Secretary
Securities and Exchange Commission June 8, 2006
100 F Street NE
Washington DC 20549

Re: Interactive Data Roundtable
File Number 4-515

Comments of: R.T. McNamar

I thank you for the opportunity to participate in the SEC's June 12, 2006 Interactive Data Roundtable. This submission is for the SEC's public record. I will testify in person and have a shorter version for personal testimony. I will use the terms Interactive Data and XBRL interchangeably, although I commend the Commission for the name change.

Today, I would like to address three related topics of today's roundtable. They are: first, the SEC's current approach to interactive data; second, the importance of the investment management industry's adoption of interactive data; and the Commission's shifting to an IT based enforcement approach as exemplified by the adoption of Rule 22c-2.

After the collapse of Enron in December 2001, I was a Visiting Fellow at the Cato Institute where I co-authored the book, After Enron, Lessons in Public Policy. One of the book's chapters I wrote was "The SEC as a Corporate Monitor," as written in the attached Regulation Magazine as attached. Based on my research, this chapter recommended that the SEC adopt XBRL for corporate reporting and employ XBRL based analytical tools to monitor corporate filings. I'm pleased to say that the recommendation was in fact, developed with the input and guidance of Alan Beller, the Director of the SEC's Division of Corporate Finance. I would say that he was the Johnston of the chapter's recommendations and I, the Bosworth.

Earlier in my career, I served as the Deputy Secretary of the Treasury Department from 1981-1985. Also, I was Vice Chairman and part of the incoming executive team that attempted to save the Bank of New England in 1990-1991. The Bank of New England was an example of auditing failures as well as bank supervisory laxity. The Bank ultimately failed and is still the largest bank failure in the United States history. In short, I gained experience and knowledge about accounting, auditing, and corporate governance.

In the fall of 2003, I left Cato and worked to promote the adoption of XBRL in the public and private sectors. In the public sector the effort was focused on the federal government and the multilateral financial institutions. In the summer of 2005, I began exploring the many used of XBRL. I have since founded a startup XBRL software company. The software company, XBRL Solutions LLC, focuses on *non-financial* applications of XBRL, and has nothing to do with the SEC or SEC reporting. For example, we are working on software to assist in the management of government security clearances.

INTERACTIVE DATA

On May 14, 2006 the New York Times Magazine had as its cover and lead article a piece entitled, “What Will Happen to Books?” It examined the impact of information technology on the book business discussing ongoing efforts to electronically copy, digitize, search, and link all of the world’s texts. The idea that all the content of all the world’s books are being linked and accessible without reading the pages sequentially is powerful indeed. I could not have even imagined this a decade ago.

The author of the article, Kevin Kelly, states, “The link and the tag may be two of the most important inventions of the last 50 years.” He may well be right. If data is tagged, it can be linked using XBRL. If it is tagged and linked, it can be used interactively. Only XBRL can do this.

While XML was a marvelous step forward when it introduced metadata or tagging in 1998, it didn’t permit linking. XML is generally credited with being the *lingua franca* of the Internet; however it simply does not have the capabilities to link tagged data electronically. XBRL built on XML and added linkbases to its metadata. As a result, XBRL is the transforming disruptive technology that introduces a new paradigm in financial reporting. It presages real time corporate reporting.

The SEC is to be highly commended for initiating the adoption of XBRL for corporate reporting. Indeed, in the last three years the Commission’s public etymology has evolved from talking about “tagged data” to “interactive data.” Given the enormity of the changes, e.g., replacing EDGAR and developing an XBRL filing system and an entire new set of XBRL-based analytical software; the Commission has approached the change thoughtfully.

I will not focus on the analytical capabilities that the SEC gains from adopting XBRL for public company reporting. A preliminary vision of that capability is described in the Regulation Magazine article mentioned earlier. Suffice it to say, the Commission deserves recognition for its leadership in initiating the RFI process and ultimately, completing the RFP process to acquire 21st Century analytical tools that can only be utilized with XBRL based filings. This process will take time, but the Commission has begun this leap to acquire the information technology analytics it will need to fully utilize XBRL.

Since his appointment, Chairman Cox has provided not only Interactive Data leadership for the SEC, but he has also demonstrated that “he gets it.” His May 20, 2006 Weekend Interview with the *Wall Street Journal* demonstrated that he knows the difference between showing a book page or 10-k page and providing the interactive data from the 10-k so that analysts and investors may use it productively. As he stated, “EDGAR is nothing more than a computer representation of disclosure pages. It’s not even really searchable. It might as well just be a printed page, but it happens to be on the Internet.”

Similarly, former Federal Reserve Chairman Greenspan recently commented about the *paper-based* bond trading practice that record billions of dollars in derivatives trades every day. He said, "This is 19th-century technology that I find appalling." EDGAR is mid-20th Century technology.

Simply put, the Commission adopting Interactive Data for corporate reporting is the largest single, most visionary change in SEC history. It moves the information from the SEC to the investor's laptop. It truly will enable investors to view, analyze and understand information *for the first time.*

Some of the other people who have been instrumental in the SEC's adoption of Interactive Data deserve recognition on the public record:

- Chairman Richard Baker of the House Financial Services Committee, Subcommittee on Capital Markets has provided enormous support for XBRL.

- Former Chairman Bill Donaldson and Peter Derby deserve recognition along with Alan Beller and Paul Roye.

- The leadership of Cory Booth as the Commission's CIO in bringing the SEC from a lawyer-dominated batch processing mentality to a Web 2.0 orientation is nothing short of phenomenal. Cory and the SEC Task Force, particularly Bridgett Lippman, have become the visible presence of the SEC at innumerable meetings during which they patiently and professionally explained the SEC's XBRL objectives and its process of adoption. I'm sure there are others.

As the Internet has driven a disclosure from a paper page printed out of EDGAR to the investor's laptop in the family kitchen, the Commission's adoption of Interactive Data will drive the focus of analysis and disclosure from the *published page* in the 10-k to the *information on the page* and permit that information to be accurately compared for the first time.

The SEC is defining 21st Century capitalism which will not only serve investors well, but the American people, and capitalism itself. If Enron was the nadir of American capitalism, history may regard the Commission's adoption of XBRL as its apogee.

INTERACTIVE DATA AND INVESTMENT MANAGEMENT

It is also appropriate to recognize and commend the Investment Company Institute's endorsement of XBRL for mutual fund company data. Under the new leadership of Paul Schott Stevens, the ICI should be recognized for its support of XBRL. This is a major change for the mutual fund industry's Washington leadership.

The ICI should be acknowledged for becoming pro active and not just reactive to new Commission proposals. After all, the ICI's constituency is the individual investor, not the executives of a mutual fund manager. The ICI is to be applauded for its new posture.

Today, more and more pension plans are moving from defined benefit to defined contribution or 401(k) plans while many Americans are increasingly placing their retirement savings into 401(k) s. The total is over $14 trillion dollars. The need for transparency has never been higher, and the ICI is to be applauded for supporting the SEC's efforts to implement XBRL to track and monitor mutual funds. Comparing expenses and performance of fund managers is virtually impossible without the use of XBRL. Mutual fund reports give pages of static information, not interactive data that permit meaningful analysis of performance.

This decades-old problem will be ameliorated, if not entirely resolved, with the mutual fund industry's adoption of XBRL and the Commissions final adoption of Rule 22c-2 in October 2006. Again, the ICI leadership is to be applauded for endorsing both of these steps.

MOVEMENT TOWARD RULE 22c-2

Against these positive comments, it's important to remember that the mutual fund industry has had an ongoing series of corporate scandals that have been coming to public attention since late 2003 and the winter of 2004. To date, the investment management industry has paid over $4.5 billion in civil fines without any admission of wrongdoing. Like the silent canary in the coal mine, $4.5 billion in fines is a signal that can not be ignored. Something is wrong.

The investment management industry has been fined for practices ranging from front-running to after-hours buying and selling on insider information for the fund managers' personal accounts. These apparently widespread practices violated the pre-existing mutual fund's policies stated to its own shareholders and SEC regulations.

Against this background the SEC described itself as "…taking actions in the wake of a troubling series of enforcement actions involving late trading of mutual fund shares, inappropriate market timing activities, and misuse of nonpublic information about fund portfolios.

Given the industry's publicized violations, many questions emerge. Why haven't the investment management industry's executives been brought before grand juries for indictment? One highly probable answer is because the Department of Justice and U.S. Attorneys haven't brought indictments is that they don't have any transaction level data necessary to obtain convictions. Why don't they have the transactional level data? I'll examine that phenomenon.

During this period, 2004-2006, the SEC has levied civil fines and restitutions of an additional $3.0 billion on the mutual fund industry managers without any admission of guilt or wrongdoing on the part of those who have been fined. Perhaps more importantly, today the Department of Justice still lacks the data necessary to even investigate whether possible criminal indictments are warranted.

Let me be clear, I think most investment management company executives are honest and try very hard to serve the best interests of their investors. The same is true of the auditing firms. The mine canary has been too silent too long. It's hard not to conclude that something isn't seriously wrong. We should ask ourselves why?

Commission's Legal versus Information Technology Approach

While historically the legalistic approach may have been the best possible approach to regulation for the Commission in the Pre-Internet Age, it is no longer a defensible first choice in the Web 2.0 era. An investment technology solution that deals with transactional data has been available and should have been adopted by the Commission over two years ago when the industry's widespread practices first came to light.

The Commission has been encumbered by always choosing what I call "the lawyer approach" versus choosing "the IT approach." The Commission has traditionally taken the lawyer approach, e.g., appoint a compliance officer. This rule simply papers over the problem because if the compliance officer lacks the transactional level data to assess compliance they can not do effective compliance. At the time this rule was passed, I dare say, not one of the investment management companies had the transactional data. Fortunately, today over a dozen mutual fund industry leaders have implemented a transactional data approach. Unfortunately, the overwhelming portion of the industy still does not. A dozen or even two dozen mutual funds or fund families is a very small percentage of the vast mutual fund industry.

Two years ago the investment management industry's IT practices were dated to the point of being characterized as anachronistic and generally, not Internet based. At the time, most transaction processing was still batch processed. The industry, the ICI and the industry's auditors hid behind the "omnibus account" and "omnibus sub account" smoke screen and basically said to the SEC and over 90 million mutual fund investors "leave us alone, there really isn't a problem. We don't collect any transaction data so there must not be any problem, because we can't see it."

That said, Rule 22c-2 should be enormously beneficial to mutual fund companies and more important their investors when it finally goes into effect this October. For the first time requiring the reporting of individual shareholders' federal tax ID numbers on all trades at all levels is an excellent step towards developing transactional data. This has prompted changes in the industry:

- Depository Trust Company operations will permit individual mutual fund transactions to be monitored by the fund's compliance officers;

- SunGuard Data has provided web based systems for mutual funds and transaction accounting that will produce transactional data for compliance. According to their web site, four mutual funds have implemented this capability to date.

- The Access Data software company lists over ten companies using their compliance system on their web site.

This suggests that less than two dozen companies have begun to address the problem. That's not a high percentage of all mutual funds. Presumably Rule 22c-2 will change that.

When the scandals about mutual fund abuses began to appear in the winter of 2004, I was an advisor to a big four auditing firm working to promote XBRL. I spent a good portion of the winter and spring of 2004 analyzing the problem and seeking solutions that might help the auditors address this problem.

As a former McKinsey & Company consultant who is used to this type of initial response, I continued to analyze the problem and did develop a thorough understanding of the problem. I recognized that less than a dozen transactional data items were necessary to provide complete transparency at the transaction level, and have a number of memoranda written at the time. I am happy to provide these memoranda to the Commission on request.

By searching the Internet, I identified a mutual fund industry software company in Pittsburgh that had developed software that provided all of the necessary transaction-based compliance functionality. The company is Access Data Inc. I introduced them to mutual fund auditors. In addition, I introduced them to the Investment Management Division of the SEC in Washington, where Access Data's industry expertise and software appeared well received at the staff level.

The auditors made it clear that they didn't want to be involved in any change that their audit clients might object to in any way. In short, they denied there was a problem and wanted to preserve the status quo. I would recommend the Access Data web site which contains a number of excellent white papers that reflect the need for transparency. www.accessdata.com .

At the time the SEC was considering requiring a rule requiring each mutual fund to appoint a compliance officer, a legalistic approach to the problem. In May 2004, at the request of Paul Roye, the Director of the Investment Management Division, I arranged a luncheon meeting at DC's Corduroy restaurant with a leader of a big four firm's U.S. auditing practice for the investment management industry.

At the lunch, Paul Roye specifically asked if the auditors would lead an effort to find an "IT transaction-based compliance system" in lieu of the then pending SEC mutual fund compliance rule that was outstanding for comment. At the lunch, the auditor indicated an interest in developing an IT rule for the SEC.

Immediately after leaving the lunch, the auditor indicated that his group had no intention of being involved in anything that might help the SEC because it might potentially upset their audit clients. I stated my position that the auditors should be serving the mutual fund's investors, not just working to placate the mutual fund managers.   These may have been acts of *omission* rather than *commission*, but in the spring of 2004 I felt it was a failure to do the right thing. After careful reflection, I still feel that way in the summer of 2006.

Ultimately, in mid-2004, there was no IT based proposal for a transactional compliance rule developed for the Commission. As a result, having no alternative proposal, the Commission adopted its rule requiring the appointment of a compliance officer, a lawyers approach. (Had I been a Commissioner at the time, I might have voted for it.)

The Commission's Rule requiring each mutual fund to have a "compliance officer" is at best a marginally useful cosmetic step. Unfortunately, if any mutual fund compliance officer lacks the transaction-based data to test compliance, appointing a compliance officer is hardly more than window dressing. This is illustrated by the fact that all of the violations relating to the $4.5 billion in civil fines to date were for violations of rule that were **already** on the books **before** the violations took place, but the violations still took place anyway. I submit that even if all the mutual fund companies had compliance officers appointed fifty years ago, they wouldn't have found these violations. These were in Paul Roye's words, "blatant conflicts of interest."

It appeared to me that the ICI and the auditors hid behind the fact that "you couldn't get transactional data" and acted as if there wasn't a problem. The industry and its auditors rationale appeared to be, "If we don't collect the data, I we don't have any data that that indicates there is a problem, therefore there must not be any problem." When the mine canary stops singing, there is a problem.

A NEW ERA FOR THE SEC AND ICI

Hopefully, with today's Commission's position on Interactive Data and the potential it presents for transparency of financial reporting there is an encouraging sign of changes in compliance. Further, the Commission working with the ICI can build on an IT-based transaction compliance rule for the industry to protect its investors. Rule 22c-2 is a major improvement in protecting mutual fund investors from the conflicts of interest by mutual fund managers.

I am extremely encouraged by the Commission's leadership on Interactive Data. I believe it reflects the Commission's overall change in orientation from a lawyer dominated 20th Century regulator to its use of 21st Century information technology to enable the investors to protect themselves.   My comments are meant to be constructive and supportive of the many changes at the SEC. Adopting an IT orientation provides the opportunity for the Commission to review its past investment management industry regulations and update its rules for investment management compliance. These will better serve mutual fund investors.

Similarly, let me say that I am encouraged by the new leadership at the ICI. In "April 2004, former Director of the Investment Management Division, Paul Roye, told the ICI at its convention in Palm Desert that the industry was "resisting, whining, and complaining about reform to expunge blatant conflicts of interest." I believe his characterization of the industry and ICI leadership in 2004 was correct. The conflicts were blatant and were not addressed at that time. Fortunately, things have changed for the better at the ICI. The new leadership recognizes that their responsibility is not to protect the investment company managements, but to protect the mutual fund investors. I recognize and applaud this change.

In the spring of 2004, the Commission should have specified the performance criteria that each investment management's compliance software must meet. To his credit, Paul Roye recognized that this was the best approach. He sought but was unsuccessful in obtaining the development of a transactional data based compliance rule. Software that provides the transactional data is what was needed, not the cosmetic appointment of compliance officers.

In my opinion, in 2004 the Commission, the ICI, and some individuals in the audit profession failed the mutual fund investors by their denial of and reaction to the problem. Now they can distinguish themselves by fixing it. I would urge the Commission to ask them to do so There does seem to be a new thinking at the ICI. Given Commission and ICI leadership, perhaps the auditors and the rest of the industry can begin to meet their responsibilities -- the protection of the individual mutual fund investor, not mutual fund management.