved us when we were at the top but hated us as soon as we dropped out of the top 10 percent. And, in essence, we were incentivizing our managers to scar their long-term performance records just to get in these short-term fickle investors."

They said, "In the wake of having to disclose this, we're changing our procedures and moving from a one-year period to a three- or a five-year period and stretching out the time periods."

Well, think about that. For years fund companies have gone to investors and said, "Buy an equity fund with a long-term horizon." Be thinking out five/ten years and, yet, major fund companies were rewarding managers on the basis of 10 or 12 months worth of performance.

This disclosure, which very few investors have seen, I think now is changing behavior in the industry and better aligning the interests of individual investors with those of fund managers. So I would encourage the Commission to not only think in terms of print and electronic but to think in terms of these two different audiences: what an individual investor might need to know and what a professional or an informed individual has a right to know. Both of those have a part in improving the investor experience.

Thank you very much for the opportunity to participate.

MS. WYDERKO: Thanks, Don.

Next, Henry, we would like to hear your perspective as a representative of a large fund group.

MR. HOPKINS: Good morning. Can you hear me? Okay. Good morning.

Since the prospectus disclosure regime was first established over 73 years ago, much has changed. This new environment strongly justifies some rethinking. Not of the basic investor protections of the 33 and 40 Acts but of ways those laws apply to mutual fund prospectuses.

When these acts were adopted, communications were crude compared to today's digital, fiber optic, microwave and satellite global networks. The age of personal computers and the birth of the Internet have revolutionized the transmission of and access to information. The financial news media now covers the mutual fund industry to such an extent that little happens without the public knowing about it. The beneficiaries have been the investing public who can now easily access a wide spectrum of quality information instantaneously. As a result the prospectus of old has become a roadblock for investors on today's information highway.

Before outlining T. Rowe Price's recommendations, I would like to set the stage by reviewing a number of the findings of the ICI's 2006 study on the information needs of fund investors.

First, shareholders prefer receiving a concise summary of fund information before buying. Second, a large majority of shareholders do not consult fund prospectuses before purchasing. They view prospectuses as being difficult to understand and too long. Third, fund shareholders use the Internet regularly most particularly to gather investment information.

The question for discussion today is how can we improve the disclosure regime. Studies have shown that when it comes to providing most investors with fund information less is best. Out of that realization was born the current profile, a document designed to give investors just the right amount of information. The develop of the profile was not something that just came out of the blue. It represents the culmination of decades of work and, in fact, many failed attempts to build a better disclosure mousetrap.

The profile is an excellent well organized disclosure document whose content requirements were substantiated by SEC-sponsored focus groups and an industry pilot program. As good a disclosure document as it is, the use of the profile has been disappointing at best. The cause is self-evident. The profile did not replace the full statutory prospectus and incorporation by reference was not permitted thereby creating liability concerns.

In our view, wholesale changes to the profile rule are not necessary to significantly improve the mutual fund disclosure scheme. First, permit a fund's profile to be used as its primary selling document provided investors have the option of either accessing the full prospectus via the Internet or requesting a hard copy.

Second, make the profile a statutory prospectus by incorporating by reference the full prospectus just as the prospectus currently is permitted to incorporate the SAI by reference.

Third, retain the ability of funds to use different versions of the profile to reflect the availability of different services for different classes of investors.

Fourth, amend the profile rule to require disclosure of a fund's top 10 and quarter-end holdings.

Now, skeptics argue that investors should be provided a full statutory prospectus just as when they purchased the securities of an operating company. My rebuttal is two-fold. First, under recent amendments to SEC rules, underwriters and operating companies in public offerings no longer need to physically deliver a final prospectus. Rather, they can rely on the availability of the prospectus on the issuer's website.

Second, prospectuses for operating companies are never required to be delivered to purchases of shares in the secondary market which is where most investors purchase their shares. Under the integrated disclosure system and the efficient market theory, the price of an operating company's shares is deemed to reflect all material information about the company so there is no need to deliver a disclosure document. This same principle is all the more true for mutual funds whose prices are completely transparent since the business of a mutual fund is solely that of acquiring the securities of operating companies that meet its investment objective.

In conclusion, we believe that our recommendations should transform the profile into the much needed mutual fund disclosure document for the 21st Century. Thank you.

MS. WYDERKO: Thanks, Henry.

Bill, your company works with mutual fund investors across the country. Let's hear your perspective.

MR. DWYER: Thank you, Susan. And thank you, also, Director Donohue, for inviting me here today.

Since LPL is not a nationally branded name I thought I'd give you some background on who we are. LPL is the nation's leading independent broker dealer. We have 7,000 financial advisors across the country that independently own and operate their businesses. By industry standards, they are very experienced. They typically are in their mid-40s and have about 15 years of experience in the business. And in most case have their name on the door primarily in suburban and rural communities all across the country.

That being said, the two things that I think are really pertinent about that is that they work with investors across the spectrum. When you work in a small community, you're going to work with the smallest of investors, you're going to work with the near mass affluent, the mass affluent and also the extremely wealthy.

It is important to them that disclosure should be appropriate. It protects them as well in this process. Advisors don't want to be misunderstood or have a client come back and say that they have been misunderstood because paramount to them in the business is the goodwill and their name. It is the most valuable commodity they have as a service organization servicing the public.

Don's comments about the significance of mutual funds as a tool and how well they've been handled here are very appropriate. With trillions of dollars invested in mutual funds, they are the instrument of choice with our advisors in particular, whether that's in a brokerage account, whether that's in sub-accounts through an annuity product or whether that is on an advisory basis, they are far and away the preferred vehicle to work with the investor dollar.

To that end, there are three unintended

consequences that we really don't want to see happen and some of these have been expressed as well. One is -- and Henry just said it in a different way -- less is more. At some point, we really don't want the investor to become so frustrated and so skeptical of the process that appears to go on with these stacks of paperwork that Director Donohue showed us here earlier that they can get through.

Secondly, we don't want the advisors to give up on the product. One thing you have to be careful of is that you don't inadvertently overburden particular vehicles so that advisors move away from that valuable tool and move to other products. We think that is very important that disclosure be equitable across the spectrum of product.

We also don't want advisors to give up their licenses. I can't tell you how frequently I have conversations where advisors say, "Gee, I can just become an RIA and give up my brokerage license, face one-time disclosure -- comprehensive, albeit, to an ADV, but still we don't believe that the consumer is best served at a broad level if advisors are kind of moving toward giving up their securities licenses.

There are cases where fee base is not the best alternative and we would encourage that regulation not become so stringent that people look to move away from those securities licenses.

What are investors most interested in receiving?

Barbara's comments were interesting. Help in determining and meeting investment goals is far and away what clients come to an investment professional for. Education of all the vehicles that are available to them to invest are paramount in this process. Mutual funds today, of course, are the topic of choice and there is tremendous amounts of information available to the professional advisor provided through industry sources like the SEC and the NASD as well as mutual funds and independent organizations such as Don's.

When you finally get down to the specific investment, performance was the number 1 thing as I polled our advisors that they were interested that clients wanted to know. They then wanted performance on a relative basis. How is that on a market basis? So they wanted information about the markets that that particular fund was concentrating on. Risk and risk on a relative basis, again. What risk meant on a very personal level to that client was how that fit into their tolerance for risk.

Investment objectives of the fund were also paramount. They wanted to make sure in many cases that the funds culturally fit the investors -- that their holdings culturally fit where the investor wanted to be.

And then way down the list, ironically, was the cost of doing business in general. Not just the cost within the fund, but the cost of doing business. Perhaps because these investors have come to a professional advisor, the reality is they know what they're going to pay. They want to make sure that it's fair and that they get a reasonable value for what they're paying.

Certainly, the NASD has thoroughly vetted this issue and, as I prepared for this and saw the thousands and thousands of pages that have been written on this, Profile Plus as proposed by the NASD seems to be a strong solution to the many points that consumers are looking to see.

That's not a segue yet, Elisse, but I just thought I'd put that out there.

(Laughter.)

The information then finally also has to be cost effective. The challenge in the securities business today is actually providing advice and doing it profitably. Being able to stay in business. This should mean that the use of the Internet is an obvious choice to maximize a reduction in paper and optimize the cost-effectiveness as we deliver information.

Timely execution is also important. If there are going to be signatures, they should be electronic signatures wherever possible. Certainly, paper will not go away, but the Internet provides a valuable, valuable tool that investors can work with and get pertinent information on a timely basis.

Cost effective and efficient to implement. You know, if you look at excessive and unnecessary disclosure, you find out that the manufacturers of product are burdened. You find out that the distributors of product, whether that be a broker-dealer or other channels, are burdened. You find out that the advisors are burdened with excessive disclosure. And, in the end, the consumer ends up paying for all of that. That's a condition that just cannot exist.

The consumer ends up paying either by people moving away from providing advice to small investors or by cost precluding them from participating in valuable vehicles.

Again, we would be strong proponents of the Profile Plus as an alternative and we finally see it as an evolving work. The goal here is not to continue to heap on more and more data but, in fact, to replace other vehicles that are in place and as the Profile Plus would evolve, it would become more robust and remove pages and pages.

One advisor said to me, in closing, he said, "You know, it amazes me that I can go get some really, really powerful medicine and all the pertinent disclosures I need to know are wrapped around that little bottle. But, yet, in this business, we have to put out reams and reams of paperwork to try and disclose the risk."

Thanks for allowing me to participate.

MS. WYDERKO: Thanks, Bill. You're absolutely right that the NASD has done a lot of thinking about the kinds of information that mutual fund investors want to see.

So, Elisse, why don't you wrap up our summary remarks?

MS. WALTER: Thank you, Susan, and thank you very much for inviting NASD to participate in this critically important event. At the risk of completely destroying a sports analogy, I feel like the clean-up batter. I think that's right. Hopefully, I will add some remarks from the regulatory, including Investor Education, point of view.

What has struck me sitting here this morning is the general consensus among the members of this panel. Perhaps surprising given the diversity of our backgrounds and the different points of view that we represent.

There is a vast array of information as we have all said in the public domain about mutual funds. But as the Commission is recognizing by holding this forum, we need to take action to make the federally mandated disclosure more useful to the millions of Americans who purchase funds. Disclosure simply should not be just a vehicle to protect issuers and intermediaries from liability. It should inform investors and help them to make better decisions.

We all recognize that the overwhelming majority of investors won't read long complicated documents like the traditional prospectus. As Barb highlighted, we need to create mandated disclosures that investors can manage easily. And we need to avoid disclosure creep. As Henry said, less is best. Investors must be able to digest, comprehend and retain the information.

And we should also note and act on the fact that, as Bill stated, if a disclosure is unduly complex or the manner in which it is provided is unduly cumbersome, investment professionals will be wary of selling these products and may well turn to others which may not be as good for the investors they serve.

The Fund Profile already adopted by the Commission was a giant step in the right direction. I believe that we can improve on that concept and address the issues that seem to have prevented its widespread use.

As Bill noted, last year the Mutual Fund Task Force, a group principally industry which NASD organized, recommended that the Commission adopt a new mandated point of sale disclosure document which it called the Profile Plus. NASD, itself, has endorsed that proposal.

The Profile Plus builds on both the profile prospectus and the Commission's proposed new point of sale disclosure about fees, expenses and conflicts of interest. We believe it would provide meaningful disclosure both because of what it does include -- key information about a fund, objectives, risks, fees, performance and also information about dealer fees and conflicts of interest.

It also is important for what it does not include. It deviates from the profile because it doesn't include information such as redemption information that is not important at the time of sale. It avoids lengthy narrative and uses graphics where possible and it omits information or less interest to investors such as the breakdown of the expense ratio. It is simple. It provides performance numbers, for example, without the hypothetical illustration from the prospectus. And the Profile Plus also works because by linking the short form disclosure to the full prospectus using hyperlinks, as Chairman Cox said, the Profile Plus harnesses the power of the Internet in this particular respect which is very important. Whatever happens should use that power. It doesn't force disclosure into one size fits all.

Investors can choose for themselves the level of detail they want. And, as Don said, institutions and professionals will continue to have the benefit of the longer disclosures. But it offers investors this tailoring ability without sacrificing comparability. And we believe it also addresses the liability concerns that have plagued the Profile prospectus.

Some have suggested that oral disclosure is preferable. We agree with Chairman Cox that investors should be offered a choice. Detailed oral disclosure is confusing and difficult to retain and while some investors are not ready to use the Internet for this purpose, many are. As the CFA survey reported, even among those 65 and over, the most Internet resistant group, a significant number are willing to use the Internet for some purposes. And all the investor research today shows that a majority of investors are Internet savvy. The resistance of some should not be a reason to preclude those who want to use the Internet from opting for Internet delivery.

Others have suggested that even with Internet delivery the investment should be held up until the broker can obtain assurances that the investor has read the disclosure. We believe strongly that imposing such a requirement would not be investor friendly. The ability of investors to invest as they choose to do should not be impeded.

Two more brief thoughts before I close. As the Commission moves forward, it should be sure to address the needs of retirement plan investors. Of course, working closely with the Department of Labor.

And, finally, this is a beginning. This effort should not stop with mutual funds but should extend to other investment vehicles as well. Thank you.

MR. DONOHUE: I want to thank the panelists for their prepared remarks. We have about 15 minutes now within which to have some questions asked and I would encourage the Commissioners, although I'm sure no encouragement is necessary, if there are questions to certainly jump in.

I will first defer to the Commissioners if there are any questions that they might want to ask the panelists.

COMMISSIONER ATKINS: Well, just one. I guess as we talk about the liability issues that have come up with respect to the Profile prospectus and perhaps also of the Profile Plus, I was just curious if you all have any, you know, particulars as to what we need to do, whether it's a Safe Harbor in that respect. We were talking about -- Mr. Hopkins mentioned that making it a statutory prospectus might help solve that problem, whether there are other ways as well of addressing that?

MS. WALTER: Commissioner Atkins, I think there are a number of different ways to do it. When the Mutual Fund Task Force came up with the Profile Plus what it in effect was advocating was a step less that access equals delivery. Because what the task force said, and we at NASD agree, is that if you deliver a short form document and it hyperlinks to the larger document, that that really is delivery of the larger document and that simply could be done as an interpretive matter.

So, if the Commission didn't feel comfortable going all the way to access equals delivery as it has in the corporation context, that might be one solution.

MR. HOPKINS: I would agree wholeheartedly. I think incorporation by reference, the prospectus into the Profile is the simple solution. And it avoids having to reach the conclusion that Internet access equals delivery.

MS. ROPER: Obviously, it is an issue that is much easier when you're talking about Internet delivery because it really does -- if you link it, you have delivered it. The investor has the choice whether they read it or not just as they have a choice whether they read the print document that they receive in the mail.

For those who choose not to use the Internet, it is a more difficult issue and I don't know that I have a specific solution there.

COMMISSIONER NAZARETH: As you know, one of the features of the point of sale disclosure was this really, you know, two-page hard-copy document. And perhaps Elisse can address this. I know one of the controversial elements of that was whether or not that was in fact a step backward or whether we should encourage people to look at such a document online and have the online document supplement oral disclosure. Can you sort of address again where your group came out on that?

MS. WALTER: Where the task force came out was that for those people who were comfortable with Internet disclosure that it really was a more effective way to deliver the information. There was great concern among the members of the task force and we share that that the oral disclosure would confuse and be difficult to deal with.

So for those who were willing to deal with the Internet and we think there will be many, it is a more powerful form of disclosure. It leaves the oral conversation that may be taking place when the fund is being recommended or the investor calls to place an order on the questions that the investor has.

Now, for those who are not comfortable with Internet delivery, it would be worth having an abbreviated form of oral delivery that would be more capable of being retained than the lengthy delivery of repeating the whole document and to have that serve as a substitute and then provide the prospectus or perhaps just the two-page document later on with the confirmation.

We are quite concerned that investors will not want to delay the consummation of their transaction until the document arrives in the mail and we don't think that we should interfere with their investment choices including the time in which they want to place their order.

COMMISSIONER CAMPOS: I wholeheartedly agree.

COMMISSIONER GLASSMAN: I thought that one of the issues regarding Internet delivery, at least in some of the research that we had done, was that although the investors are interested in using Internet delivery, it was difficult for them to be on the phone with their investment provider and use the Internet at the same time. That was a challenge.

MS. WALTER: It was for some and it wasn't for others. There were a significant number who said, when we went back -- and if you'll recall, Commissioner Glassman, at your request we did some further investor research specifically about that issue and we determined that I believe it was a little bit less -- it was hovering around half felt comfortable accessing the Internet while they were on the phone. Others felt that they would continue in a later phone call. Others felt that they would access the information later but wanted to proceed. And we really think that that ought to be at the investor's option and it ought to be presented to them quite neutrally so that they can decide the way they feel most comfortable.

MS. ROPER: You also don't have to be on the Internet at the same time you're on the phone. If you have downloaded a link and you've pulled up the document, you can go off line. If you have received it out and printed it out, I mean, virtually instantaneous delivery, you're talking about a delay of perhaps, you know, five minutes that I think most people are willing to tolerate.

So it does not require that you have the technological ability to be online and on the phone at the same time. And I actually think the model that Chairman Glauber has talked about recently of having the broker talk to the client about the document while they have the either Internet document in front of them is the most useful one if we want the investor to actually understand it.

COMMISSIONER CAMPOS: In this kind of a conversation context what should the broker-dealer maintain as evidencing the conversation with the investor?

MS. WALTER: Well, clearly, it's one of the concerns that people have about oral disclosure. It's not very easy to police. And unfortunately for those who are on the edge and unscrupulous, it's probably fairly easy to game on because you're going to end up with a notation in a file that an oral conversation took place.

Whereas, if in fact the broker is e-mailing the investor a hyperlink to the document, then you will at least have a record that that e-mail has been sent and received. But one way or the other, however the scenario is set up, however the requirements are set up, it will be clear that the brokers will have to maintain a record which will be auditable by examiners when they go in to make sure that they have fulfilled their obligation.

COMMISSIONER GLASSMAN: To follow up on that, how difficult is it to follow up the oral disclosure with something that's sent later with a confirm if the security is purchased?

MS. WALTER: You know, I really should defer in part to Bill and Henry on this. I think it is really more a question of the expense of the system. And to the extent that you have to not only do the Internet disclosure which is quite inexpensive and really does conserve costs and you have to do another mailing, that obviously just adds another cost to the system. Is it a great cost? If you're just sending the two-page document, it obviously isn't terribly bulky, but it is an added cost.

COMMISSIONER GLASSMAN: It wouldn't be an additional mailing because the confirm is mailed, correct? So it could be something in the confirm mailing.

CHAIRMAN COX: Don, I wonder if I could put a question directly to you. You mentioned this army of people that look at information whether or not the customer ever sees it. And I'm quite interested in what your forecast is of what use might be made not only by Morningstar but other people that are in the business of intermediating some of this disclosure if a whole lot of information in mutual fund prospectuses were tagged. Help us imagine some of what might come of that.

MR. PHILLIPS: Well, right now, a tremendous amount of our time and energy goes into just establishing and maintaining a clean database. And, yet, the real value that we bring to the equation is the exercise of judgment about that information.

And I think the same is true for these intermediaries. And right now the time and energy, the daunting part of the task is just how do you get this information into a position where you can start extracting value from it.

And that's why I think the move to make it easier to do that and have more people thinking about what the information means is a healthy one.

If I'm going to go buy a car or a big screen TV or some other expensive consumer item, I can do a whole lot of research on the Internet. And the comparative information might be provided not by the person who makes or sells it but by some third party in many cases lending it some objectivity and in other cases you've got to be careful what you run into on the Internet. But the ability to use the Internet as a tool for comparative shopping is one of the things that makes it a great tool.

What might I be able to see crop up in the form of web-provided information as a customer if I want to do a little bit of research before I call my broker or my financial advisor.

Well, today you can already get a tremendous amount of information because there are parties like Morningstar and a number of newspapers and other organizations do have a lot of information out there.

CHAIRMAN COX: Yes, of course. I understand that. I guess I'm thinking what would be the increment, what additional information might we get?

MR. PHILLIPS: Well, I think what you would do is you would free up more parties to think about this information, how you present it, how you interpret it. The classic mistake that Wall Street makes is we throw lots and lots of information at people and pretend that we've educated them. And people don't relate to big tables of numbers. And, at the end of the day, that's still what this will be.

What they relate to are pictures. They relate to advice and counsel. And that's what you need is to empower people to be focusing on the interpretation of this, the counsel that goes along with this.

You could argue that making this information more accessible to the public would be a disadvantage to a group like Morningstar since we have assembled big databases. But we think that our real value added again is not just you having the data but how we think about it. And what you would be doing by this is inviting more competition for our firm and for others but it would be a healthy process because you would get us all focused on the value added part. How do you interpret this?

And there are major advantages that third-party firms will continue to have in that a legal document or the discrimination documents can't offer the opinion as to whether this is the right fund.

And the real art of investing is taking all that investment information and matching it to the investor. And I think that by making the investment information more accessible, you can allow more people to focus on the real art of investing, matching the right investment to the right investor.

And that's where, that's where the process often breaks down because many people can't participate because they don't have the data to begin with or they have been freed up to focus on the matching up of the data which really is the key to creating a good investor experience.

MR. HOPKINS: If I could just interject? I don't think by providing this data in an easily accessible form we're going to have a million little Morningstars making the same analysis that Don's company does. That's number 1.

Number 2, what we provide retail shareholders which is the Profile versus what we provide our 401(k) retirement participants is quite different. Actually, we do not use the

Profile with our 401(k) business. We use the Morningstar profiles for each of our funds.

And I think if there is one area that the Commission should examine and that is what should participants in these plans be given.

Right now there really is very little guidance and everyone is sort of doing their own thing. Whereas, in the retail side, we have a very distinct prospectus and profile. So that's an area I think where we need some discussion. And I would propose that in the area of the retirement business that it could be something other than the profile. It could be something like, you know, the Morningstar investment profile as an example, which is a very simple way to provide information to a certain segment of investors that don't even need as much as in the profile. But a lot of discussion and thought has to go into deciding how are we going to best provide this very large segment of the mutual fund investing public with appropriate information to make decisions.

MS. WALTER: I think, Chairman Cox, the real increment will come with respect to the retail investor. If you have all of this data tagged and, therefore, there can be an easy way for investors to be able to choose what information, beyond the short form disclosure document, they want, they will be able to get to it more easily. And I would like to think they would be more likely to look at the things that particularly interest them.

And it also comes about because of the short form disclosure document, if that is done in a standardized format so that it's readily comparable, there can be a library, an electronic library of those established. And, in fact, NASD has offered to put some of its resources behind establishing such a library so that investors can easily, when they're considering what fund or what fund share class to invest in, they can bring up the documents, very short form, comparable format and make a very easy simple comparison. And that is something that is very difficult for people to do today.

MS. ROPER: I guess I look at it a little differently. I don't see investors as being interested in setting up lots of pieces of information side-by-side and making the analysis themselves about which is going to be the best funds based on those factors.

But I do see the potential of the Internet to allow a kind of comparative shopping that does that comparison for them. You know, if I buy a car, I can say "I want a car that gets this many miles per gallon and I want it to have these kinds of crash test results." And, you know, whatever the factors I want. There is no reason you couldn't do -- that someone couldn't develop the same kind of thing for mutual funds on the Internet.

I want a fund, you know, a large cap stock fund with expense ratio of some whatever percentage. And whatever factors that I want to put into that. And I don't have to sit down and look side-by-side at all the different funds that have those characteristics. It can spit it out for me.

There is some of that available in sometimes somewhat crude form on the Internet now. And I think if we make it easier to tag that data we're going to see more of that kind of thing.

MR. DWYER: You know, I might just add to that, that typically when you refer to buying things over the Internet and doing background information -- maybe you're going to go buy a microwave, for example, and you want to do a Consumer Report study, you're generally not going to buy a portfolio of microwaves. You're not going to buy a suite of them unless it's an institutional buy. So what Don alludes to is the art of investing is really where it goes.

Your conversation tends to separate a little bit the Internet and the advisor. The reality is professional advisors today use the Internet every day in working with their clients to go over their portfolios, to go over the account status at any given point, and to go over investment recommendations that they're making going forward. So it is a very viable vehicle that advisors are using already today. And I think it really needs to be looked -- you can get so wrapped up in disclosure on a given entity that it's really relevant to "I can fully understand it, but if it doesn't fit my need, then it's still a bad investment."

One advisor said that everyone seems to be focused on the sticker on the window of the car as opposed to what's under the hood. And when you have that car that can't get you up the hill, then that's a problem at any price.

So I think the Internet is a valuable tool in the education process that the advisor uses with the client and, again, streamlined disclosure for them to work with is very valuable.

COMMISSIONER CAMPOS: If we're done with that question, I have another one if I could.

Henry brought up the retirement sector and I wrote a short article a few months ago about the terribly different requirements on the retail side of mutual funds versus the retirement side where if you have insurance products or bank products other than ERISA rules which only encourage -- don't require -- disclosure, there is not much available to retirement investors. And, in particular, given the fact that defined benefit plans are on their way out, defined contribution plans are pretty much the norm, we have essentially in my view retirees and the boomers essentially driving blind to sort of emphasize the problem. Because they're getting very erratic and not very much disclosure because they're not required to essentially especially with some of these products.

Do any of you feel that this is a problem? Some have said maybe I'm an alarmist and we shouldn't worry about this. But it seems to me that at a minimum some type of profile, a summary disclosure should be required to 401(k) and other self-management retirees.

MS. ROPER: I couldn't agree more. This is for many people, not only the major way they invest, but the first way they invest. And they enter that arena with the least amount of information that we provide in any context.

And I don't see any reason why different types of investments should come with different types of disclosure. Just as I think all financial professionals should have comparable up front disclosures that they have to provide to aid an informed decision among professionals, it shouldn't matter whether it happens to by tradition have been regulated under the insurance division or some other division, you ought to be able to get some basic information about every investment you've considered that allows you to determine is this appropriate for my needs. And among the types of products that is appropriate for my needs, is it a good choice for me?

MR. HOPKINS: You know, it's a little different situation when you face making an investment in your company's 401(k) program because the company has already selected certain options that you choose from. So it's not like the retail investor that has the whole universe of mutual funds they must select from. The company has already done the research and has a reasonable component of funds that you must select. So that the information generally that is provided to participants within a program is less.

The surprising thing to me is that there has not been any agreement between the Department of Labor and the SEC in coming together with what should be the minimum amount of information to provide this segment of the investing public which, as Barbara said, in many times it's the first time the person has invested and many times they are the least trained and able to make investment decisions.

COMMISSIONER CAMPOS: My research showed that even in the menu situation where you're getting a basic equity index and maybe a fixed income product, very little information as to making the choice is among the select menu we're being provided.

MR. HOPKINS: A lot of the companies, you know, want to streamline what goes to their employees and so it's sort of a consolidation to have, you know, a one-page concise summary of each fund as opposed to either prospectuses or even profiles.

MR. DONOHUE: One of my more important functions is to see if we can maintain a schedule. I think Susan has one last question and I think, Susan, I'll turn it to you.

MS. WYDERKO: Thanks, Buddy. The topic of this panel is what types of information do mutual fund investors find most helpful. And I think what we've said is that the answer can depend on the investor and the answer often depends on the channel in which they're getting the information, the time at which they're getting the information.

Now, we in the government, pass regulations. And the cost of getting those regulations is very high. If we get the answer wrong, the cost is very high. We can't adjust easily. So give us some practical advice.

How do we, the SEC, go about figuring out which of the different kinds of information are the most important to put on a streamlined document?

MS. WALTER: I think the answer is manyfold. There's been a lot of consumer research done. The CFA, the ICI, NASD, the Commission, we have all done a lot of consumer research.

I know that our Mutual Fund Task Force brought to bear on many of what I consider to be people at the NASD excepted some of the great minds in the industry. And they took a look at the information, including the information that was required in the original profile, and added to it to a certain extent to focus on dealer conflicts as the

Commission had and subtracted from it and came out with a rather streamlined list of items that we felt were the items that were critical to give at the point of sale. Not to continue to emphasize that one proposal, an awful lot of thought went into that and it is that body of information or something very similar to that that I think gives you what you need.

MR. HOPKINS: Yes, I would say that the research and effort that went into the profile produced an excellent document, a disclosure document, and I think all we need to do is simply build upon that and confirm those findings, that they're just as true today as they were when that document was created.

MS. ROPER: I would say that I think the profile effort did a very good job of defining the categories of information that we need to give investors. Where I think we would benefit from additional research is on how best to present that information to investors to ensure that they understand it.

And when I say to ensure that they understand it, I don't necessarily mean to ensure that they like it. People like the profile. What we don't know is whether they can then make an informed decision based on the information that they got in the profile.

And I think the kind of testing you have done in other contexts to determine the usability of information could help us to refine the basic profile concept to make sure that it conveys information in a way that investors can use and understand.

MR. PHILLIPS: And I think the key thing would be to have two different mindsets. When you're thinking of the profile, it really does get down to what information do investors need. And that's very difficult to figure out exactly what the key things are going to be.

We used to have analysts who were starting off at Morningstar and they would say, "Well, tell me which order to look at the numbers and the information on the page."

And we'd say, "Well, it's always something different. It's the exercise of judgment."

And we had one page that we used to use in training and it was a fund where I maintained the most important thing you could know about the fund was the address. And it was a convertible bond fund that had an expense ratio close to 3 percent a year which was causing it to significantly underperform its category year in and year out. And the address was Penthouse Suite, something or other Wilshire Boulevard, Beverly Hills, California.

So, you're never going to come up with the perfect document that has all the information that people need to know. But I do think that the efforts for the profile have been very good and, if not exactly perfect, maybe that one outlying fact that you would want on a certain fund, it is awfully close to the information people need.

But it needs to be backed up and supplemented by the larger prospectus which is guided not by this paternalistic idea of what investors need to know or what we think they need to know, but what as investors, as shareholders, have a right to know and what the third parties that are helping investors make decisions have a responsibility to know about a fund.

And I think if you have got that safety net of that broader document with a right to know mindset, then even if we are a little off on what the need-to-know information is, investors will be well protected.

MR. DONOHUE: Don, I think that's a good point to end our first session.

Thank you all.

(Brief Recess.)

PANEL TWO: HOW CAN THE COMMISSION LEVERAGE THE POWER OF THE INTERNET TO PROVIDE MUTUAL FUND INVESTORS WITH BETTER INFORMATION?

MR. DONOHUE: I'd like to start our second panel now. Today we are standing at an information crossroads. As Chairman Cox outlined in his opening remarks, we are moving from a world where paper was the norm for information delivery to a world where the Internet increasingly is the medium of choice.

Over 200 million Americans have home Internet access. Their Internet experience is improving rapidly as broadband connections proliferate and the demographics of those with Internet access increasingly mirror the general population.

The Internet has done far more than simply move paper documents online. It has caused a sea change in our expectations of how quickly and easily information should be available. Recent book by Internet design expert, J. Cobb Nielson, explains that Internet users typically are looking for answers to questions. In Nielson's words, "It's almost like the web is a swamp. People are fishing in that big swamp and dragging out something that hopefully will be a nugget of gold, but could be an alligator."

Our second panel this morning will explore how we can use the Internet and interactive data to help mutual fund investors find the nuggets of gold they seek among the swamp of available information.

Now I'll turn the mike over to Susan Nash, an associate director in the Division of Investment Management whose office is spearheading our reexamination of mutual fund disclosure and the role that interactive data can play. Susan will introduce our four distinguished panelists.

Susan?

MS. NASH: Thanks, Buddy.

Farthest from me is Bill Lutz. Bill is a professor of English at Rutgers University and an expert on plain language. I know that Bill has been instrumental in helping a number of funds to rewrite their prospectuses to make them easier for investors to understand.

Next to Bill is Paul Stevens. Paul is the president and chief executive officer of the Investment Company Institute, the national association of US investment companies.

Next to Paul is Tim Buckley. Tim heads up Vanguard's Information Technology Division and in that job he is responsible for Vanguard's utilization of technology to provide services to Vanguard's millions of shareholder accounts.

And, finally, Paul Haaga is executive vice president and a director of Capital Research and Management Company as well as chairman of the executive committee.

As with the first panel, we will open the discussion by inviting each of our panelists to provide some perspective on how the Internet could be used more effectively to provide better information to mutual fund investors.

Bill, can you give us your vantage point as an expert in the area of communications with investors?

DR. LUTZ: I'm the outsider here, I'm the academic which means I'm allowed to be very abstract and non-practical. Although I have written 58 mutual fund prospectuses into plain English, today I work on Item 7 of the 10-K. That is the MD&A in plain English. I don't know which of the two I would rather choose. I think the third option is having my fingernails slowly extracted one by one in which case, I would go with the latter.

(Laughter.)

We were asked when we were invited to this panel to prepare five points so I will give you the five points. One, the effects of the Internet will be as great as if not greater than the introduction of moveable type in the mid-15th Century.

Two, the Internet is moving us back to the oral tradition replacing important elements of the print tradition.

Three, the Internet is a medium that doesn't simply transmit data, it creates information.

Four, the Internet as it develops will become a dynamic blending of the visual and the verbal allowing users to interact with the data to create the information they want.

Five, information is that which reduces

uncertainty. That definition comes from the now classic monograph, "The Mathematical Theory of Information," published in 1949 by Claude Shannon and Warren Weaver.

Let me repeat that. Information is that which reduces uncertainty.

It is important that we distinguish our terms. Much of what we are talking about is not information, it is data. Those piles of folders were data, they were not information. And we are drowning in data and we have too little information. And we need to sort the two and decide which it is we are doing.

I am the only person, and I am the English professor, who is going to use PowerPoint right now. Only a little bit because I am going to show, not tell.

We start with the Shannon and Weaver definition. But what does this mean? Like all definitions, this one is simple but profound in its implications. And this is what I want you to start thinking about, the implications of this.

What does this mean? For those of you who have traveled to London and have ridden the Underground or the Metro in Paris or even the Metro in Washington, D.C., this is the London underground map of 1913. When you take a subway, what do you want to know? How do I get from A to B and how much is it going to cost me.

Look at this underground map. We have the Thames

River on it, but look at all the roads that are on there, there are parks that are marked. I don't need to know this on a subway map.

Well, they simplified it. Notice how a lot of those features were removed by 1932. Now it's focusing just on the lines. But do I really need to know the directions that they go in relationship to each other? No.

This is the map today. It tells me how I get to from point A to point B and because of the zone structure in London, I know how much the fare is going to be or how to look up my fare. That's all I need to know. Any additional information I can look for it someplace else. This is called information architecture in which we have a hierarchy of information here.

Now, by the way, if you are one who rides this a lot, you quickly learn the limitations of this map. For example, you learn that you will never ever transfer stations at Bank because although on the map they intersect, they intersect only because you walk about a mile underground. The same thing in Paris at the Chatelet stop. Never change trains at Chatelet. You'll spend your life walking underground in Paris. So there are limitations to this, but it gives me the information that I'm looking for.

By the way, there's another map you can buy in London that will tell you that information if you really want it. So this is that which reduces uncertainty. Now which map would you rather use? This one or this one? This is the new New York City Subway Map. This is data overload. I really don't need to know the route that the path train takes to New Jersey if I'm riding the New York City Subway. I don't need to know all those highways and streets that are mapped on there. And notice also that the map is trying to following the geographical layout and just for good measure bus routes are thrown in. No one in New York City uses this map. You can't. It is data overload. It's not information, it is data overload.

How do I get from Point A to Point B? I bought a different subway map. Everybody else does because it's simplified and it gets rid of all this extraneous data.

So, if we think of the prospectus as a document loaded with data but no information, because people look at a prospectus to reduce uncertainty to make certain decisions. As a simple example, I'm surprised no one has mentioned when we go online to look for an airplane ticket, we want to know when does the plane leave, when does it arrive and how much will it cost me. Those are the first three questions we have answered. After that, we may want to know my seat assignment and then, you know, do they serve meals, what type of aircraft. But notice that the first screens that you interact with give you that essential information. That is what data hierarch is. That's why it is so important that we try to determine what it is that investors need to know.

But, if we look at the Internet as a means for creating information, for transforming data into information that the individual wants, then we will completely rethink. We don't have to worry about using the information as a pipe to deliver. It is not a delivery system, it is a medium for creating through interaction. And it is not a replacement for the Post Office. It is an entirely new medium for the creation of information just as the development of moveable type was when we moved from the oral tradition to the print tradition. So now we need to think of it that way.

If we create a truly interactive means of delivering this information, we don't have to worry what we put up there. You can throw everything in there because people will have the power to do it.

As one who has just purchased recently three electronics on the Internet doing exactly what we're talking about, I went online, I said this is what I want to get. It popped up, gave me three choices. I looked up each of the choices for the features I wanted and made my decision. Then I looked for the cheapest place to buy it. This is the way we need to think about the delivery of data to anybody who is going to invest in a mutual fund.

There is no reason why you cannot do exactly what

Barbara said earlier, why can't I ask for, "I want a mutual fund with these features," and it will pop up or the three or five or four. That's what I did when I was looking for my DVD recorder. I said I want something that will do this. And it popped up with five examples for me. This is how we need to think about it.

I am very much a print person. I'm in English literature -- and I also worked on the Profile Prospectus by the way. If you go back into the files, you will find that one of the three sample profile prospectuses was called "The Grendel Fund."

(Laughter.)

I had to slip that one in and originally named it the Hrothgar, but nobody could pronounce that one.

So what we need to do is break from the print tradition. And there is no reason why we can't use natural language questioning to give the information and think we solve a lot of problems that we're all worried about here.

The conflict between disclosure, liability and the information that the investor seeks. Those are three different purposes. And we have been trying to come up with a mutual fund prospectus that does all three things for all three functions and it doesn't work. It ends up being unreadable. So we need to change the way we think about it and use the Internet the way it can be used, to create information for each individual.

MS. NASH: Thanks, Bill, those were informative insights.

Paul, I know that the ICI has recently done some research in the area of mutual fund investors' information needs as well as fund investors' use of the Internet. Could you share your perspective with us?

MR. STEVENS: Yes, Susan, thank you very much. Thank you, as well, Buddy, and Chairman Cox and members of the Commission for this opportunity to present the ICI's views.

We believe the Commission deserves great credit for recognizing that the time is right to seize upon the potential of the worldwide web as a means to better inform investors. In 2005, a survey that we conducted found that 90 percent of US fund investors have access to the Internet. Most of them use it regularly. In fact, 90 percent of that 90 with access use it at least once or two times a week. The vast majority of them are online everyday. And that typical among their uses of the Internet are for financial purposes.

But just as important, and I think this is part of the calculus here, the Internet can serve us far more than a stand-in for paper documents, the current method that we use to provide data or hopefully information. It can, in fact, as you have observed, Chairman Cox, put investors in control when it comes to information about their investments.

It is with this in mind that I'm particularly pleased to be able to report that the ICI has launched what we think of as a ground-breaking project to help realize that vision. We are working to extend the XBRL taxonomy to cover the Risk/Return Summary that's included in all fund prospectuses.

ICI has engaged Pricewaterhouse Coopers, the experts in XBRL international there to help develop this new taxonomy. We have also formed a very broad working group enlisting our members along with other stakeholders who will be involved in XBRL reporting for mutual funds.

We expect to complete the project by the first quarter of 2007 and then we will launch an education program to encourage mutual funds to use this tagging in their EDGAR filings.

Now what, may you ask, is the significance of this effort? The current XBRL tagging system for mutual funds as you probably know principally focuses on financial statements. For operating companies, the financials contain most of the information that shareholders want. But for mutual funds and for fund investors, financial statements frankly are of secondary importance. By contrast for almost a decade under the SEC's disclosure rules, the Risk/Return Summary has highlighted the crucial information that investors use in deciding which funds to buy.

Now, ICI research about the use and preferences for information among fund shareholders and investors confirms that recent fund buyers look primarily for information that is included in this Risk/Return Summary. It's information such as the fund's fees and expenses, its historical performance and its risk characteristics. XBRL tagging can help turn the Risk/Return Summary into an even more powerful tool than the Commission envisioned when it first adopted it in 1998 as a way to help investors compare one fund with another through the standardization of the information and the format in which it's presented.

Now, to our knowledge, ICI is the only US financial services industry organization actively working to extend XBRL beyond financial data. Widespread use of this new taxonomy will introduce millions of investors and their advisors to the benefits of XBRL and we are proud to be leading this new effort.

Beyond XBRL, we would urge the Commission to consider other reforms that will help bring fund disclosure into the 21st Century. In the new system we would encourage you to consider, funds and their intermediaries could deliver a clear concise disclosure document at least to those investors who have not affirmatively opted to receive information online. The document could be much like the profile prospectus. It would include a prominent statement that additional disclosures, detailed disclosures, that is to say the prospectus and statement of additional information as they exist today would be available on the funds website or upon request in a paper form.

That sets up sort of a win-win system it seems to us. All investors would receive the most important information about a fund, the information that they consider to be most important. It would come to them in a form far more likely actually to be used by them, but all investors and other market participants would still have available the full panoply of information that's contemplated by the Commission's disclosure rules.

Now, in addition, it seems to us quite clear that substantial numbers of investors are prepared today to rely exclusively on electronic communications with their fund company. And to serve this group of investors, the Commission should clarify its rules that it will allow Internet-only funds or fund share classes in a way that is not possible today.

We believe as other panelists this morning have indicated that the Commission should harness the power of the Internet as a tool for providing important point of sale disclosures to brokerage customers. And, frankly, we would agree with NASD Chairman Bob Glauber that this should extend not just to mutual funds but also to ETFs, separately managed accounts and annuities, products as to which point of sale disclosure information is no less important.

In summary, if we take advantage of the best that the Internet offers, we can craft a fund disclosure system that will serve the broad interests of the financial market place and also the interests of average fund investors. Disclosures that millions more shareholders actually use, that it seems to us would be a true revolution and it is one that is within our reach.

Thank you very much.

MS. NASH: Thanks, Paul. The extension of the taxonomy to the Risk/Return Summary is an exciting develop and we appreciate your efforts in that regard.

Moving to Tim next. Tim, you have a particular vantage point as one who is really responsible for using technology to actually communicate with millions of your investors. Can you share your insights with us?

MR. BUCKLEY: Sure, Susan, thank you. And thank you to Chairman Cox and Commissioners. We're thrilled to be here. I'm thrilled to be here on behalf of Vanguard to discuss interactive data and leveraging the Internet.

It is clear there is a lot of momentum building. A lot of momentum today around revolutionizing disclosure. And we at Vanguard believe the time is right. Why is the time right? The data standards are there. The standards for sharing information, making it accurate, timely and easy and also convenient.

On top of that, the Internet is where people have gone to invest. In many ways the revolution has already come to investing. And I'll just give you some good data on the penetration of the Internet to investors. But I'll give you a little bit about Vanguard's background.

This is something we've been doing for about 11 years now. We launched Vanguard.com in 1995. It was more of a curiosity then. People went out there and they weren't inundated with information. In fact, they only got a couple of things. They get fund prices and yields and some objectives on funds. Only a few thousand people went there. but by 1998 when we started putting account balances out there, it was amazing. People started going. They had a reason to out there to check the web.

And then in 2000, people could manage their whole portfolio online. We saw a million people go out there. And today we have 4 million people online. Eighty percent of our contacts come in through the web. We will on a busy day have 500,000 people log on and check their account and interact with Vanguard that way.

So what does this tell you? It tells you that people have matured online. They have matured already. And they are ready to embrace a change in disclosure, a change in the way we flow information to them.

So how do you get at that? What do you do? Well, an essential part of it is tagging the information and making it easy and not doing it in a proprietary way. With XBRL and the work of the ICI with specifically XBRL for investment management, there are the tags out there that we can easily share information so that when we tag it, it can be easily produced somewhere else. So you can get information on the Vanguard Funds whether at a competitor's site, whether at the SEC site or at the Yahoo! or a Google. But that information can be published in a timely and accurate way. So it's out there.

One caution I would have, though, is that let's not go about tagging everything we possibly can tag. I'll be the IT guy here for a second and say, well, that's a sure-fire way to end up escalating costs beyond where they need to go.

First, we need to decide what is the most relevant information. What information do we want people to act on and prioritize that information. There are over 700 tags in the library. I won't go through each one of them. We have limited time. But there is a lot of great information in here and there is a lot of information in here the investor would not know what to do with. It would look like the old London subway. So we need to prioritize those tags.

It is something we have done at Vanguard. If you go to our site and you look up one of the Vanguard funds, you will see that we have tried to give a concise snapshot, a snapshot of the information that is essential to making an investment decision. And it's high level information, but you can drill down on it and get more in-depth information and you can actually drill down and get access to the prospectus as well.

We on a daily basis have millions of visits to those web pages to get information on our funds. And it is a rare event that somebody will call Vanguard and not have looked at that website. They will have looked at it for information, become more educated to ask us questions. And it is much the same for our advisory business. We have thousands and thousands of advisors who use our website as well for support material on our funds where they can easily get information to share with their investors.

So what do we envision going forward in the future? We would love to see what we do on a proprietary basis be done more broadly, be done across the industry where you could pull up not a Vanguard site but maybe it's at the SEC site or maybe it's through Yahoo! or Google, you could pull up a Vanguard fund and you could pull up an American fund and you could compare those as an advisor or as an investor. You could compare them easily with standards that are out there, but not standards across 700 pieces of information but maybe the 10 or 12 that matter the most. Information along the way.

So how about the long run? Well, we certainly believe that tagging more information would benefit, would benefit many people. Maybe not the mass of investors but certain other parties, more sophisticated investors would benefit from it. But, again, I do worry about just opening it up to say let's keep tagging the whole universe. Rather, let's define the universe first. Let's know the road that we're taking and the end that we want to achieve. Let's decide on the criteria we want to use.

We have experience of building these tools before to search against fund criteria and we can tell you there is certain criteria that are used and certain criteria that are never used and actually very few people use the really in-depth sophisticated searches. They rely more on those 10 or 12 pieces of information.

So overall, we're very excited about what the Commission is up to around changing disclosure and really around leveraging technology, leveraging data tagging, leveraging the Internet. We think great things can happen especially over the short term as we adopt XBRL standards.

Thank you.

MS. NASH: Thanks, Tim, an interesting perspective.

Paul, your firm often communicates through financial intermediaries. Can you give us your perspective on how the Internet would be helpful in that environment?

MR. HAAGA: Thank you very much, Susan, and thank you for having me participate in this.

I think everything has been said but not by everybody. And so I've got a written statement in which I address a lot of the questions that my colleagues have addressed and I think I'll just rely on that and maybe try to add a few perspectives to what they've given.

The first is the question that Chairman Cox asked previously about the use of XBRL and data tagging by research analysts. I know you're going to hear a lot about that this afternoon but let me just weigh in on behalf of our research analysts. While they don't use XBRL itself extensively because there is a limited number of companies that have that. They are very interested in it and they do use I think FAX Set and there's a Capital ID is another one. But we are very encouraging as analysts about the use of these tagging and data search protocols.

Second is that everybody has talked this morning about the point of sale and the investor buying shares. And that's understandable because the disclosure obligations are keyed off the investor's purchase of shares. But I think that's the third most important time that investors need in their investing life. The second most important is while they're owning the shares and the very most important is while they're withdrawing their shares and trying not to outlive their income and retirement. And that I hope that while we're focusing on the information needs of the purchaser we can also remember the owner and the withdrawer because they are very important as well.

Third, we're talking a lot about delivery and about the types of information that people need, the categories of information. While we're doing that, let's not forget that vocabulary matters. It's much harder to regulate, it's much harder to specify and, yet, the difference between knowledge and information is really going to make or break this effort.

I am reminded of what happened in 1994 when the bond funds tanked. This is a true story. There was a bond fund investor who stood up at a shareholders meeting and was very upset about the law. He said, "You know, I understood that my account value could fluctuate, but I didn't think it would go down."

(Laughter.)

As Chairman Cox eloquently said capital markets rely on trust and jargon and legalese are not trusted by investors.

And, fourth, while I think it's very important and I certainly agree with Chairman Cox and others that simply moving information data pages from paper to the website shouldn't be our only goal. We should also find better ways to research and use them.

At the same time there are some very immediate benefits that can be gained simply by moving some paper to the Internet. Several of my colleagues have held up pieces of paper or piles of paper. Let me go them one better. One of our mutual funds, Growth Fund of America, when it prints its annual report, it fills 17 tractor-trailers. Of that material, just taking out the actual report letter and just focusing on the financial statements which, frankly, I think especially the footnotes are the part that is least often read. That is 600,000 pounds. Six hundred thousand pounds, three hundred tons, one fund, one report and they do two a year to 5.6 million people.

If that information could be put on the Internet, there would be a direct and immediate savings to shareholders. So, let's please put some things up on the Internet that are now in paper immediately while we are developing our data tagging and search capabilities.

Thank you.

MS. NASH: Thanks, Paul.

I'd like to switch gears now and have interaction among the panelists and with, hopefully, the Commissioners. So I'll invite the Commissioners to join in with any questions.

CHAIRMAN COX: Well, while people are thinking of their questions, I just want to make sure I understand your last point. Can you give us a little more detail about that. I want to make sure I understand exactly what you're describing with all those tractor-trailers.

MR. HAAGA: Right. The mutual funds I think because they are corporations they get confused with being businesses. And the securities law require businesses to send out financial statements and that includes footnotes describing valuation methods and other things, a lot of things that never change.

The only important part of the financial statement for a mutual fund is the expenses and the summary portfolio and, yet, there are multiple additional pages that are both the full financial statements and the footnotes to those statements and they have to be mailed out to shareholders. We can save a little bit by house-holding, but they have to be mailed out to shareholders every six months.

And I can't imagine they are looked at or read, but a person who owns our funds for 20 years gets them 40 times in paper. I'll bring a copy of the report. I won't bring in a tractor-trailer.

CHAIRMAN COX: Actually, I get the point. You don't need to bring it in at all.

Well, while I've got you, I take it that, from your remarks, that if XBRL tagging were more generally available that your analysts would make great use of it.

MR. HAAGA: Yes, definitely.

CHAIRMAN COX: And is that the sense of other panelists? That in addition to what we've been focused on that within mutual funds there would be great utility to this?

MR. BUCKLEY: Well, whether it's the people managing the portfolio or the mutual fund shareholders themselves, the benefits are much the same. When you think about information once it's tagged you know it's tagged at the source. So it's at its most accurate point, if you will. And then it can be delivered in a timely fashion when it is tagged and then it can be published or pulled, that that's almost instantaneous. And so you don't have to wait to get that from a third party.

Morningstar does some great work for fund investors but, yet, we have to wait until that data has been aggregated and then it's published from them. When it's tagged, it can be taken straight from the source. So that goes for our fund managers as well. They see the same benefits on tagging of other securities information.

COMMISSIONER GLASSMAN: How difficult is it to develop the taxonomy? It's easier for mutual funds I think than corporations; but in general, how difficult is it?

MR. STEVENS: I can report only second-hand information, Commissioner Glassman, because I am not involved in the effort myself. But what I could say is that the process we will follow will be getting sort of a straw man, a taxonomy that Pricewaterhouse Coopers and the experts that are resident there will develop for us.

We will then have a very large working group who will go through in considerable detail just to make sure that there is agreement about the architecture that's been put together so that people will buy into it. And at that point it will include, as I have said, the elements of the Risk/Return Summary.

If memory serves and I don't know that I remember the exact number, but I believe it is something in the order of 157 particular data elements that would be tagged within this portion of the prospectus. After that, individual funds would have to go in and look at their own risk-return summaries on a fund-by-fund basis and apply the tags. There would have to be some attention to doing this accurately because when it is done by third parties in particular there will be a degree of error that is probably greater than we would hope for.

So it is a fairly painstaking effort just with this fairly confined portion of the current prospectus, the

Risk/Return Summary.

And then after the dataset, the taxonomy is put together, you actually have to have an organization that will maintain it over time. And the Institute is wrestling with what our role or some other organization's role would be in that regard. Depending on how many tags, I'm told, you have some way of calculating how many full-time equivalents you would have to have. But that gives you a sense of the effort just with respect to this portion of the prospectus. If you tried to tag all of the data that Buddy had in those redwell folders over there, it would expand many, many times.

That may eventually be where we get, but we are just embarking on a road and our focus has been what's going to be most important for individual investors and, in particular, the key information that the Commission had identified that is of real significance to them.

MR. BUCKLEY: And I'll comment a little bit on the actual tagging of the information. Once the taxonomy is established, as long as we are tagging information that's fairly common and you expect the information that's so critical to investing to be common, that at least for Vanguard it would be a fairly easy task. That's held in enterprise data stores and the such. So it's easy to do.

Tagging can get very complex and expensive when you start tagging exotic instruments and things like that when you want to know every single holding of a fund, not just the top 50 holdings. So it is all in how we define what we want to tag that will define the costs.

I can't speak for the smaller companies, they may have a different challenge, but certainly you could expect common information can be tagged very easily and especially the information we've talked about today. That could be tagged more easily than the more detailed information down the road.

COMMISSIONER CAMPOS: If I could just interject a little bit. If we go back to Professor Lutz's very revealing lecture where information is that which reduces uncertainty, and I'm just thinking because everything else is data, what really does meet that threshold as to information. It seems as if you are almost requiring an analytical element or else it's just data. Right?

So I'm just wondering if you're promoting the concept that something beyond the data elements that we've come to think about in terms of this is required? In other words, is there an analytical, an interpretive component that's necessary for it to be useful to investors and should we be thinking in some terms like that for the future?

DR. LUTZ: Well, we all create information. What is information to one person may not be information to another. As we have even heard in the panel this morning, one investor might want to focus on one aspect of a mutual fund and someone else may not care about that at all. So we create the information.

What we are talking about particularly with XBRL and with the use of the Internet, I can go in and ask questions to get the information that I want based upon the data that is presented.

I think the problem is -- and someone said earlier -- that we have been trying to tell investors what is important to them and I don't think that's going to work. It hasn't worked. I think that was what we tried to do when we thought if we rewrote the prospectus into plain language everybody could understand it and make informed decisions and that never worked.

I think what we can do now is say to people, "Here's the data. Look for your information." And I can, you know, put on my turban and start predicting the future, but I don't think it's too difficult to see that at a point there would be third-party vendors who are going to sell or give away software packages to investors to access that data in the way that they want it. I mean we do this already now in a limited way on the Internet.

It would probably would be packaged with my next version of Quicken or Microsoft Money. I mean they already have sophisticated tools there now.

I think we have to get away from this idea that we are going to tell people, give them this information. They are going to create it. What our job is is to get the data and as others with more expertise than I have said, we have to do it with the XBRL and overcome those technical aspects. But we can see already from Vanguard and from any number of other sites that people are willing to go in there and get their information.

Again, I will use the analogy of the travel websites and how quickly they just pretty much ended the travel industry as travel consultants because we can do it now. And we do it not because those websites tell us what we should know. They simply allow us to find the information that we want and I think that's what we are talking about here. Let the investors be able to find quickly and easily the information they want. And there's been enough research that's been done that we have got a pretty good limited universe.

When we worked on the profile prospectus years ago, we quickly came up with the 10 questions that got to the heart of things. And I don't think that has changed all that much, not substantially in the years since. So that is what we're talking about and that's what I see is the promise of this.

I'm sorry to keep repeating this, but I think we have to keep clear in our minds that there is a difference between data and information. And also to not think of the Internet as a pipeline even though we like to use this metaphor. If we think of it that way, we're not going to really use it. It is a medium, an interactive medium that creates information.

One brief analogy, nobody buys an album anymore. They download their play list. They create their own albums.

I was in London in April what I think, one of the more significant events of my lifetime took place. The number 1 song in England, top of the charts, was available online. It did not exist on a CD and there were no plans to put it out as a CD either. And that to me is significant.

We have interactive television. We have television on demand. This is the way things are going. We will all create -- we create our own newspapers online. We I think need to start getting the investment community into this mix quickly where investors can create their information and we will simply provide them with the tools.

MR. DONOHUE: A question for the panel.

Paul, did you have a comment you wanted to make?

MR. STEVENS: Commissioner Campos, this history is one that is particularly important to understand about how the profile or how the Risk/Return Summary was developed. Bill was there. I was involved when I was general counsel of the ICI, but there was an effort to make at least this part of the prospectus to be informative and not just giving a lot of data. It really was the intent to make it the better London subway map.

And just to give you one example, how do you explain to people like Paul's shareholder that funds can fluctuate down as well as up in value? Well, there's a bar graph that's here of the total returns of the fund over time which was intended graphically to emphasize it can go below zero and it can go above zero as well.

So there has been a good bit of thought given by the Commission, its staff, by outside consultants and others to making at least this part of the required disclosure more than just data to make it informative.

MR. DONOHUE: A question I have for the panel, what would you think the appropriate role for the Commission in what really is an evolution that's going on such that the Commission doesn't wind up being an impediment or rather may help as a facilitator?

MR. HAAGA: I think the Commission -- and thank you for not wanting to be an impediment -- the Commission, what they really need to do, they do need to specify some minimum amounts of information. It's clear. And I think adopting something along the lines of the profile would be good. We have talked a lot about the Profile Plus and I was also involved in developing that.

But one of the things we did was to find out what information people want. We went and looked at what they pay for and what they pay for, by and large, is the Morningstar one-pagers that had concise information in the same place for every fund.

And so I guess I would commend the Commission to please just, you know, enact a profile that would involve some standardized placement of information and types of information and then let other things go. Relax the advertising rules, at least the delivery requirements relating to the advertising rules, allow more information to be developed by the funds themselves. And I think you will be pleased by the outcome.

MS. NASH: One of the things I think that people do like about Morningstar is that you find everything in one place in the same order. In some of the past iterations that the Commission has gone through on disclosure reform, the industry has asked for flexibility in presentation, flexibility in presenting one fund by itself or multiple funds together, that kind of thing.

I would ask the panelists for their views on going forward as we begin this process: Do you think the Commission should be more prescriptive? Less prescriptive than it's been? Because one thing I hear Bill and I think Barbara saying is that information architecture is very important, how it looks, how it feels, how you get at it.

But I have a question about whether the Commission can ever really be the one to specify exactly how that should all work. I am wondering what the panelists think about that issue.

MR. BUCKLEY: Information architecture is very important but we have to realize that at Vanguard we serve very different client groups. And for each client group we will have a different information architecture.

What is more important is that the Commission come out and say here are the 10 or 12 pieces of information we want to make sure are there on every page and not get caught up in the visual design.

We have best practice in visual design we're willing to share. But let us architect it according to our website, according to our clients and according to our experience and let's worry about the information that is on the page, the 10 or 12 important pieces of information. Because we do have a fiduciary duty to make sure they see that information. And different shareholders will see it in a different way. A 401(k) participant is not the same as a retail participant -- sorry, a retail shareholder. And a retail shareholder for us is not the same as an advisor.

MR. STEVENS: Susan, it seems to me that your question and Buddy's are a little bit related. I think some degree of flexibility is appropriate and some degree of standardization is as well. And perhaps you can look at this at least with the portion of the prospectus that would be data tagged in such a way that, well, if it was not presented exactly the same way, the fact that it is tagged would make it accessible and would provide a tool that would facilitate additional flexibility.

The other thing I would say is that the Commission should take a very serious view about trying to avoid adding to the key body of information, make a serious judgment now and try to adhere to it. Because one of the things that we have experienced is that under the pressure of events, the spotlight of a particular situation, some new disclosure items becomes all-fired important. And it may be to some people, it may be for some period of time. But, you know, I mean we've gone through this history together in so many ways and I think that we understand that there is a body of information that is all-weather and it ought to be there. And so resisting changing that body I think is going to be something that would be important for the Commission to try to discipline itself around as well.

DR. LUTZ: One of the things that I run into in the corporations that I work with in financial disclosure is the extreme conservatism in presenting data. They are afraid to make it look, well, to use the terms of Chairman Cox, to make it look like USA Today Money Section. They are really afraid to do that for any variety of reasons.

I think the more that the Commission can encourage companies to be creative in disclosure as long as it does not mislead or distort but really and truly communicates, that's the first thing.

The second thing is that if you're doing this on the web, there is no more harsher audience than the people on the web. If your site doesn't work, you will pay for it and you will find very quickly that you're going to have to change your ways. And I think the public will educate you very quickly. But I do think more encouragement for people to use information design and to do things in a creative way to communicate with people would really help because companies are, quite frankly, afraid to try something new. I mean, "The old 8-point type worked just fine, thank you. And we'll stay with that." And even if they know it will be better, nobody wants to take the risk.

And I think a second thing, and I am surprised no one has mentioned this, and I'm going to wear my other hat as a lawyer, is there are legal issues in the regulatory issues. I think we need to take a look at what's holding companies back because they're afraid of or they don't have a clear understanding that this is okay according to the regulations.

And I think we need to take a look at those as well.

CHAIRMAN COX: Well, may I take the opportunity then to ask you a question? You said that companies aren't willing to take the risk. And earlier in your prepared remarks you described three distinct purposes that we're trying to achieve with our mutual fund prospectuses. They are not necessary in consonance with one another and yet we're trying to do them all in the same document.

Do you have any suggestions of how we might differently attack this problem so that we can achieve each of those three separate purposes perhaps in a different way. In particular, the liability piece.

DR. LUTZ: The liability is always the first thing that I run into when I work with companies. And they interpret liability to mean if I vary from the previous format, form or wording, then I'm getting into liability trouble. And it is only if I can show them an example of someone who has done it and hasn't gotten into trouble that they're willing to do it.

I do not think that liability and disclosure and information that the investor seeks are mutually incompatible. Stop and think. If we make the disclosure accessible, informative and easily understandable, what's the problem? We have covered information disclosure and liability.

And I think that we need to take a broader view and not have -- everybody is worried about their own little area and I think we have to see all of this as --

CHAIRMAN COX: This problem is exactly as you described. And even though you are exactly right about why people shouldn't behave that way, they do. And they do even though you and others have amply explained to them the benefits of behaving differently. What can change this?

DR. LUTZ: I think I would go back to the original plain English project when we made the decision to show not tell. And I think the pilot project that we are currently doing with the XBRL is exactly the way to go.

We did a similar pilot project. We rewrote the MD&A's into plan language. We rewrote mutual fund prospectuses into plain language cooperating with companies. They used it as their filings. They had no problems with their filings. Then we could go out to others and say, "Go thou and do likewise and you will not suffer." And that made a big difference.

I think we have to do it by showing people how to do it, showing that they won't get into trouble if they do it this way. And then they can imitate it. We all learn by imitation.

MR. STEVENS: Let me see if I can take a stab at this because it is extraordinarily important to the success of any kind of initiative in this area.

I think one of the ways we get hung up is on the language that we use around these issues. And securities lawyers are always talking about the delivery of the prospectus.

Think about the mutual fund prospectus. How do we deliver it? We put it in the mail. It comes to someone's mailbox. They've got to go get it out of the mailbox. They've got to sit down, open the envelope and read it. But we are hung up on this notion of delivery.

CHAIRMAN COX: You skipped a step. They have to schedule a few hours to do that.

MR. STEVENS: Yeah, take some time out of their busy schedule, right.

CHAIRMAN COX: That's right.

MR. STEVENS: But what we're really doing is making the information available to them. And that's how I think we need to think about what the law requires of us. And what Bill has described about the Internet, it is at least as good, and if we make the information of a higher quality and more useful, an even better way of doing exactly the same thing effectively that we do via the US Postal Service making the information available.

And, therefore, if it has been made available to the investor via the Internet, it is no less effective from the point of view of "delivering the prospectus" for the securities laws purposes. I think, you know, you need to conceptualize what it is that the law requires of us.

Now, what we're trying to do is develop --

CHAIRMAN COX: Do I understand you to be saying that you can deliver the legally tested boilerplate which nobody except the courts and the lawyers can understand because it's part of what's available on the Internet, but then if you put a plain English gloss on top of it that makes it clear what the heck you are talking about, you won't get in trouble for skipping the other?

MR. STEVENS: No. I think the point is to try to improve the quality of all of the disclosure.

The point is the system as it now delivers a mass of information or data and you do not perfect the delivery on the basis of whether someone finds that to be useful or actually indeed uses it.

So, via the Internet, you're accomplishing the same purpose but with the hopes of actually doing it in such a form that people will put it to use and find it altogether more valuable than what they do in the current system.

In sum, the liability question has got to be answered, but I don't think it's that hard. The harder thing is how you craft the information when it is delivered in an alternative way in a way that will invite people to use it more effectively.

MR. HAAGA: This is not a liability comment, but I think we shouldn't lose sight of the flexibility that putting things on the Internet gives us. Right now when we prepare a prospectus, we have to have a document that we really hope is going to last a year because we send out 17 tractor-trailers full of prospectuses; whereas, if we get stuff up on the Internet there will be the flexibility to update and improve things as time goes by. I think that will give us a lot of comfort being a little more flexible and experimental in what we say.

DR. LUTZ: I just want to quote Arthur Leavitt whose favorite comment was, "Disclosure is not disclosure if it doesn't communicate."

MR. DONOHUE: A question for the panel. The ICI is taking the lead right now on developing the taxonomy. What would be the most productive steps and the role of the Commission that would be envisioned by the panelists as that process progresses and reaches some observations, conclusions, recommendations?

MR. STEVENS: Well, first, we very much hope that you will take part in the working group. I think there will be members of the staff who will be taking part because we want to make sure we get the effort correct.

I think once we have the taxonomy developed thinking about what incentives can be provided to mutual funds to begin filing their EDGAR filings with the tags would be useful. It is not as important to my members to get, you know, accelerated effectiveness of their filings and things of that nature, so perhaps some other incentives could be looked to to encourage a voluntary program.

CHAIRMAN COX: Do you have any suggestions?

MR. STEVENS: Well, I think looking at the XBRLized, if that's a verb, Risk/Return Summary and how it would fit in as a part of a broader disclosure reform would be a huge incentive. Because if you had a larger group of funds that were involved in that voluntarily and the Commission made it clear that over time it wished to move to a point where, you know, the profile would be the principal document that's provided and the rest of the information while we continue to improve it and its utility would be put on the Internet, that would be a tremendous incentive, I think. That's the broader concept of the kinds of reforms that the Commission could consider and that this effort would fit into.

MR. HAAGA: Yeah, I think that we have enormous incentives to participate beyond just the XBRL part because the entire project here is enormously valuable to us and to our shareholders.

DR. LUTZ: I think pilot projects are extremely useful. They are practical. They uncover problems. They give solutions. And they build a spirit of cooperation and confidence and trust and provides a means to show people the way they should be going and the way they can go.

I think taking the Profile Prospectus maybe and doing something with that in cooperation with companies who would volunteer. It builds a sense of confidence and understanding. And we all learn together as we work on it.

MR. BUCKLEY: I'll just comment quickly here. If it is that that profile that's online, the concise disclosure, and we don't have to deliver the truckloads of prospectus and all, then there is a huge financial incentive, but there is also one where when we look at it, so as a mutual company, we pass those financial benefits onto our shareholders. But that is not even the greatest one.

The greatest one is that we will actually know that our shareholders are getting better disclosure, that they're getting this information in a more timely way and in a more interactive way and one that can be easily absorbed that's useful and usable especially if we have picked those 10 or 12 critical elements to show in that concise presentation. I think there is huge incentive if we know what the end is is out there.

MS. NASH: Just to hark back to one concept that Barbara Roper raised. She talked about the importance of investor education. I guess my question for the panelists is if we move further to doing disclosure through the Internet, does it give us a better chance to integrate investor education with disclosure of a fund's particular information. Or are those two functions that are separate and we should look at them separately?

MR. HAAGA: I'll start. I think disclosure and education should be looked at together and I think one of the mistakes we've made in the past is conflating the two and thereby putting too much burden on the prospectus as serving too many purposes and too many masters. And I think if we -- I've already mentioned the flexibility of using the Internet -- we use advisors, as you know, to work with our shareholders and so we are not, happily, relying solely on the Internet or on our mailings to do all the education function. Nonetheless, even we think we can improve things if we get more flexibility.

MR. BUCKLEY: We, of course, deal with the advisors as well as the direct investor and I'll use the direct investor here. They certainly use the educational tools we put out there but not in the amount that you might think or might hope. So we have always taken a different approach which is let's put something out there in plain English so they don't need a pop-up. They don't need someone to explain what fees are. They don't need someone to explain what holdings are or what information they should be looking at. That that should be actually part of the actual disclosure on the fund that is on the web. That it is easy, so easy to understand that you don't need the education.

Education is out there and it is probably on many of the sites already today. But the ideal here is to make these concise and clear in what we present on our funds online.

MR. STEVENS: Susan, I think again that the educational purpose will be advanced by a focus as tight as possible on what the key information you want to impart. There has been a lot of emphasis in our marketplace on consideration of the effect of fees and expenses on long-term performance of mutual funds.

I think the research information now indicates that recent fund purchasers have looked at that as a key element of information. If you look at trends in fund fees and expenses, they are down considerably, even The Wall Street Journal's report of our most recent research today.

That it seems to me is an educational success. And if there are five or six other bits of information that you really want to drill into the investing public, this is the key stuff that you ought to be focused on, then that sort of high quality document that you will draw people's attention to will have a very direct educational benefit.

DR. LUTZ: I think also, again I'm going back to the interactive nature of the Internet, that you can serve whether somebody is just a beginner or a sophisticated investor, that website will serve them.

I don't know if you are a fan of Wikipedia, but if you look up something on Wikipedia, you can get all the backgrounds you need as you read the article and if you need to branch off and come back, it's a very rudimentary way of using the Internet. But it shows you the possibility that you can educate the investor even as the investor is just looking for basic information.

If you go to the IBM website, they do this in a limited way with their online annual report where they have a section that says, "How to read our annual report." And they go through and they take each section of it in the financial section and then they'll saying, "This is what these numbers mean." And then you can link over to their current report and then after you have read what cash flow is supposed to be, you can go over and look at the IBM cash flow for that report.

So, again, we need to think of the expansive -- it is, you know, people have to start reading science fiction to understand what's going on. The word "cyberspace" comes from science fiction. Cyberspace is unlimited. We are still thinking of print in bound books. There is no limit when you get on the Internet. And when you get into that area of information, it is infinite. We have to stop thinking of books. I mean it's tough. So we can educate investors. We can inform them. And we can give the financial analyst the information all in the same website if we think about the way that we should be using it and the way we should be designing it.

MR. DONOHUE: This morning's panels have given us much to reflect on. I want to thank each of our panelists again for taking time out of your busy schedule to join us. Your perspectives have been very illuminating.

Before we adjourn, I would like to acknowledge several members of the Division of Investment Management who along with Susan Nash and Susan Wyderko, labored hard and long behind the scenes to make this morning's session possible, Brent Fields, Chris Kaiser, David Schwartz, Debbie Skeens, Toai Cheng and Evelyn Malone.

That wraps up this morning's sessions. The roundtable will convene again at 1:15. Thank you all.

(Whereupon, at 12:17 p.m., a luncheon recess was taken. Reconvened at 1:18 p.m.)

SESSION TWO: GETTING ANALYSTS AND INVESTORS SIGNIFICANTLY BETTER INFORMATION

CHAIRMAN COX: Good afternoon. Welcome now to the second half of our program. I want to thank you once again for all coming today. Perhaps we have had a little bit of in-and-out and not all the same people. We have a very, very outstanding panel awaiting us and I want to make sure that we give ample time for that.

This morning we explored the potential of interactive data and the Internet to make mutual fund information more user friendly to the individual investor. This afternoon we are going to be focused on ways that interactive data can improve the usefulness of information provided by companies of all kinds to investors of all kinds, large and small.

For institutional investors, just as much as for the more than 40 million individual investors in the United States of America who directly own stocks, interactive data offers the opportunity to analyze companies with information that is highly current, easily obtained and presented in exactly the way the investor wishes to view it.

This afternoon we will hear from this distinguished panel of analysts and investors who will help us focus on how interactive data could be most useful in evaluating companies. We will see a brief demonstration, and we will hear from our panel on the types of new tools that could help us all spend more time on analysis and less time on data entry and verifying numbers and other manual tasks.

Of course, all of the potential benefits of interactive data will only be realized if it is hassle-free and cost effective, particularly from the standpoint of the companies that produce it. That is why the Securities and Exchange Commission has created the interactive data test group, to allow companies voluntarily to file their reports using an interactive format so that we and they can simultaneously learn from the experience.

So far companies representing more than 1 trillion dollars in market value have volunteered to be a part of this pilot. They are already tagging their financial statements and other data to allow for enhanced analysis. The interactive data test group has something to do with the selection of our next speaker.

As I have noted several times today, I think that interactive data has the potential exert an enormous positive influence on our capital markets. And, so, for this afternoon's address, I asked our staff to see if we couldn't book someone who is equally influential. In fact, I specifically asked that one of Time Magazine's 100 Most Influential People from 2006 be our speaker. Then we whittled it down.

Angelina Jolie's PowerPoint presentation was we thought too cumbersome. And the Pope wanted to focus exclusively on software engineering issues, which we thought would be better for a later program.

(Laughter.)

So we whittled it down to three finalists and now I have to tell you that publicly we'll offer our apologies to George Clooney and Oprah and we decided to go with the one woman who is by far the most qualified to address these issues because she is, her company is a member of our interactive data test group. Anne Mulcahy is the chairman and CEO of Xerox Corporation. She also serves on the boards of Catalyst, Citigroup, Fuji, Xerox and Target Corporation. As an English and journalism major, she has agreed to deliver her remarks in plain English.

She began her career at Xerox as a field sales rep in 1976. She rose through the ranks in sales and went on to serve as vice president for Human Resources, then chief staff officer, then corporate senior vice president and then president and COO. In 2001, she became Xerox's chief executive officer and the following year, she added the title, "Chairman."

Well, I would guess that Ms. Mulcahy doesn't object to being included on Time Magazine's list along with Ms. Jolie and Mr. Clooney. I have a feeling that she's probably happier to be included on Barron's Magazine's list of the World's Best CEOs. And with the recent addition of Xerox to our group of interactive data trailblazers, she's joined still another impressive list. Please welcome Anne Mulcahy.

MS. MULCAHY: Thank you, Chairman Cox, for that lovely and entertaining introduction. I really appreciate it and my kids were, I have to say, very unimpressed with being part of the Barron's list, but the Time's 100 they thought was pretty cool.

And I'm just really delighted to be here today and it is a topic that we care a lot about. I have to tell you truth be told that any CEO who receives an invitation to visit the SEC does take a deep breath, but this was an invitation that certainly I could have refused but wanted to accept a great deal.

It is both a pleasure and a privilege to be here and to have the opportunity to share some of my thoughts with you on the future of financial reporting and more specifically I'm going to touch on three subjects briefly. The first, why are we participating in the SEC's interactive data test group? Next, do we have any advice as we take on this very complex and challenging task? And, third, maybe just some thinking about some pitfalls along the way as well. So, it's a good roadmap for my remarks and let me start with why Xerox is part of this test.

I would say that it's very much part of our tradition to volunteer, to push the envelope and to use technology specifically to make our lives easier and more productive. Actually, years ago, Xerox was part of the EDGAR pilot from concept to launch. There is no question that our entire company cares a lot and actually is built on innovation. So being on the ground floor of something like this is something we like. We like to think that it's part of our DNA.

Certainly another reason that we felt it was important to participate is because we believe that the potential is enormous. Applying the possibilities of interactive data to financial reporting not only makes it more effective, it makes it more expansive, more transparent, more useful, more helpful to investors and potential investors large and small. So I think the goals are pretty significant.

Victor Hugo once had famously quoted -- was quoted as, "No army can resist the power of an idea whose time has come." And I think it's a most appropriate quote. The Commission's embrace of interactive data is clearly an idea whose time has come.

It's been 20 years since EDGAR was developed and certainly it's been tweaked here and there over the years, but it is essentially the same platform it was when it was launched in the late 1980s. So, EDGAR may have stood still but the world certainly hasn't.

So if you reflect, you would think back and say when we started EDGAR, there wasn't an Internet, there wasn't a Google, Blackberries, iPods, cell phones didn't take messages or photos. People went to libraries to do their research and overnight delivery of business documents was considered fast. So you all have a context that you could talk about and there's no shortage of examples. But the point is it is time to move on to the next level. We do believe that interactive data holds the promise of transforming the way we report and retrieve financial information.

So for companies like Xerox, we will be able to prepare and file information more easily and effectively. And we will have the assurance knowing that it will be available to institutions and individuals faster than today and that the accuracy will also be improved considerably.

And just as importantly, it will give the public an improved capability to analytically understand financial information. And that's really a big deal.

And where it gets kind of exciting for us is making financial documents interactive. This is an area we know well. We actually refer to it as smart document management and it is something that we have been providing to our customers now for a number of years.

Documents can be imbedded with intelligence and, for example, we can make documents easier for our customers to retrieve them. They can carry their own translation requirements, they can carry their own histories of where they were created and how they've been used. And although it has been made possible by digital technology, technology alone is not sufficient.

I think we have all learned that the bigger challenge is that new technology always requires changes in the way people work. Productivity is not what you get imbedded in software code and business improvements don't come in a box and greater transparency doesn't come because of legislation alone. Technology is an enabler, not a result. It's a means, not an end. And that is really why this group is so important. It is where the rubber meets the road.

The Commission quite correctly, in my view, understands the need to integrate technology with the way real people do real work in the real world. What looks good in the lab often doesn't work well in the office.

To get at this issue, we have actually been conducting a lot of studies throughout the US and Europe and I would say that the results are somewhat of a wake-up call for industry and government alike.

Less than half -- 48 percent to be precise -- of senior managers think IT makes their jobs easier. In fact, one-third believe it makes their work more complicated. Research also shows that 1 in 5 workers spends at least 60 percent of their time dealing with documents. That's 29 weeks of work all spent managing about 1.3 trillion documents produced in offices each year. Many of these, potentially most of these documents, still exist on paper, but there are an increasingly amount of them that are done in digital form on computer screens, whether they're in your Blackberries or on your web pages, that's where information is living today. Managing that reality really does require a very different approach from the past.

The old world of IT was made up of the little "i" and the big "T". The focus was always on the technology. The new world of IT is focused on the big "I" and the little "t". It is all about what really matters and that is the information. So, big "i" little "T" is about how the information flows, where it goes, who it touches, what value it delivers and not just how the technologies work.

I have to say for the past half century we have actually been thinking just the opposite. It was all about machines, processing data, and certainly with very little attention paid to the way we process the information building in our information infrastructures. But that truly is starting to change now.

In every business organization, people are thinking of the best way to capture, manage and deliver content. And they desperately need solutions and services that guarantee business continuity, foster collaboration and ensure legal and regulatory compliance and it has to be more cost effective. And all those roads lead back to smarter document management, a way to streamline document processes by working smarter with documents and more importantly the information they contain.

So under the leadership of Chairman Cox, the SEC is helping lead the way. And the shear size, the visibility and the critical nature of financial filing and reporting makes this one of the most significant applications of document technology anywhere, period. And that is why Xerox is so interested in being a part of this project and that may be the understatement of all time.

So we are excited about this project and I am going to move on to the second item I was asked to address and that is what advice would I give to this community as we explore this new frontier together.

I'm sure I'm not going to say anything that is radically new. As a matter of fact, my advice is more likely to be reinforcing of the direction that is already being taken rather than setting out a new direction. But it is all about executing and alignment. So here it goes.

First, I think it is really critical that a lot of listening is done. I would dare say that the vast majority of us in the pilot, if not all, share a very common set of objectives. We want greater speed, more transparency, improved accuracy, more consistency and comparability across companies, better search capability and less complexity. A pretty tall order. But, if we balk at something or support a change or question a policy, I think it is because we really care. So listening to these views can only enhance the outcome of the product.

I have to say this one I really think we know from experience. We've been doing a lot of listening at Xerox lately and it has helped our company improve enormously. One of the hallmarks that we like to think about at the new Xerox is a deep desire to be connected to the realities of our customers. And we work with a passion and persuasiveness that we hope no other company in our industry can match.

What we learn really is the foundation and it informs all our research and development efforts today. And what we're finding out is that customers are just not interested anymore in technology for the sake of technology. They want help in solving their problems, boosting productivity, growing their revenues, producing higher levels of customer value for their customers. And the only way you really help is to really listen to what their issues and their challenges are.

Second, you have to collaborate with your various customers, companies that will input into this system, the regulators who will manage it, the investors who will rely on it and perhaps most importantly the public who has a right to it. And, fortunately, they are all represented today and that's a good thing. It's really a good start to make sure we understand who our customers and constituencies are.

But a lot of the real collaboration is going to take place in the trenches. And I think some of it is going to be messy and a little frustrating as well. This will all be about listening to things that you probably won't want to hear, probably getting thrown off schedule and being tempted to begin to disregard input and feedback. And that would be really a rift. This is really an opportunity to listen, to respond and to stay on course.

Third is getting it roughly right before you launch. I have to tell you, as a product developer, we have lots of experience with this and the price you pay not to get a product roughly right is extraordinarily expense. And that means to say that timetables and schedules are really important but, you know what? They are arbitrary devices. You have to be their master and not the other way around and take the time that you need to get it right.

It is essential in my judgment that we actually launch a product that really does meet the satisfaction of the constituencies. And speaking from experience, technological graveyards are filled with products that failed miserably out of the box and then they are never able to recover. So once interactive data is out of the box, you do have to live with the vast majority of consequences and the public can be quite unforgiving.

So next might seem like it's a contrast to my previous statement, but it's about launching a product that is roughly right, but it doesn't have to be perfect. Nothing in this world achieves perfection, but I have to tell you that engineers and programmers always strive for it. And at some point someone does have to step in and say, "Enough." So it is a fine line to walk this line between good enough and perfect and I think the two pieces of guiding advice would be listen to your customers and then be decisive.

Fifth is about keeping it simple. There is a lot of complexity in interactive data, but your users don't have to see it. I think the genius of the first Xerox copier which came out in 1959 was actually its simplicity to use. There certainly was a lot that was going on behind the curtain, but for the user all they did was kind of push the green button and the copy came out. And I think it is just an extraordinary goal that we should strive for from a technology perspective.

I can't stress this point enough that there really is an opportunity to design for simplicity even though the design itself may be complex. I have to say, and it's kind of my pet peeve, I still get very annoyed when I have to push Control-Alt-Delete to activate my computer. Why not just one button? And I am sure there are good reasons, but I think those are the things that have to be thought through that are just opportunities to kind of simplify and streamline as we launch this approach. Do whatever it takes to make it user friendly and intuitive.

So let me turn to the last issue I was asked to discuss and that is what bumps in the road I see ahead of us. And it is actually because the promise of interactive data is so enormous that therein lies the risk. Nothing of great importance comes easily. And although we all agree on the conceptual description and the general direction, the devil always lies in the details. So it will be fair to say that we will definitely face unforeseen technical challenges. This is a time when naysayers are really out and in a leadership position. Skeptics are a lot easier to find than supporters. And a lot of advice to turn back and not throw good money after bad. I think you can expect that public use of this system may be less than you hoped for, at least in the early days, and there may be lots of comment, whether it is from the press or Congress, about the cost of doing this as well.

And despite our best efforts, my guess will be there will be a fair amount of complexity as well. I think that is something that we should expect and ensure that we are prepared for. In many ways, it is actually a sign that you are on the right track.

Change is really, really tough. People hate change and, quite frankly, it is human nature. We have experienced an enormous amount of change at Xerox over these last five years and what we have discovered is that people are willing to change when there are three conditions that are in place.

The first is that the pain of the status quo actually has to be greater than the pain of change. So people have to have a perspective about what they're leaving behind and why it is so important that they move forward.

There has to be a clear vision so they have to see that this change is going to lead to a better future. So it really has got to have concrete goals that are well understood by all the constituencies. And there is no more important time for our communications to be open, honest and extremely direct.

So I think it is very appropriate that we keep on pointing to a brighter future, keep listening to the customers and also the critics and keep the communications open. And during that whole time believing in what you do and having a passion for it is hugely important as well. I know I do.

So I began this talk by talking about this famous quote from Victor Hugo, "No army can withstand the power of an idea whose time has come." But when I wrote it I said I wasn't quite sure I had it exactly. So I actually Googled that quote to make sure that I had quoted Victor Hugo right and while I was doing that I found another quote that actually was better. I'll use the quote now. It says, "Of course, you have critics. It is the story of every man who has done a great deed or created a new idea. It is the cloud that thunders around everything that shines. Don't bother yourself about it. Keep your mind clear and your focus true."

That's not a bad piece of advice to certainly end my talk on. I have to tell you that at Xerox we are actually very proud to be associated with your work. You can count on us, by the way, to be both supporters but also constructive critics as well.

I just want to thank you for inviting me to share our thoughts and this is an invitation that we're delighted we accepted. Thank you very much.

MR. BOOTH: Thank you, Anne, very much for those perspectives. Very illuminating I am sure for everyone.

My name is Corey Booth and I am the Chief Information Officer of the SEC. I can't help noting I am actually the third speaker of the day with an English degree who seems to have lost their way but ended up in an interesting place.

My role today is to kick off the afternoon panels and most importantly to introduce four speakers who are going to start us off and give us their perspectives first before we get into the panel, per se.

First, I'd like to introduce Dr. John Markese, the president and chief executive officer for the American Association of Individual Investors, a not-for-profit educational institution. John presents investment seminars and writes columns on stock analysis, portfolio management, mutual funds and other financial topics and is a strong advocate for the empowerment of the individual investor through improved information and tools.

Please welcome John Markese.

MR. MARKESE: Thank you, Corey. I'd like to thank the Commission for this opportunity to speak. I thought I would take some time and tell you how individual investors actually use information this afternoon. A little bit about our association so you can understand what I mean by an individual investor.

We have been around since 1978 and about 1980 we started writing about how to use your computer to make intelligent investment decisions. Now those computers are starting to show up on the Antiques Roadshow today, but we do have powerful computers now available to everyone.

Our average member, and I am going to say this a little bit unfortunately, is in their late 50s. We try with all our might, we can't seem to get young people involved. Mostly male, again that's unfortunate, but we are hoping there are other readers to these memberships. And they have advance degrees, not necessarily in finance. In fact, not in finance is the case.

If you think about investors with that background, I'm going to give you a little bit of the hierarchy. There is the investor that basically takes advice from a professional. There is a second level that I will say looks at Value Line. Let me speak about the third level, the engaged investor that is going to use the database.

Now, in the early Nineties, our members came to us and said, "Well, we now have these computers. You've been writing about this. We want to screen large databases."

So we went out and talked to data vendors, analysts, analyst quotations, large databases and I have to say we begged, we implored, we cajoled and I think we even cried trying to get a comprehensive database at a reasonable price. And we did.

What we did with that is we wrote software allowing them to screen, individual investors to screen, a database of almost at 9000 firms, 2200 individual variables that they could screen on, 7 to 10 years of data. We also gave them 50 screens from Warren Buffet to CAN SLIM, if you're familiar with that, and we allowed them to create their own screens.

And so what they are doing -- and, again, this is the cutting edge investor that is most likely to use interactive data -- what they're doing out there is screening this database which is a updated on our website weekly. We send out CDs monthly. They are screening through this large database with these either pre-arranged screens or their own custom screens, they're finding investments of interest.

And then here's where they interact with EDGAR hopefully. They go to that EDGAR database, they pull up the original documents, the 10-Ks, the Qs, they look at the MD&A, they look at the numbers, again, although we have great faith in the numbers we receive, and they do an in-depth analysis. The probably peak at Value Line if there is a Value Line.

A lot of them go to smaller stocks, which the only source then would either be from the company or from the EDGAR database. So this is an engaged group. They're looking for the ability, access data, real time basis, update once they had invested, any new filings. This group is probably the group most likely to benefit from XBRL and the data tagging and the nature of what is being proposed.

So going forward, here is what I see. Hopefully with tagging, these data providers will provide data -- again, we begged low prices, but they could be lower -- give us low prices because of the ease of extracting this data. Hopefully it's now accurate and it's more timely. And with that lower cost, allow more investors to participate at that level.

Secondly, they are going to have to give up more value here because, as you know, if their prices are going to come down, which I assume they would, they are going to have to give us something else. And what I would propose and I think has been asked earlier this morning, "Well, what else would come forth?" I would hope that these data providers would go in and find industry by industry what the value drivers are.

In other words, five of the top specific to the industry variables and whether it is book-to-bill ratio or the load factors or average volume or same store sales, whatever, they would then report on those levels of information so an individual investor picking a stock can then look at the peer group and make comparisons to make qualitative and quantitative comparisons and then be able to look at the EDGAR site, pull up and tag even the footnotes, the MD&A detail and then make an intelligent investment decision.

So that's what my hope for is, in the forward moving of the XBRL. I think we are close, but I also think we have to have an exhaustive standardized comprehensive and

I'm going to say this again, standardized, to make this low cost and make the ability of the individual investor with any simple software -- and, by the way, I did talk to software providers and data providers. Software providers are ready in the wings to come out with a lot of detailed templates for investors they can either download into Excel spreadsheets or we can attach them to the screening devices that are already available.

So I commend the Commission again. Anything that is, in terms of data that is cheaper, more accurate, more timely, more comprehensive, all of our members would vote a very loud, "Yes." Thank you.

MR. BOOTH: Thanks very much, John.

Next up we have Trevor Harris, managing director and vice chairman of Client Services at Morgan Stanley. Trevor has been heavily involved in accounting and company valuation issues and academia as well as at Morgan Stanley and is at the forefront of Morgan Stanley's efforts to approve the use of financial data in the firm's equity research.

Trevor.

MR. HARRIS: Thank you, Corey. Chairman Cox, thank you for inviting me.

I am going to try very hard to do an interactive live presentation for you. It's been a bit of a technological challenge getting this working, so I'm not sure it is going to work, but we will certainly try it.

I do want to make one caveat is that to the extent I can show you this data, it is all for illustrative purposes only and so it should not be relied on in any way.

What we have been doing at Morgan Stanley since I arrived in 1997, we have been involved in actually trying to work with interactive data because we have been a strong believer in it and we are trying to utilize the benefits of it. So, I am going to start off with, hopefully, it's just a very quick perspective on both the way investors do analysis on the buy side and sell side, a little bit of what we are doing in a live way if I can, and then I am going to try and actually access the SEC website. I originally wanted to do this with our own software, but this is a commercial vendor that does it, so I can show you how it all interlinks as this data becomes more available to us.

So, if we think about the investment analysis process, buy side and sell side analysts and investors are really looking at risk-reward trade-offs from a specific point of view.

We are trying to understand the sustainability and growth of different drivers in performance of the business. So we are looking at what actually drives business as well as the credibility and quality of management.

We use historical information, but actually the focus -- and this is both financial reporting and other, but the focus is to create forecasts both of different duration and detail. So we do actually enjoy some of the complexity that people have already talked about.

And what we are trying to do is assess both stock-specific or company-specific value and uncertainty relative to price and that's both on an absolute and a relative basis. And, clearly, as others have already talked about, we are concerned with the reliability, the consistency and the comparability. And these are all the attributes we are trying to incorporate.

Importantly, we want to understand the economic activity. And to some extent you have to deal with complexity, you cannot avoid complexity to understand the economic activity and timeliness is, of course, critical. So with that perspective, what is it we have actually been doing?

And I would argue that any of these data providers, anyone who is going to try and do this from an investor's point of view has essentially these same five building blocks.

The first is in order to get particularly global comparability where we focus on the economic activity and try to separate the operating from the funding criteria or the funding parts of the business, we had to create our own set of broad general, as well as the industry-specific metrics.

So just to be very clear, we are dealing with interactive data. We are creating our interactive data which I'm going to show you in a second, hopefully, before this has become available on the public sites.

What we have then done, and I'm going to show you in a second, is we actually take our analysts' models and we tag them with XML tags and integrate those into financial models so that we can use that both for valuation, for comparison and, most importantly, for many of the constituents, it has helped us to get additional insights and ask additional questions. So you actually get to understand why is Company A suddenly got an operating profit or an operating margin going in one direction while Company B is going in a different direction.

So you start to ask different questions and you can add complexity as we've done with something like pension data. This is a bit difficult to see on the screen, but this is an example of how you would actually take an analyst's model -- and remember, all of this has been put in by hand initially because we didn't have the interactive data, adding a tagging editor to it and then that provides actually tagged elements.

Now, what I had hoped to show you a little later was how we could bring in the data -- we have a prototype where we are actually bringing the data from the SEC's website and automatically tag it.

So the key here is that the time that it will save is enormous in terms of the input that investors have. And, actually, there was an interesting article on Motley's Fool, I think it was this weekend, talking about exactly that process.

The other thing that it does, which is relevant, is it actually validates the model. So what we actually have found is by going through electronic data, what we've heard before from one of the other speakers, was it actually creates a much more transparency and accuracy.

So this is the process that's gone through with the analysts' models. And what I am going to try to do now is to actually show you a live demo of some of that information.

So the starting point here -- let me show you what we have is. I have taken in from our database, so this is live connected to the web right now. And what we have actually done is we have listed a set of companies here. And the companies I've chosen are based because one of these, UTX, actually has a listing on the web, so it has actually filed an XBRL document with the voluntary program. So I'm going to try and bring that in in a second.

And what you can do is, you can do the type of comparative analysis, the screens and comparisons that the previous speakers spoke about. And actually, just to give you one example, by clicking on this particular metric, showing you just the earnings per share number, what we can then do is actually start to drill down to get to the different layers of complexity.

So certain investors clearly just want to look at summary statistics. Other investors want to get deeper and deeper. So this is a net operating profit. You can go deeper into the operating expense numbers. And just to keep going, you can see this is a typical type of disclosure. But what we have also done where it's material, is suddenly gone into all sort of pension information.

So this is -- actually, I chose just the first company, Boeing, but UTX would have the same information. And you can see how much detail and complexity that's actually included in here.

So the point of this is that you can deal really quickly -- and notice this is both historic and forecasted information, that you can deal very quickly in going from very high level to very complex information.

So how does this actually help us in terms of investment decisions? That's some of the relative information. Here's something that's very specific and absolute. And this is where, from an individual investor's point of view, I think this would be personally much more helpful than some of the information we see with ratings and other types of simple metrics.

So let me explain to you very quickly what's here. On the left-hand side here where my arrow is pointing, this is actually the stock price over the last 12 months for United Technologies.

What I have done is I have created three valuations using a very sophisticated proprietary valuation model -- and I'm going to show you in a second how quickly we can manipulate that as well as some scenarios. So it gives us an ability to do scenario analysis -- and I stress again this is all hypothetical data at the moment which I've adjusted. So you can see where the price is relative to your assessment of the stock.

Now, to show you the nature of the interactive data, this is what is underlying it and you can see there is a lot of information, both historical and forecasted information. And to give you -- and this is where I am hoping it is going to work. We will take a quick chance here. To show you just how easily you can start to build scenarios if you have this interactive data. On the left-hand graph here, I have operating revenue growth as well as operating revenue. Then we have operating margins, operating asset efficiency, various leverage criteria and so on.

And let's assume that an individual investor if they had this application or our own internal people or our clients felt that the operating revenue forecast was a little too pessimistic because the economy is going to get much better -- and please watch the other screens as I just move this.

All I have to do is move that up and I'm going to do something a bit extreme just for effect. And you will also see at the top on the screen is a valuation. It has adjusted the revenue, it adjusted all the margins, the asset efficiency, the leverage and so on and gave us a new valuation. So the ability to do scenarios is fundamentally different and clearly much more efficient.

So how then does this relate?

There are many other obviously applications around us, but the question then is how do we actually bring this to the interactive site.

Now, what I had hoped to do was show you how we could pull it in and then just tag it automatically to be able to pull into that system.

What I am going to try to do instead is, this is a commercial application, that Hitachi has put out. This is experimental right now. You go to the SEC plug-in and it is now searching hopefully and going to the website and try and actually find -- with some luck, we are getting there. It will actually going to the SEC's website and try to pull in what's actually available.

There we go. And you will see it is now looking to the website. I'm going to go down to the UTX filing that's there. We open that filing. And basically what it is doing is it's pulling in the information from the SEC's website. And, again, in our system, this would automatically simultaneously be tagging it to introduce in our models. This would be if an investor had a particular style sheet or a template, this is a simple template we created and, again, with a little bit of luck, you will see that it will provide us with updated -- as I said, with a bit of luck.

But what this should be doing is pulling it into an actual -- no. It didn't pull it in for the moment. But it would actually pull the data in to a spreadsheet.

I'm going to move to my final slide, but I'm going to try -- I have a way I think of pulling the original filing, perhaps not that one.

I think if I pull in this one, I'll come back to it. I'm going to open it. This one I think is going to work better.

And, again, one of the issues as Ms. Mulcahy said is -- there we go. It pulls it in and you've got the data into a format that is useful to you. In our case, it goes straight into the analysts' models and we can update it.

So what does this actually mean? Just to conclude here. If we can actually take this data and get it in that form, it will certainly improve the analysis from a transparency timeliness point of view and our ability to deal with complexity.

You cannot get simplicity without incorporating that complexity. But you can only really deal with that if you actually have something like interactive data. And, clearly, one of the things that I don't think happens enough is, people don't focus enough on the risks. They focus on the expected value, intrinsic value, but they don't focus on risks enough. That's something it will do.

The other question we always get is, does this mean that analysts will cover all the companies. The answer is no. But clearly to the extent that we can save significant amount of input information, we all have the objective of extending coverage to more and more companies. So, it clearly adds to the number of companies that are covered both by buy side and sell side.

And then the last part which is perhaps just as important is instead of spending significant amounts of time just in pulling in data which is essentially a non-useful task other than for the insight, those people who are investing in fundamental analysis can actually spend their time on the analysis and the insight. So it changes the dynamic and we can actually I think make the capital markets much more efficient for everyone. Thank you.

MR. BOOTH: Thank you very much for that demonstration.

Now, I'd like to introduce Larry Salva, the senior vice president and chief accounting officer and controller for Comcast Corporation. Larry has been at Comcast since 2000 after holding a variety of leadership positions at Pricewaterhouse Coopers and elsewhere within the accounting profession.

He is also the chair of the Committee on Corporate Reporting for Financial Executives International, one of the leading professional organizations for executives in the finance function. Please welcome Larry Salva.

MR. SALVA: Thanks, Corey.

I'm going to take John's lead and since I don't have a visual presentation just take the opportunity to speak from my seat here.

In spite of attempts over the last several years to educate the financial community, according to a 2005 survey by Computer Sciences Corporation and the Financial Executives Research Foundation, it still indicated that over 70 percent of financial executives have little or no knowledge about the XBRL standard. And XBRL is still in the early stages of its adoption curve, probably somewhere between the first phase in which enthusiasts and visionaries get interested in the technology and the standard and the group that is actually going to give it critical mass. And that's users defined as the pragmatists.

And I like to think of myself as a pragmatic person, but I have to say at least Comcast is still not, to my embarrassment, Comcast is still not in the voluntary program. And that's partly because of perception, partly because of reality.

What I would like to do -- and I recognize that this is a conference assembled mostly representing analysts and users, but I was happy to have been invited to perhaps represent the views of preparers and maybe some of the obstacles in terms of why preparers aren't jumping into the pool quite as quickly as we would like, I actually do recall I served on the Commission staff when the EDGAR Pilot Branch was operating. And sometimes it does take awhile for technology to take hold.

Clearly, there are advantages to jumping in early. And why a company should participate would include to better understand XBRL, to influence its direction, to evaluate it, to prepare to comply with what will eventually become a potential future requirement to use XBRL in filings. It holds the potential clearly to improve efficiencies of financial reporting within the organization, not just externally. And clearly, you know, we anticipate improving transparency of financial information to investors, analysts, regulatory agencies, rating agencies and lenders.

I recall sitting at an open Commission meeting and it was 20 years ago where Commissioner Grundfest at the time envisioned a day where we wouldn't have financial statements, where investors would just go in and look at data within a company's database and get the information that they were interested in.

And while we may never pull down that firewall for companies to let that kind of transparency in, data tagging clearly or so-called barcoding of financial data clearly can improve the ability, the transparency of financial reporting.

Unfortunately, the timing of XBRL might have been just a little bit off. You know, its infancy, if you will, or introduction where it should have gotten traction may have coincided right where corporate America felt the burden of 404 reporting, the staff resource constraints that we've been -- all of a sudden accountants and financial reporting people are in great demand. And financial reporting groups have felt the pressure and the short resources.

So, while a lot have heard that it doesn't take much to get involved and maybe the investment is up front, it is that up-front investment that is being resisted, at least by many of my peers on the Committee on Corporate Reporting, the larger companies that didn't feel like they had that resource available to them.

I think as time goes on they are finding that resource. We're getting up to that point now where we are getting the breathing room and we can invest in it. I am glad to see that six of the twenty volunteer companies in the volunteer group are members of the Committee on Corporate Reporting.

The payback at least to a large company sometimes I think is difficult to quantify. Much has been said about the possibility of increasing accurate information and coverage on small to medium-size enterprises, those that might have no analyst coverage or that analyst coverage might be sparse. And certainly anything that you can do to increase the accuracy and the coverage of small and medium size enterprises would make sense for that segment of the market.

I think in speaking to the Investor Relations group within my own company, they don't have the sense that we're missing or that buyers, buy side analysts are getting data incorrect about our company or that we're not on their radar screen as an investment opportunity. But that shouldn't in my opinion be an impediment to our involvement in the program. I have pushed and will continue to push for our involvement in the voluntary program. Again, I'm dealing more with the resource constraints than anything else rather than the lack of enthusiasm for the project.

The SEC XBRL voluntary program does provide -- it provides an excellent way to participate in the development and evolution of XBRL. And that is an opportunity to test the perceptions and shape or determine the future reality.

Clearly, the perceived benefits to businesses would be more efficient preparation of financial statements, lower cost of producing the information, increased accuracy, more timely information, process efficiencies and clearly reduced data entry and manual effort.

And the ease of implementation at least as I understand it is it doesn't require a system-wide implementation. You can make a small investment up front and it can be deployed in phases, essentially a top-down approach starting with the primary financial statements and then expanding into data in lower and lower layers with a flexible architecture in using existing business rules. It should be easy to modify.

So the opportunity does exist. It is one that many companies are jumping into on the early end and I think that this will naturally evolve in its adoption curve. And I think we are at that inflection point where many companies will be very interested in how the volunteer program goes and what benefits can be achieved by companies by participating. Thank you.

MR. BOOTH: Thanks, Larry.

Finally, let me present Christopher Whalen, managing director of Institution Risk Analytics, a research firm specializing in data-intensive analysis of companies. As a former investment banker and journalist as well as a staffer at the US House of Representatives and the Federal Reserve Bank of New York, Chris has seen the securities industry from all angles and is a close observer of the development of interactive data.

Chris.

MR. WHALEN: Thank you, Corey.

IRA was created in 2003 by myself and my business partner, Dennis Santiago, who is one of the great old men of the financial data world. And we did it to perform analytics on structured data. That is to say interactive data. Even though today we still have to use data that comes from vended sources other than the data that we get from the FDIC, we could see that the marketplace was moving in this direction. So we find the Commission's interest in this subject both timely and extremely well considered.

I would like to briefly give you some thoughts and answer some questions that I've heard from staff and from our colleagues at the SEC over the last couple of years from the perspective of builder of analytic systems.

We have been a member of the XBRL consortium since last year and I would like to think that we occupy kind of both sides of the divide, the enthusiasts group and also the pragmatist group.

On the one hand we entirely buy into the vision of XBRL. We see its utility. We see its value in enabling public companies, private companies, other organizations to describe the financial information in their businesses. And yet at the same time as an organization that has to deliver workable, reliable transparent analytics today to end users, we take somewhat of a conservative approach in terms of making it work because at the end of the day whether you're talking to Wall Street investors or risk managers or any other consumers of financial information, they want reliability and they want timeliness.

Now, when we talk about interactive data, we think of it in three ways. Interactive data is organized to ensure that the content can be used at every step in the process. It is interoperable in that it can be used by disparate technologies and can be used equally and seamlessly. And most importantly, interactive data for us is distilled so that each step in the pipeline adds value to the next user downstream.

Now, both of our colleagues, John and Rupert showed you the distillation process. The screening techniques, the normalization, the standardization of different accounting treatment for disparate companies. This is what adds value to financial data. It is not just having it tagged. Tagged is good. When we get a diskette from the FDIC, now especially that they have implemented XBRL, we have extremely high confidence that all of the numbers on that diskette are right. So we can get on with the analytics.

But the tagging is really only the beginning of the distillation process. And that is one of the points that I really wanted to allude to today.

Now, one of the interesting questions that we have been asked was what are the sources of data used by investors? And I think John highlighted that very nicely. For me, having worked as an analyst, when one of my companies or banks reported its financial results, you almost always got the data directly from them. You got it in a press release. You were on their mailing list to receive an Excel spreadsheet. And that was pretty much the numeric data that they would eventually or simultaneously file with the SEC.

Now, that didn't mean that maybe years ago working as a banker on a fairness opinion, we wouldn't make extensive use of EDGAR. We would. But that was usually in the context of inputting the numbers from a physical EDGAR document into an Excel spreadsheet and then staying up all night eating Chinese food, proofreading the document to make sure it's right because at Bear Stearns, for example, you never wanted to answer no to the question, "Have you checked every number in this document?"

Now, another question that we have been asked a lot is could interactive data change or have a positive impact on real time analysis? Would greater use of interactive data improve the ability of retail investors, especially retail investors, to access and understand financial reports?

Well, I think the answer is yes. I mean clearly interactive data is going to allow analysts to move from simply observing financial numbers to understanding what those numbers mean in context.

But I think even more importantly for me, if all investors were able to access as-filed data from the FDIC, it would level the playing field between the professionals and, as John pointed out, the interested individuals, the people who subscribe to Value Line and keep them piled up in the corner of the study because they just can't bring themselves to throw them away.

And, you know, it is really striking. You can't criticize the SEC or the EDGAR system. It has evolved in a very orderly, very I think rational sort of fashion from a technology perspective. When the first filings were made at the SEC, the filer community, the smart institutional investors immediately started gaming the system. They would hire couriers to go down and pick up a document as soon as it was filed. You had whole cottage industries that were formed around this.

Over the years as EDGAR has progressed, it has become more accessible and more transparent to investors, more useful particularly to small investors. But there is still an enormous degree of disparity and unfairness in the current system. Even the timing of the release of data from the EDGAR system so vastly advantages the professional investor.

I think that that, if nothing else, that should drive the Commission to act. And that should also I think give the Commission the confidence, indeed even the courage to act. Because until the individual investor with an Internet connection can get access to the same information that a professional can get -- in many cases at great cost -- I think the job is still undone.

Now, another interesting question that I've been asked is, assuming that a sufficient number of companies were to adopt the tagging regime, what obstacles would get in the way of using it?

Well, I think Trevor illustrated that today. You can't just take the as-filed numbers and do work with them. If you have got one satellite TV company that capitalizes a set-top box and another one that expenses the set-top box, you have got to normalize those two before you can do a valuation analysis of the two companies.

So to me and really to my firm, assuring a sufficient degree of uniformity in filings is almost a prerequisite if you want that data ready to eat when it is disseminated by EDGAR. I'm not sure you do. But I am just saying from a financial analytical perspective, if you want an investor to be able to download five companies from EDGAR, put them in their Excel spreadsheet and immediately starting running ratios and screens on them, you are going to have to have some degree of commonality.

Now, having worked with the FDIC data for a number of years, it's very easy. All banks basically have the same accounting, the same reporting taxonomy. So running analytics on them is a relatively easy matter. But when you get outside the financial world and you are into the much larger universe of non-financial companies and, indeed, under our GAAP system, they all have very different ways of describing their businesses. And they cling to that right of describing their businesses differently.

Now, one of the more interesting points that I was asked about is what incentives would encourage companies to submit data in an interactive data format.

I think both myself and my partner, Dennis, believe very strongly that the Commission ought to employ the carrot and the stick. You know, a company that is unwilling or unable to report information transparently when this technology is, as Ms. Mulcahy has said, is very mature I think is worthy of investor skepticism and regulatory attention.

There is going to come a point when all, especially the large accelerated filers, should not be asked why don't you get involved in XBRL, but why aren't you involved? You know, "What's the problem?"

I am reminded of Chairman Greenspan's comments a couple of weeks ago about the credit derivative market when he was worrying about the fact that we are still processing these contracts by hand. And he looked at the audience at the Bond Market Association and said, "Why do we have a problem?"

I think this is the same sort of thing. The vendors could handle us quite easily. The corporations might not even know. They could just the submit the document that they are already filing with you now and the vendors could tag it and that would be it.

Just one final point and then I want to allow us to get into our discussion. The thing that I would really, especially having worked as an analyst recently and having seen the changes that are going on in the Wall Street business models, you know, would interactive data help get more analysts coverage for companies? Well, maybe.

I'm not sure what entities will be providing that coverage. I'm not sure that it's going to be a broker dealer. It might be a media company. It might be the companies themselves if they could access as-filed data from the SEC and generate peer group information using that data with no commentary and just release that to their investors.

The model is so broken now that I think, as you have already seen in the newspaper, more and more broker dealers are going to be getting their researchers out of the publication business and into the transaction business. And I think it is very possible that you are going to see most of the traditional Wall Street research sector disappear.

I am not sure that's a bad thing though, because, frankly, having worked for two very large retail brokerages, I'm not sure that the little guy was ever terribly benefitted by the institutional researchers' work output. Before Reg FD the researchers were going on the banking calls and, you know, they were very much part of the transaction process and I think the little guy was probably off with his Value Line book.

So with that, let me stop there. We did file a complete document today with the Commission which I would refer you to and I will be happy to answer any questions you might have.

MR. BOOTH: Thanks very much to all four of you for those introductory thoughts. Now I'd like to turn the floor over to the panel as a whole for the balance of the afternoon and also to introduce our two SEC moderators for the discussion.

Sitting down in front unfortunately with their backs to the audience, we have Scott Taub, the acting chief accountant, and Jim Daly, associate director for the Division of Corporation Finance.

Guys.

MR. TAUB: Corey, thank you. And as far as having our backs to the audience, I suppose you're probably seeing our best side anyway back there. So, it's all right.

Just to kick things off, we have assembled a fairly large panel and we have a fairly limited amount of time, about an hour, to deal with these topics. So Jim and I are going to tee up the issues in the order that we have selected them. We will look to panelists, turn over your cards when you have comment, just flip them on the side so that we can call on you in order.

We will try to make sure that everybody who wants to comment on a particular topic gets a chance to do so. However, given the limited amount of time, we may feel the need to move onto another topic in order to make sure that we're able to get to everything that we'd like to get to during this hour.

Commissioners, certainly please free to ask questions as well, turn your cards up if we haven't given you the opportunity to ask a question that you would like to ask. We believe that we have a very good panel and we are looking forward very much to what input you can all give us.

I'll turn over Jim to introduce the rest of the panelists and get things kicked off.

MR. DALY: Thank you, Scott.

Moving from right to left for the remaining panelists, Mark Augustine is with the healthcare investment group called Augustine Consulting and provides proprietary biotechnology industry research to various hedge fund and mutual fund clients.

Cathy Baron Tamraz is the president and chief executive officer of Business Wire.

Thomas Franks is the head of Global Equity Research at TIAA-CREF.

Continuing to move to the left, Charles Gregson is the CEO of PR Newswire. He assumed that position in April 2005.

William Guttman is a venture partner with TL Ventures where he has focused on software and financial technology investments.

Greg Jonas is the managing director of Moody's Accounting Specialist Group and his group assesses the credit risk of borrowers.

John Stantial is the director of Financial Reporting for United Technologies Corporation.

Clinton E. White Jr., is a professor at the University of Delaware and he has published numerous articles in academic professional journals on this issue and a number of XBRL issues as they relate to accounting matters.

Now, what I thought we would do, as Scott mentioned, given the fact we have such a large panel is tee up some questions, probably picking and directing them to two panelists at a time. And then after that anyone can add additional thoughts that they think are appropriate as well as the Commission can add its views or questions as well.

So the first question I'd like to tee up, on the matter of access and accuracy, goes to Mr. Jonas and Mr. Franks. Would greater use of interactive data improve the ability of retail and/or institutional investors to access and understand reported financial data? How could the use of interactive data increase the depth of information used in financial analysis or otherwise facilitate the quality of financial analysis?

The important thing to understand here is that investors come in all shapes and sizes, institutions versus retail. So maybe you could bring your perspective as well, as you answer that question.

MR. JONAS: Jim, thank you. I certainly appreciate the privilege of being here today to say a few words about interactive data that we think could be of significant benefit to investors.

We see that it can help us do our work at Moody's in at least five ways. Let me mention them and then briefly touch on each.

First is improving the speed of data access.

Second is the completeness of data access making sure that we've got the whole picture.

Third is improving the accuracy of the data that we use.

And fourth is possibly improving the comparability of the information we use.

And, finally, understanding the source and the context of company data when we build databases.

Speed of data access first. We suspect that data procurement that now takes us weeks or days or hours could be accomplished in a fraction of those times. Let me give you a couple of examples.

We currently spend days downloading, building and checking our database of information on corporations each month. We spend more time adjusting that data to improve its use for our purposes. We hope that interactive data could reduce these times from days to perhaps hours.

On the research side, a typical research project involves searching the SEC filings for text-searching software. Two projects that I was recently involved in in just the past couple of weeks identified 50 companies most affected by the FASB's proposal to get the balance sheet right for pension accounting.

As another example, you know, we spent dozens of hours identifying and downloading 404 reports that reported material weaknesses. And, again, we hope that interactive data could dramatically reduce those times.

The second benefit we perceive is completeness of data access. Interactive data can reduce the risk that our queries of SEC filings would miss important stuff. Tech searches are notoriously bad at flagging all relevant data. And, in part, this is because companies can call the same thing different names. Further, companies can report information in different places. And to reduce the risk that we overlook something important, we often perform redundant manual steps. Standardized tagging of information can help us ensure that we identify all the data that meets our search criteria. And that is very important that we not overlook something.

The third benefit I mentioned was accuracy of data access. Our processes today to accessing data include many manual interventions, each of which increases the risk of human error.

For example, our statistical analysts download data classified in our reporting framework, manually input data into the templates we use to adjust financial statements and then perform procedures to ensure that the processes have produced a reliable result. Using interactive data could reduce the amount of human intervention in this process and reduce human error. It might also allow automated quality control procedures to ensure the reliability of the database rather than requiring extensive manual processes.

The fourth benefit I mentioned, and for me among the most important, is improving the comparability of company data. Comparability is essential to the rating and research processes as I suspect it is to almost all of business analysis. Ratings that we use are relative not absolute measures of credit risk. We compare companies to those of their industry peers. We compare companies with those that are at similar rating levels. We compare domestic companies with international counterparts.

Now, today's comparability surely can be improved and the Commission has been outspoken on a number of these areas so I won't belabor them. But US GAAP differs from other GAAPs. Companies apply different estimates and judgments in measuring data. Companies display and classify information differently on the face of the financial statements. And these differences give us huge headaches in the analytical community.

Interactive data can improve comparability. Data tagging is not just about technology. It is equally about the classification of information. Boundless flexibility in tagging data is the enemy of comparability. Limiting flexibility in tagging is essential to the value to interactive data to investors.

So thoughtful data tagging I think can actually improve comparability in a major way. Let me give you one example. Consider retailers. Some retailers view their store costs as part of operating expenses and include them in cost of good sold where they affect reported gross margin.

Other retailers use store costs as selling costs and include them in SG&A where they don't affect gross margin. So gross margin and SG&A costs of retailers are not comparable. Further, investors do not have the data needed to make them comparable. But tagging store costs could offer management and investors the best of both worlds. Management could classify store costs as it deems best, consistent with the way it manages the business. Yet, investors can download data and classify it in a comparable way essential to financial analysis. So XBRL offers the best of both worlds.

My final point and then I'll be silent, is to understand the source and context of company data.

Interactive data can allow the analyst to instantly backtrack from a data point to the source of that data point. And that backtracking can help the analyst see to better understand the data in the context in which the data was presented. That is key to analytical effort.

So, in conclusion, you know, why we're really fired up about this is that it offers -- interactive data offers us more time to be doing what we're paid to do, which is analyze the information and gaining insight from that, and less time just getting data ready for analysis where we spend too much time. Thanks.

MR. DALY: Thank you.

Mr. Franks.

MR. FRANKS: Thank you.

Let me just first say that my point of view is going to be from the institutional investor where at TIAA-CREF we have over 50 investment professionals on the research side really aligned by industry will be performing the analysis prior to investment decision. And I see, as was just touched on, an enormous opportunity to improve the efficiencies of particular pieces of the investment process, particularly early on as a screening tool in particularly small or mid-cap names.

MR. DALY: Could you pull your might just a little bit closer?

MR. FRANKS: Sure. I think, as was just touched on, the interactive data project will allow you to get to what you want to do faster. And what we want to do as investors is not spend a lot of time cleaning the data, looking for clean historicals, accurate current financial statements. That's part of it, but what we really want to spend our time on is forecasting the future. And that's where we believe we add value. So any tool that will give us accurate information in a manipulable format is a big plus from our point of view. I don't think it will ever replace the Ks and the Qs which are going to contain information that probably cannot be tagged and is a rich source of information of the company, in the footnotes, in the discussion sections, which it will probably be beyond the scope of this exercise to really tag. And, if you're investing large amounts of money, you will have to go through in detail no matter what.

But I do think this can accelerate the investment process for us and I do think that beyond the core group of companies that an analyst would cover, this could allow us to create better intelligence screens which would bring small and mid-size companies that we might not normally look at to our attention, at which point we can then begin to do the much more detailed work that could lead to investment decisions. So whether you call that coverage of a company, it is certainly attention towards companies that we may not have otherwise looked at.

MR. DALY: Thank you. This next question is for Ms. Tamraz and Mr. Gregson. What sources of data are primarily used by analysts, investors or other users -- the media, for example -- for research today -- official filings for the SEC, third party financial databases, manually re-keyed data. What sources do you look to?

MS. TAMRAZ: Well, Dow Jones, Reuters, Bloomberg, Thompson Financial, you know, services like that are the sources, but I think it all starts before that. And representing the news distribution service and the commercial news wires, I think interactive data all starts with the press release.

In our service, the press release is already being distributed in XML, and XBRL to me is just an extension of XML and it is further tagging of the financial data. So I think that is going to be enormously useful for everyone, the individual investor and the professional investor, media, et cetera, to analyze companies and make buying decisions. So I was happy and thankful to be invited here today because I think the press release is at the heart and center of interactive data and provides that source being pushed out to Dow Jones, Reuters, Bloomberg, et cetera, is key to taking that information and analyzing it.

MR. GREGSON: I'm just really endorsing what Cathy said. The news release is the primary source of data for newsrooms and for a large number of people who are required to comment instantly on what companies are saying. And the use of their interactive data will enable the media to comment much more effectively and much more rapidly on what companies are saying, particularly in their earnings statements.

I think that the two newswires working together to develop a taxonomy for text as well as supporting the financial taxonomies will make the press release significantly more valuable to both retail and institutional investors. So we thoroughly endorse the efforts of the SEC to ensure that this standard is rolled out.

MR. DALY: The last question in this area goes to Mr. Guttman and Mr. Stantial. What incentives would encourage companies to submit data in an interactive data format? We have heard about the carrot and the stick already. What perceived risks do companies see in submitting the data in an interactive data format as a result?

DR. GUTTMAN: Well, let me just say as a private equity investor, much of what we are talking about today is kind of an unrealizable dream, at least in the area that I work in, but I do have the privilege of working with a number of companies and have invested in a number of companies that generate or move data of the kind that we're talking about today.

I think that one of the things -- and I had an opportunity to speak with them before coming to today's panel. And I think the question is very interesting because there is a very large ecosystem of companies, mid-market, smaller companies that generate or move the kind of data that we're talking about and so far they have not really realized a lot of customer demand. So the typical supply-and-demand incentives that are present in the market had not yet appeared with respect to XBRL.

I think it also raises the corollary point that there are a huge number of listed securities and that the cost of implementing XBRL don't scale. So it is not -- in other words, the large companies that are presumably a part of the test group, that's a relatively small expense for them relative to the scale of their organization. So I think that as others have mentioned during the course of the panel, there probably need to be incentives of some kind put into place to cause both the data providers and data movers within the ecosystem as well as the smaller organizations who are expected to report this kind of information to the SEC and analysts to actually embrace XBRL.

MR. STANTIAL: I would like to approach this question a little bit differently and maybe a liberal interpretation of incentive. Barring a mandated requirement to file, we did think about this quite a bit, but really didn't think there was, say, a traditional incentive that the Commission would provide that would really make us any more interested than we already were. But having said that, I think the real issue here is how do we get broader application, interest and usage of XBRL by companies.

And using that kind of avenue for incentive, there were kind of two thoughts. One is really this community here, the investors and analysts. You know, right now XBRL is very much within the financial reporting realm and in some regards that's harmful.

I think if we can have the investor and analyst community make a much stronger statement to companies that they want and need this data in XBRL format, then you are going to take the interest within a company from the financial reporting segment over into investor relations, senior management and those kinds of levels which is going to, given that it's coming from your shareholders or representatives of your shareholders, is going to get quite a bit of attention.

The other way I would focus and it just may be a very liberal interpretation of incentives, would be to take resources that are available, whether it's the Commission or consortiums or whomever, and find ways to bridge these, and I'll call them, perceived roadblocks to adopting XBRL. And I have heard some of them even this afternoon on the panel. Having now filed I think six or seven XBRL documents, including the one that was profiled on the Morgan Stanley product, they really I can honestly say are not roadblocks or issues even for smaller companies to adopting XBRL.

I think where the resistance or the trepidation comes from is a lack of knowledge or proper understanding. So if we can bring resources to bear to bridge that, maybe through a tool kit, through hands-on workshops where you walk people through how you tag documents, things of that kind of nature, to take it from this level we're talking down to the details to show people that you can file a document for literally -- our first document was $300. That was our total out-of-pocket cost. Even for a small company, $300 is not a lot of money. And it was about 80 hours of effort. I know resources are a constraint, but 80 hours is not that much of a constraint for any company. And, if it is, there are now organizations such as EDGAR Online that will tag it for you. So you can circumvent the resource issue.

But I think it is that kind of information that needs to come out into practical terms and then I think that will really help some of these more companies into the fold.

MR. DALY: Mr. Harris.

MR. HARRIS: Thank you. I just wanted to add one point that relates to all three of your questions really.

Based on our own experience using interactive data, I don't think you should underestimate even for the retail investors that it takes you to actually asking a completely different set of questions to what you were asking before. Because what the interactive data does is highlight differences, gaps, inconsistencies which you would never have been able to see in an efficient way before. So it actually takes you down the path of better understanding, which several of the other panelists have said. So I don't think you should underestimate the path that this leads you to. Don't look at it where it is today.

The other thing I would just mention relative to the last set of comments is people are scared of change, as Ms. Mulcahy said. Therefore, some of the people who purportedly would demand this information may actually be a little anxious as to what it does to their own activities. So, again, I wouldn't let that be too much of a barrier, because as you start to play with this you really appreciate the value that you can get out of it.

MR. DALY: Mr. Whalen.

MR. WHALEN: Just to take that comment a step further, in most cases when you get vended interactive data today, you're not allowed to redistribute that outside your organization. As soon as the SEC makes public interactive data widely available, every media outlet that focuses on investors, Google, Yahoo!, all the rest of them, will take that data and they will do exactly what Rupert is talking about. They will almost immediately start processing it, distilling it and offering it to users in a variety of different ways to capture exactly the value proposition that he just outlined.

MR. DALY: We'll try to circle back on this, but let's move onto Scott.

MR. TAUB: I would like to ask a few questions that really build on some things that people have already said in the opening presentations and then in answer to the last few questions.

Let me start if I can with Dr. White. In addition to kind of the basic financial statements, I would like to hear from people about what other items should be tagged. Footnotes, MD&A, perhaps filings that don't even include financial statements. What kinds of documents ought to be tagged and why would the additional tagging produce benefits?

MR. WHITE: There is already talk about -- there is quite a bit of talk in the academic community in fact and it has also been picked up by the SEC. For example, Corey Booth mentioned at the 13th XBRL International Conference that there were several leverage points that had been identified. And I couldn't agree more. These are footnotes, 8-Ks and 10-Qs.

It seems to me that the 8-K is a no-brainer, because you have triggering events, you have the need to disclose very timely important information for investors. It is a rather structured environment. So it seems to me that the 8-K is basically a no-brainer to develop the appropriate taxonomies and reporting mechanisms.

Something that would add extreme value at the moment to what we already have, to the taxonomies that we already have, is the tagging of footnotes. Now, I'm thinking about tagging at a higher level as opposed to trying to create a taxonomy that picks up all the nuances that you find in footnotes. But that to me is one of the most difficult pieces or sections of any set of financial information, is the complexity that is disclosed in the footnotes. It can totally change the meaning of a set of data that appears in the financial statements by reading the footnotes and fully understanding what they say. So to me it's basically a no-brainer, footnotes, 8-Ks, 10-Qs.

MR. TAUB: There's been a few comments about the importance of standardization in terms of getting the most benefits out of data tagging. However, as I think all of our panelists know, US GAAP and the SEC's reporting rules regarding financial statements and related information tend to be very flexible. That is, there are no limits to the captions a company can use in its filings nor in the narrative disclosures that it makes.

So trying to get to thoughts about how important is standardization versus the maintaining the flexibility that is currently allowed in our reporting system. I think we have heard from everybody except Mr. Augustine. So, perhaps I'll look to you to start this one off.

MR. AUGUSTINE: Thank you and thank you for having me here. I think it's a difficult question. Certainly reconciliation of GAAP and non-GAAP earnings is a very important part of what the analyst and an investor would spend his or her time doing. That is part of the discussion that goes to the fine print in the footnotes to the financials, as to what is so important about the seeming minutiae, but really what can make a critical difference in interpretation of such results. So I don't think that question should be taken very lightly, but I certainly don't have any real closure on it.

In my nine years as a sell side biotechnology research analyst, reconciliation of GAAP and non-GAAP earnings is something that we encountered routinely, but in terms of how often it became an issue of conversation between investor and analyst or companies and investors on conference calls, the answer is very infrequently. And so it might be best to get some experience or comments from people with other industries where this might be much more germane to their day-to-day.

MR. TAUB: Okay. Trevor Harris.

MR. HARRIS: Thank you, Scott.

I think we have to be very careful what that word standardization means. There are other countries that have uniform accounting practices where every journal entry is dictated and I would not say that automatically leads to more informative information.

In addition, companies are complex and different. And that is part of the information we need. And I think you can go to Greg Jonas' point, is that we are very happy for the companies to tell us the way that they think the information should be portrayed. To the extent that we have tagged data elements that deal with that complexity, we can reorganize them in the way we want.

Our experience with our clients is that different investors want different things. And we actually create custom metrics so that they can create any metric they want, which is very easy to do with tagged data, it's almost impossible to do without.

So actually I would be very careful -- standardization at some level makes sense, but what that word really means and how far you take it can actually be very dangerous in terms of the information that you provide.

MR. TAUB: Thanks. Mr. Salva.

MR. SALVA: Thanks, Scott. Just to echo what Trevor just indicated, because I thought of that as Greg was giving his example of store costs and what belongs in margin or what might be in margin for one company versus another.

As you know, US GAAP doesn't necessarily ensure comparability from company to company because of the selections of alternative accounting principles that can be applied and not just principles but also classification. I think there is a lot of flexibility on the part of commercial companies to classify costs in different ways. They look at them for internal management reporting purposes differently and sometimes appropriately because the underlying economics drive different presentations or selection of accounting principles. So we do have to be careful in terms of believing that by data tagging or standardization will lead to comparability.

What it will do is it will facilitate analysis so that underlying differences can be ferreted out. I think that is what Trevor might mean by it leads you down a different path of questions that you might not ever get to because you are too distracted by trying to get to the data to analyze.

MR. TAUB: I believe Chairman Cox has a question.

CHAIRMAN COX: Yes. I just want to make sure that

I'm learning the right lesson from listening to all these comments. Synthesizing what discussion has just occurred, I think what I'm hearing is that if we want ready-to-eat comparability, if I've got the term correctly from earlier, we want ready-to-eat comparability, we might find ourselves disappointed. It's a big world. There are a lot of different ways to report a lot of things.

But if what we want is to have the kinds of movable pieces that will let us reassemble things to our own satisfaction and particularly if we are willing to see a role for intermediaries and third parties between this data and retail customers for a variety of purposes we might find ourselves highly satisfied. Is that about right?

MR. WHALEN: If you have a thorough tagging regime, no matter how the companies try and obfuscate, the analysts armed with the tagged data, much like Rupert is doing now by hand, are going to be able to sort it out. And that's really I think the very exciting possibility. It will make the IR professionals' job a lot harder and it will make both the professional street analyst and also the independent analyst, the journalist, all the other parties that want to be consumers of that data that much more effective.

CHAIRMAN COX: And I just want to add an additional layer of potential complexity here and see just how much satisfaction we might yearn for at least potentially in the future.

Is it possible to imagine a future in which the analyst can use this data tagging in order to do a much better job of comparing GAAP and IFRS financials?

MR. HARRIS: No question. We are doing that really currently today. We cover our global universe, many companies reporting under IFRS, many under non-other international GAAPs and US GAAP, so there is no question that it does facilitate those kinds of analysis.

But if I may try to give you an illustration? There are many companies that have kept the finance subsidiaries which actually are integrated in the way that they actually run their operating businesses.

For our classification, we happen to treat those as operating entities because there is no way to separate how much of the value is from the financing business and how much is from the let's say the production side of the business. In other companies they are so clearly distinct, we make that separation.

To get the right analysis about the sustainability and growth of profits, you have to deal with those kinds of distinctions. Other people may have different views of that. Some regions deal with it differently. But once it's tagged and once you understand that source, you can actually look at it both ways so that you can actually make those comparisons more meaningful at virtually no cost.

And that's the key is you can make all these comparisons very simply and then see which gives you the better insight about what's happening going forward.

MR. TAUB: Mr. Jonas put his card up, down and back up again, so we'll give him a shot.

MR. JONAS: I just can't help myself but I absolutely agree with the point Chairman Cox just made except I hope that on international standards the division for the future is conversions with US GAAP so that we have one body of global GAAP in that we don't have to rely on tagging technology to help put a band-aid on two diverse GAAPs.

MR. TAUB: We've heard a number of people make comments that through tagged data analysts would have more time and perhaps more capability to perform analyses that are not currently performed.

I guess I'd like to get views from Mr. Markese regarding whether these same benefits would accrue to individual investors were we to get into a tagged data format.

MR. MARKESE: Well, it's an uneven playing field on a cost basis, an access basis. We all know that. But what we're talking about in the professional models are a richness of data that simply is not available to the individual investor but would be with tagging.

I mentioned those value drivers, I mentioned the quantitative things we can pull out. What we need is peer group comparisons, for instance. When you do get down, you screen down, you find the stock that you like, how do you compare that? And there are different ways of creating industries. And the depth of information available on that again is not available to individual investors today, but with tagging it would be cheaper and I assume more available at lower cost.

MS. TAMRAZ: I just want to make a comment about that because I was interested in some remarks that Corey Booth made in talking about simplifying some of the coding and I think this is where news services like Business Wire and PR Newswire can be helpful because we have got an idea going that we might provide some simple tagging for companies where it wouldn't have to be that complex but yet it would provide some of the main information that would be used for analysis and that might be very helpful for the downstream for the end user to read some of the simple tags to make decisions without it being so complicated.

But Corey said I think the idea of using XBRL to encode earnings release information is a very powerful one whether it takes place through the SEC 8-Ks and 10-Qs or through the press release services. This type of information is often relatively simple and condensed and shouldn't require massive taxonomies, but it is also very valuable and time-sensitive information.

I think that is a really good direction to go in because there are many out there that are not as sophisticated as, you know, the big guys. And if we provide something that is a little more easy to use and readable, I think that will be very good for the individual investor.

MR. TAUB: Sticking with the theme of perhaps the smaller companies for a moment and perhaps even smaller investors, we have heard reports that the costs are fairly low. Mr. Stantial I think provided some comments in that regard. But the other thing we have also heard a couple of people mention is the possibility that XBRL tagging or other data tagging for use with interactive data might indeed increase analyst coverage. It occurs to me that this would be potentially of benefit to smaller and medium-size companies if it were to occur.

I guess I would like to solicit a few more thoughts from people as to whether this would occur. I see Mr. Augustine nodding his head.

MR. AUGUSTINE: I'd love to help you out. I mean covering the biotechnology industry, you have to understand there are more than 300 public companies. I covered 27 at my peak with a support staff of two people, so I covered less than 10 percent. How did I choose those companies? There were 12 I had to cover.

Why? Because they were liquid. They traded a lot. They got the institutional investor votes. They were Amgen and Genentech and a handful of other profitable companies. There are only a dozen profitable companies in my industry. So how do I choose the remaining 15 or 20 to round out my coverage?

Well, I might get an idea in a technology and believe that it may work, but it also is the case that CEOs and CFOs, CFOs in particular, they spend 40 percent of their time in my industry if they are a development-stage biotechnology company just meeting with investors and analysts like me soliciting coverage. Otherwise they are left in the depths that were described by earlier speakers of having one or two analysts covering them tending to be the underwriters.

So here I am in an industry that is capital-intensive. It's $800 million to make a drug. It takes 12 years and very few of the companies are actually covered. The benefits to small and mid-size companies in my industry group should be readily apparent. It's the opportunity to furnish somebody with full historical financials and all they have to do going forward is project on the fate of one or two products in development. I mean that's a no-brainer for me as an analyst.

The biggest roadblock for me covering more companies was never the science, it was all of the legwork to simply bring it up to the state of readiness. All the forecasting, et cetera, would be readily enhanced.

So my suggestion is that for that cost consideration whatever it might be in dollars, certainly it's not as burdensome as SOX compliance and to that end I would point out that these companies ought to look at expanded coverage and expanded ownership base, the constant need to access capital, and realize that as they are able to speak to more and more investors and to gain increased coverage, one of the great benefits, of course, that is also going to accrue to them conceivably is that they have many more sources to tap.

But, look, how do you incentivize them? Although I think it may be readily apparent, how about linking it to The Securities Offering Reform Act of 2005, by which they could benefit from things that might normally accrue to otherwise the well-known investors.

Once you reduce the research black-out periods that arbitrarily seemingly to an investor or analyst kept me and others from writing when actionable events occurred in those companies and make it easier for them to get on file so that we don't have to sit there with $200 million shelves in our face every other week because they are worried about being able to take advantage in a timely fashion opportunistically of an appreciating stock price. I think that is an example in my industry that I know well.

MR. TAUB: Mr. Franks.

MR. FRANKS: Thank you.

Some similar observations. This will becoming from the buy side where if we have 50 analysts you can only ask someone to be an expert on 20 to 40 companies. And that is going to get you a 1000 to 2000 companies. And clearly there is more investible opportunities out there particularly in areas that are less covered, so you would want to look at those as well.

As a research director, the analyst's time is our most precious asset and we want that pointed towards areas where they can generate a return for our participants. So what you would do as an analyst is clearly you're going to cover the 20-plus names that are the biggest market gaps that you have to cover from an index point of view. Beyond that you want to screen as many names as possible.

I used to be a semiconductor analyst. You would always cover Intel, always have an opinion on Intel, but getting down into the sub-billion-dollar market cap companies using your industry expertise to identify investment opportunities is value add on the buy side. And with tools driven by interactive data, if you can be screening 200 names and similar to biotech, there is a lot of small semiconductor names, doing various types of analysis which will differ over where you are in the cycle and what type of company they are and say, "This looks interesting. Let me spend some time there." Begin to dig in the Qs and Ks, figure out why this company is trading where it is, you may not think it's an opportunity at that point. Then you drop it. You may think it is an opportunity you continue to develop your model's forecast forward and invest accordingly. So it's a real potential benefit for the efficiency and breadth of buy side coverage.

MR. TAUB: Thank you. Let me move to a slightly different topic. There has been some talk of to what extent auditors would need to be involved in attesting to the accuracy of XBRL data. For our voluntary program we have had one company, United Technologies, that has gotten its auditor involved and the auditor has reported on that data using guidance put out by the PCAOB.

Is it necessary for auditors to be involved with XBRL data? Are there different types of attestations that auditors should be asked to do in terms of XBRL. Mr. Stantial, you have had some experience here if I might look to you to begin.

MR. STANTIAL: Yes. I'll answer two parts. We had auditors go through partly because we wanted them to learn the process with us. None of the firms having gone through this, then they weren't sure as well what it all really entailed. So, similar to us, we wanted to get the learning curve out of the way so we could proceed in the future efficiently.

In general, I think auditor's assurance is essential. You are taking an area that people, as has been noted, have a fair amount of trepidation to begin with. It's major change. Although the taxonomy is out there, for instance, the commercial and industrial taxonomy has something like 1500 tags right now. It is probably half of what it needs to be. So there is a lot of room right now for companies to be extending tags in order to meet the full scope of their financials.

And even though a lot of the conversation now is just on the basic financials, there is no reason not to go ahead and use the tags that are developed to do your MD&A, your footnotes and everything else. They are there. They are not as mature. But given that then I think people would want to know that you had some independent review of either what companies did to extend accounts or how they applied some of these less mature tags or filled in the voids, and perhaps not being intimate with what XBRL means and the whole process then to have an outside party just sort of fill in your insecurity with that level of assurances that you would want then to use the data unencumbered and freely.

MR. TAUB: Mr. Whalen.

MR. WHALEN: Just as a follow-up to that, if you think of it, most large enterprises today are tagging their data internally, but they are using proprietary accounting systems. There are some offerings in the marketplace right now both by consultancies and large enterprises like Cisco, for example, that are trying to take that proprietary tagged information and migrate it to XBRL. So I think it makes an enormous amount of sense.

If you're an auditor and you want to know where a piece of financial information came from within the enterprise, you are going to want it tagged in some way so you can trace it down and verify the origin. It is really the same concept whether it's XBRL or a proprietary accounting system.

MR. TAUB: Mr. Jonas, perhaps for the last comment on this. And maybe have you thought about whatever auditor involvement there is, is there a report needed beyond the standard auditor's report to cover the XBRL information?

MR. JONAS: Well, if we are successful in getting investors to increasingly rely on interactive data, you know, errors in the tags will flow right through to the investor's databases, possibly misleading their analysis. So companies and auditors could perform all other steps in the preparation and audit process correctly, but if the data tags are wrong, we could end up like fumbling the ball here on the goal line.

I mentioned before that I think tagging data is the equivalent of classifying data and the auditor's report has long covered the classification of data in financial statements and footnotes. So I would think that investors would greatly benefit from similar assurance about the classification of data in the tagging process. I would think that could be done through the standard auditor's report.

With regard to data that's tagged on unaudited information, which I hope occurs as we broaden the tagging universe, I would hope that management's report on internal control and management's assertion about controls would cover the data tagging process as well as the other aspects of control.

MR. TAUB: Dr. White?

DR. WHITE: I picture a world in which XBRL does not stand alone. There are many other initiatives going on in the XML world. One is called internal control XML. It is based on the COSO framework. It is using an idea where a risk control library gets created that includes business processes, risks, controls, testing procedures and so forth, all of which would work directly for SOX compliance.

So to me, and this is one of the roles of academics obviously, some research being carried forward in using a combination of these technologies that are all working towards the same goal makes total sense. And, again, as an academic we need access to data. And so if we can overcome that hurdle where we can get access to real world data and be able to do some experimentation, we can make a significant contribution here.

MR. TAUB: Thank you. I'll turn it over to Jim to go through our last group of questions.

MR. DALY: The last session is on tools for interactive data use. And I would offer this up to Mr. Whalen and Mr. Harris. They have talked pretty much on some tools that they have used and have experience with, but are there sufficient tools in the marketplace today to use interactive data overall? What type of tools would investors and analysts like to have and what are the costs versus the benefits for those tools?

MR. WHALEN: Well, I think the answer is that there is a very mature and very rapidly growing set of tools, from storing and gathering data down to the actual analysis of data. Could we use more tools? Sure. But I think if you offer interactive data to this marketplace, you will see a proliferation of tools that will even exceed what's already out there starting with Microsoft, looking at Google launching their own spreadsheet, all the proprietary offerings out there that retail investors can get from websites and other organizations. I think if you enable them by making this data publicly available, the options will be limitless.

MR. DALY: Mr. Harris.

MR. HARRIS: Yes, I would really just endorse that. I don't think -- it's a chicken-and-egg situation. To the extent that there is interactive data in our case, we started building a suite of applications for that. To the extent that it becomes more publicly available, I just think there is almost limitless tools that would be made readily available very quickly and it would help all of Mr. Markese's and other investors, too.

MR. WHALEN: Could I add something quickly? We really should not underestimate the systemic influence on both the academic community and the risk management community as to what tools we develop because of the availability or the lack of availability of data. If graduate students in business schools who are working on new behavioral models for analyzing corporate behavior had access to structured machine readable data from the SEC, I can't even imagine what they would be doing. The tools we have today are a function of the data availability. We are still living with what was available 10 and 15 years ago.

MR. DALY: Ms. Tamraz.

MS. TAMRAZ: Well, I think talking about tools, it is a chicken-and-egg thing and you have got to get the news tagged first and then the tools will be created to process that news. And, again, I think Business Wire and PR Newswire we are uniquely positioned to push XBRL forward.

For instance, we just rolled out a tool in March called Earnings Direct. So the company, the issuer can convert their company data into XBRL by downloading an Excel template, populating it and XBRL tagging it, uploading it, sending it back to us and then we are pushing it out to the community that is going to use it and analyze it. And, again, PR Newswire is doing similar work in this area. Together we have been pushing forward the whole tagging of financial information. And I think that is really key to this whole process.

Business Wire alone issues more than a quarter of a million press releases a year. And you have got about 50 percent of the marketplace, so you can see how many news releases are going out and if they were tagged, I'm sure there would be a proliferation of tools to receive them, analyze them and act on them. So it really is a chicken-and-egg thing.

And also peer pressure is also a wonderful thing. I know everyone is saying well, the SEC should mandate it, but with the voluntary program, I have to say we have done some filings for Altria and a few other companies and

XBRLized them and the phone has been ringing because nobody wants to be left off the bus as the bus move forwards. So I think it is going to start to grow.

MR. DALY: Anything else? Any final comment from anyone?

Mr. Chairman?

CHAIRMAN COX: Well, thank you very much. I'm about prepared to wrap this up. So before I do, I want to thank all of our panelists and thank all of you who have joined us today and offer a special word of thanks to the people that are still with us for staying with us all day.

We actually have one more panelist on this vital issue still today. This additional perspective comes to us from the Chairman of the House Subcommittee on Capital Markets, Richard Baker, who is actually in Louisiana but through the miracle of modern technology he is going to be our last presenter on what has been an absolutely outstanding panel. So we are now going to give Chairman Baker the last word.

CHAIRMAN BAKER: Technology is a powerful force in the world of commerce creating opportunity, products and services. Technology deployed in the regulatory world can have a parallel effect. Data tagging methodology such as Extensible Business Reporting Language can be a powerful tool to achieve many valuable goals.

The investing world is a dynamic place with more individual investors in the market than any time in history, second in value only to home ownership. Investment portfolios for the individual are growing household wealth to record levels.

Yields to investors can be significantly enhanced with the reduction in regulatory charges. Merely reducing the flow of paper can be a significant saving, but it is actually possible, at least in my opinion, to reduce the paperwork burden on business, lowering the regulatory costs, while improving access to needed information for the individual investor. XBRL I believe offers that clear potential.

I commend Chairman Cox for issuing guidance on the use of data tagging. I am anxious to work with him and the agency in deploying this important technology to assist the marketplace and individual investors. Having timely access to usable information is a powerful tool for all stakeholders. This is a terrific opportunity to employ incredible technology and obtain tangible benefits not possible before.

Thanks for the opportunity to participate in your interactive data roundtable.

CHAIRMAN COX: We are grateful for Chairman Baker's thoughts on the potential of interactive data and I think his remarks show the support for improving the flow of information throughout our capital markets through XBRL, through data tagging in the ways that we have discussed today, extends from regulators and investors and companies and analysts to the Congress.

I would like to take just a moment now to recognize a few key members of our staff here at the SEC who helped plan this afternoon's program.

First, thanks to Susan Nash for our Investment Management contribution and her thoughtful effort moderating a second panel today. And, Susan, also for your ongoing efforts to employ technology in ways that will help mutual fund investors.

Thanks to Corey Booth who, as you know, is our CIO here at the SEC, not only for your great work today but also for your continuing leadership of our technology initiatives.

Scott Taub, who's served as a co-moderator here this afternoon, our acting chief accountant, is doing excellent work on our interactive data project, as is Jim Daly in Corporation Finance. You did an outstanding job with this panel, but very importantly the day before and tomorrow as well.

I would also like to thank Jim for not only making this roundtable such a success, but also helping to grow our interactive data group. We can be very proud of the volunteers that we have had sign up for that already.

And final thanks and especially so to Jeff Naumann and Brigitte Lippmann for their tireless efforts to make interactive data a reality and to empower America's investors. This has been an excellent roundtable. To all of our presenters, in particular, to the Commissioners who have been here, as you've noticed, all day long, to members of the news media, interested observers and, of course, those who are watching on the web, your energy and your enthusiasm on behalf of America's investors is enormously appreciated.

Thanks very much and good afternoon.

(Whereupon, at 3:17 p.m., the Interactive Data Roundtable proceedings were concluded.)

* * * * *

PROOFREADER'S CERTIFICATE

In the Matter of: INTERACTIVE DATA ROUNDTABLE
Witness: Administrative Proceeding
File Number: 4-515
Date: Monday, June 12, 2006
Location: Washington, D.C.

This is to certify that I, Don R. Jennings (the undersigned), do hereby swear and affirm that the attached proceedings before the U.S. Securities and Exchange Commission were held according to the record and that this is the original, complete, true and accurate transcript that has been compared to the reporting or recording accomplished at the hearing.

Don R. Jennings 6/19/6
(Proofreader's Name) (Date)

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

REPORTER'S CERTIFICATE

I, Andrew N. Schachter, reporter, hereby certify that the foregoing transcript of 188 pages is a complete, true, and accurate transcript of the testimony indicated, held on 6/12/06 at HQ

in the matter of:

05-015 Roundtable 4-515

I further certify that this proceeding was recorded by me, and that the foregoing transcript has been prepared under my direction.

Date: 6/19/06

Official Reporter: Andrew N. Schachter

Diversified Reporting Services, Inc.