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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

ROUNDTABLE ON MODERNIZING THE SECURITIES
AND EXCHANGE COMMISSION'S DISCLOSURE SYSTEM

Wednesday, October 8, 2008

Securities and Exchange Commission

100 F Street, N.E.

Washington, D.C. 20549

Diversified Reporting Services, Inc.

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Amended 10/31/08

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P R O C E E D I N G S

9:00 a.m.

WELCOME BY SEC CHAIRMAN CHRISTOPHER COX

CHAIRMAN COX: Good morning. It is my pleasure to welcome all of you to the Securities and Exchange Commission to welcome our distinguished panelists, our commissioners, and all who are connected by the web and by video across the country.

When the SEC was founded 75 years ago, its fundamental purposes was to restore investor confidence in our capital markets by providing investors and the markets with reliable information. Today we are continuing to build on that fundamental premise that investors have the right to know the truth and the risks about the securities that trade in our markets.

Never in this agency's history has this fundamental mission been more important and more urgent. The current credit crisis has shown the importance of transparency to a healthy marketplace and it has shown us how costly hidden risk can be.

The SEC's 21st Century Disclosure Initiative is making a rigorous and detailed examination of how we can better fulfill our mission and help investors understand the detailed financial reports and complex financial instruments of today's markets. It will not only evaluate how well we

1 are using our current system but also guide our planning in
2 addressing the insufficient transparency that is at the heart
3 of today's market problems.

4 The panelists today will delve deeply into these
5 topics, but to help put today's discussion into perspective,
6 I would like to describe some of the most important recent
7 actions that the Commission has taken to maintain orderly
8 markets and to protect investors, as well as some of the most
9 significant new challenges that we will face in the days
10 ahead.

11 If I could, I would like to begin by acknowledging
12 by name every one of the SEC's nearly 4,000 staff who are
13 fighting daily to protect investors. That is, of course, not
14 possible. What I can do is ask every member of the SEC staff
15 that is here with us in the auditorium today to please stand.
16 To you and to all of our colleagues here in Washington and
17 across the country, please accept our appreciation for your
18 dedication, your patriotism, and your public service.

19 (Applause.)

20 CHAIRMAN COX: Above all in the current market
21 turmoil, investors need transparency. From the moment the
22 collapse of lending standards creating billions in worthless
23 mortgage paper and billions more in hidden risk, market
24 participants have had enormous difficulty discovering and
25 pricing that risk. Illiquid instruments that were not long

1 ago rated triple A for credit quality were hidden in
2 off-balance sheet entities and elaborately structured
3 securities.

4 We have worked on a number of fronts to improve
5 transparency, including using our new statutory authority
6 under the Credit Rating Agency Reform Act to expose
7 weaknesses in the ratings process and to propose sturdy new
8 rules. We have broadened disclosure by financial
9 institutions, particularly with respect to hard to value
10 assets. We have worked closely with the Financial Accounting
11 Standards Board to deal with such issues as consolidation of
12 off-balance sheet liabilities, the application of fair value
13 standards to inactive markets, and the accounting treatment
14 of bank support for money market funds, and we have initiated
15 examinations of the effectiveness of broker-dealers' controls
16 on preventing the spread of false information. The
17 Commission has also required new disclosures of short
18 positions to the SEC, complimenting the existing requirements
19 for reporting of long positions.

20 But beyond all of these actions to increase
21 transparency, the SEC is first and foremost a law enforcement
22 agency. During the market turmoil of the last several
23 months, the professional men and women of the SEC have been
24 working around the clock, seven days a week, to bring
25 accountability to the marketplace and to see to it that the

1 rules against fraud and unfair dealing are rigorously
2 enforced.

3 In the fiscal year just ended, the SEC's
4 enforcement division brought the second highest number of
5 cases in the agency's history. For the second year in a row
6 the Commission returned over \$1 billion to injured investors,
7 and the preliminary settlements in principle that have been
8 reached with major sellers of auction rate securities will
9 allow investors to receive over \$28 billion. When they are
10 finalized these will be by far the largest settlements in the
11 SEC's long history.

12 The agency has been especially aggressive at
13 combating fraud that has contributed to the subprime crisis
14 and the loss of confidence in our markets. We have over 50
15 pending law enforcement investigations in the subprime area.
16 Just this week, the Commission charged five California
17 brokers with securities fraud for pushing homeowners into
18 risky and unsustainable subprime mortgages and then
19 fraudulently selling them the securities that were completely
20 unsuitable for them with the proceeds.

21 In recent weeks the division of enforcement has
22 undertaken a nationwide investigation of potential fraud by
23 issuers of financial institutions and manipulation of their
24 securities through means including abuse of short selling and
25 the intentional spreading of false information. As part of

1 this aggressive law enforcement, on September 19th the
2 Commission approved orders under the Securities and Exchange
3 Act requiring certain hedge funds, broker-dealers, and
4 institutional investors to provide statements under oath
5 regarding trading and market activity in the securities and
6 financial firms.

7 The sworn responses to the Commission's orders were
8 due on Monday. The orders cover not only equities but also
9 credit default swaps. To assist in analyzing this
10 information, the SEC's Office of Information Technology is
11 working with the Enforcement Division to create a common
12 database of trading information, a database of audit trail
13 information, and also of credit default swaps clearing data.
14 Our Office of Economic Analysis is also supporting this
15 effort by helping to analyze the data across markets for
16 possible manipulative patterns in both equity securities and
17 derivatives.

18 The reason for this aggressive enforcement
19 investigation into credit default swaps is the significant
20 opportunity that exists for manipulation in this \$58 trillion
21 market. It is a market that is completely lacking in
22 transparency, and it is completely unregulated. This
23 regulatory black hole for credit default swaps is one of the
24 most significant issues that we are confronting in the
25 current credit crisis and it requires immediate legislative

1 action.

2 The over-the-counter market in credit default swaps
3 has experienced explosive growth in recent years. One reason
4 is that the total amount of credit default swaps outstanding
5 far exceeds the total value of what the swaps are meant to
6 insure, so when entire asset classes fall in value, the
7 exponentially larger losses on credit default swaps can
8 amplify the risks to the entire financial system. To put
9 into context, this \$58 trillion value of credit default swaps
10 insure: \$58 trillion is more than the gross domestic product
11 of every nation on earth combined.

12 The market for credit default swaps is barely 10
13 years old. It has doubled in size since just two years ago.
14 It has grown in between the gaps and the seams of the current
15 regulatory system where neither the Commission nor any
16 government agency can reach it. No one has regulatory
17 authority over credit default swaps, not even to require
18 basic disclosure. The over-the-counter credit default swaps
19 market has drawn the world's major financial institutions and
20 others into a tangled web of interconnections where the
21 failure of any one institution might jeopardize the entire
22 financial system. This is an unacceptable situation in a
23 free market economy.

24 These complex interconnections pose risk to the
25 financial system precisely because of the lack of information

1 about who is exposed to whom. They have created a situation
2 that is ripe not only for rumor and misinformation, but for
3 fraud. This is of even greater concern because the
4 over-the-counter market for credit default swaps has given
5 rise to a new phenomenon. The rise or fall of prices in the
6 swaps market has begun to serve as a signal to the markets
7 about the pricing of the underlying debt and equity
8 securities in the regulated markets.

9 In recent days we have witnessed how the rise and
10 fall of costs of credit default swaps on the debt of a
11 financial institution appears to correlate with changes in
12 its stock price. Manipulation in this completely unregulated
13 and hidden space can thus drive prices in the regulated
14 market for securities. That is why I believe it is so
15 important for Congress to act now to provide regulatory
16 oversight of the credit default swaps market.

17 Credit default swaps serve important purposes.
18 They can't be trivialized as inherently good or evil, they
19 are simply contracts that have grown in a very short span of
20 time to such size that they matter enormously to the overall
21 economy. But in today's market conditions where uncertainty
22 is the enemy, their invisibility undermines investor
23 confidence. Transparency is a powerful antidote to what ails
24 our capital markets. When investors have clear and accurate
25 information about where to put their resources, money and

1 credit will begin to flow again. That is why all of you
2 working here today are focused on such an important topic.

3 But today the Commission's only authority with
4 respect to the over-the-counter credit default swaps market
5 is limited to enforcing the anti-fraud laws, such as those
6 against insider trading. In fact federal law specifically
7 prohibits any regulation of credit default swaps, even as
8 preventative measures against fraud. That state of affairs
9 simply cannot remain. We have seen the costs of other
10 regulatory gaps in the last few months.

11 There is no longer any excuse for failing to act.
12 Legislation is needed to require trade and position reporting
13 by dealers and over-the-counter credit default swaps. Public
14 reports of OTC transactions would provide transparency and
15 ensure better pricing. Position reporting for
16 over-the-counter credit default swaps could be required from
17 market participants with significant positions. This would
18 provide regulators with the information they need to uncover
19 manipulation and monitor for risk. Basic recordkeeping is
20 also necessary for OTC credit default swaps transactions. It
21 would be a valuable tool in enforcing anti-fraud
22 requirements. Both the SEC and the CFTC should be given the
23 authority to issue anti-fraud and anti-manipulation rules.
24 This authority could be used to prevent fraudulent,
25 deceptive, or manipulative acts and practices.

1 Because of the truly global nature of the
2 over-the-counter market, we will have to work closely with
3 the governments and parliaments of other major market
4 centers. But the climate for such cooperation is good
5 because the cross-border impacts of the current market
6 problems are very quickly becoming obvious to all.

7 Notwithstanding the significant limitations on any
8 regulator's authority over credit default swaps, the
9 Commission is even now doing what we can under our existing
10 statutory authorities to address concerns in this market. We
11 are working with the Federal Reserve, the CFTC, and industry
12 participants to create one or more central counter-parties
13 for the credit default swaps market. This is an important
14 step toward preventing the failure of a single market
15 participant from having a disproportionate impact on the
16 entire market. We are also working toward the establishment
17 of one or more organized markets for credit default swaps,
18 such as one or more electronic trading systems.

19 But under almost any circumstances, despite
20 potential for organized and regulated credit default swaps
21 trading, the over-the-counter market for CDS will continue to
22 be substantial, and for that reason, the lack of regulation
23 in the over-the-counter market will continue to be a growing
24 cause for concern. The solution is to provide in a statute
25 the authority to regulate these products to enhance investor

1 protection and ensure the operation of fair and orderly
2 markets.

3 I hope that these highlights of some of the issues
4 facing investors and the Commission in today's markets helps
5 put today's discussion into perspective, and I hope that
6 these are some of the issues that all of you today have
7 uppermost in mind as you thoroughly scrub today's disclosure
8 system and search for better ways for investors to unwind the
9 complexity and the hidden risk in our markets. I know how
10 committed each of you is to improving disclosure and
11 transparency, and I thank you for it.

12 So now it is time for our panelists to take center
13 stage. Thank you once again for being here today and thank
14 you for all that you are doing on behalf of America's
15 investors. And now if I may, I would like to introduce Dr.
16 Bill Lutz. He is the director of our 21st Century Disclosure
17 Initiative, and he will serve as today's moderator.

18 I would also like to acknowledge the presence of
19 two of our Commissioners, Troy Paredes and Kathy Casey. As
20 you can imagine, the press of Commission business on a day
21 like today and a week like this week is such that
22 Commissioners will be coming and going during this meeting,
23 but I very much value the contribution that they will make to
24 today's proceedings as well.

25 When I introduce Dr. Lutz, he in turn will

1 introduce John White, who is the Director of the Division of
2 Corporation Finance, and Buddy Donohue, the Director of the
3 Division of Investment Management, who are going to serve as
4 the moderators for the panelists today.

5 Thank you once again, now it is my privilege to
6 introduce to you Dr. Bill Lutz.

7 (Applause.)

8 OPENING REMARKS

9 MR. LUTZ: Thank you Chairman Cox. I would like to
10 thank Commissioner Casey and Commissioner Paredes for joining
11 us as well as Commissioner Aguilar, who joins us
12 electronically from Atlanta. I thank the Commissioners for
13 joining us given their very busy schedules, and as the
14 Chairman said, they will give us as much time as their very
15 busy schedules allow them.

16 Thanks to our panel moderators John White, Director
17 of the Division of Corporate Finance, Buddy Donohue, Director
18 of the Division of Investment Management, and Matt Reed, who
19 is the Assistant Director of the 21st Century Disclosure
20 Initiative.

21 I would also like to thank the law students who
22 have joined us today in our audience from Georgetown, Johns
23 Hopkins, Howard, George Mason, and American University. And
24 to all of you in the audience here and to those of you
25 joining us on our webcast and on C-SPAN, welcome.

1 This roundtable is part of the 21st Century
2 Disclosure Initiative which Chairman Cox began in June of
3 this year. It is an agency-wide effort to begin the process
4 for the Commission to move from its current complicated
5 forms-based disclosure system to a system of electronically
6 filed structured data in what we are calling a company file.

7 By the end of this year the initiative will develop
8 a plan that will outline such a disclosure system and the
9 process for moving to that system. With this system
10 investors will be able to find the data they want with a
11 minimum of keystrokes, and then slice, dice, and manipulate
12 the information they want in the format they want. You will
13 hear more about this system, what it would look like, and
14 what it can do during the discussion of the second panel.

15 But we begin with our first panel and a discussion
16 of the current system of disclosure, its strengths and its
17 weaknesses, from the perspective of those who use it both as
18 filers and as investors. I will turn this now over to Matt
19 Reed who will begin by introducing the panelists and
20 moderating the discussion.

21 Thank you, and I hope you find the day informative,
22 interesting, and challenging.

23 PANEL ONE: THE MARKET'S USE OF DISCLOSURE INFORMATION

24 AND THE SEC'S DISCLOSURE SYSTEM

25 MR. REED: Thank you Bill and good morning.

1 (Applause.)

2 MR. REED: Good morning Commissioners and good
3 morning panelists.

4 I will begin with just a few brief ground rules for
5 today. We have prepared a number of questions for the
6 panelists, but periodically, as you know, the Commissioners
7 both present and Commissioner Aguilar, who appears by video,
8 may ask questions.

9 We have asked you not to present opening
10 statements, as you know, but have encouraged you and
11 encouraged members of the audience who are listening via the
12 internet or C-SPAN to take advantage of the opportunity to
13 file written comments, and you can get more information about
14 that on our website.

15 Toward the end of the panel we will have a minute
16 or so to have each panelist present some closing comments and
17 I will speak in a moment about how we will divide up the
18 subject matter for today, but we will ask each question of a
19 different panelist. If you would like to interject, just
20 raise up your name card or try to make eye contact. One of
21 the three of us will try to ensure that we will try to get to
22 everybody, so you can jump in as often as you want to.

23 And I guess one more housekeeping measure is the
24 restrooms are out the doors and to the left for anybody who
25 doesn't know at this point.

1 I will go ahead and introduce the panelists at this
2 time. Down at the far end is Bob Sorrentino. He is the
3 Director of Accounting Policy and External Reporting for
4 Xerox Corporation, and there he is responsible for the
5 preparation and filing of various SEC reports.

6 Next to him is John Bajkowski. John is the Vice
7 President and Senior Financial Analyst at the American
8 Association of Individual Investors. He is a product manager
9 for AAI stock screening and data program.

10 Paul Haaga, next to him, is the Vice Chairman of
11 Capital Research and Management Company and the Chairman of
12 the executive committee. He also serves in a number of other
13 roles and capacities at Capital Research and Management.

14 Tim Thornton is next to him, and he is the head of
15 Vanguard's web services group, which designs and implements
16 both institutional and direct investor websites at Vanguard.

17 Glen Doggett is a Policy Analyst for the CFA
18 Institute Centre for Financial Market Integrity, responsible
19 for membership interest regarding disclosure proposals of
20 regulators and standard setters.

21 Dave Copenhafer spent 15 years at the SEC as the
22 Deputy Director of the Office of EDGAR Management before
23 joining the financial firm Bowne & Company where he was the
24 Director of EDGAR services.

25 Al Berkeley, next to me, is the Chairman of

1 pipeline trading and a former president of the NASDAQ stock
2 market. He is also currently chairman of the board of XBRL
3 US and has over 30 years of experience in the financial
4 industry.

5 And appearing by video link in our New York office
6 is Kara Jenny, who is the Chief Financial Officer of Bluefly
7 Incorporated, managing financial and accounting operations
8 for the online merchandiser. So welcome to all.

9 We have divided this first discussion into two
10 general topic areas and we will spend the first half an hour
11 or so focused on the interests of investors and the tools
12 they use to access data when making investment decisions.
13 Then we will switch over to a discussion on the filers and
14 try to better understand the filing process that they go
15 through to satisfy their SEC disclosure obligations. Then at
16 the end we will have a brief period for closing comments.

17 But before we begin all of that, Dave Copenhafer
18 has been kind enough to offer a brief overview of the filing
19 process, so Dave I will turn it to you.

20 MR. COPENHAFER: Thanks Matt. I am very pleased to
21 be a member of the panel today, and thank you for including
22 me. I have a very brief overview and two Powerpoint slides.
23 I have signed an agreement not to talk very long, so with
24 that, let me bring this up.

25 We thought it would be a good idea to set a bit of

1 a foundation. Almost everybody touches the disclosure
2 process or the filing process at one point or another. It is
3 often not -- It isn't very often that one thinks very much
4 about how the whole work flow works, so part of the
5 presentation today is just to give everybody a bit of an
6 overview, a background, a little bit of a mnemonic as to who
7 participates where and how some things get done.

8 Obviously at the front, when disclosure begins,
9 registrants, funds, with outside assistance from attorneys
10 and accountants, information gets created, gets aggregated
11 usually in a variety of different forms and formats which
12 leads, at some point, to a decision to, in many, many cases,
13 about 60 to perhaps as much as 70 percent of the
14 circumstances use the services of an intermediary, a filing
15 agent. When you want to file with the SEC, if the document
16 that is going to be submitted will have multiple purposes, it
17 is not uncommon to use the services of an agent.

18 There are many agents large and small providing a
19 wide range of services. Usually there is a bit of back and
20 forth between the issuer and a filing agent, but at some
21 point the document, as it has been prepared and as it is
22 readied for SEC filing, reaches a stage of being final and
23 ready for transmission to the SEC.

24 As many of you know, I'm sure, filing with the SEC
25 is often not the only purpose or objective of the disclosure

1 process. Many documents will end up being printed and mailed
2 and distributed to individual investors or possibly to
3 investment banks or participants early on in a transactional
4 process. So the need to be able to not just file with the
5 SEC but to carry the distribution process a little further
6 may be one factor that results in people selecting a filing
7 agent to assist them.

8 Many companies also maintain very sophisticated
9 corporate websites. They may or may not want the document
10 that was filed with the SEC to serve some purpose on a
11 corporate website. It is not uncommon for companies to take
12 that final document that went to the SEC and enhance it, do
13 some things with it that make it a little bit easier for
14 people to use and put it up on the corporate website.

15 Another process that usually, if there is an agent
16 involved -- just when a document comes to a filing agent it
17 may still be in the process of changing, and it is an
18 important part of closing the loop to make sure that once
19 something is filed with the SEC that that final document
20 comes back to the company in the exact form and format in
21 which it was submitted to the SEC, so the reverse conversion
22 process takes place.

23 Self-filing is an option. The act of filing with
24 the SEC is really two pieces. One is document preparation
25 and putting the document into SEC compliant format. The

1 second piece is putting it on the EDGAR conveyor belt, using
2 the technology just to get it over to the SEC. In general,
3 using the conveyor belt is very easy. The hard part is
4 getting that document ready and into SEC-compliant format.
5 If the document is only going to go to the SEC, if it doesn't
6 have to be printed or shipped off to investors, the decision
7 is very frequently to go ahead and self-file.

8 We will take a quick look at what happens after a
9 document is filed. It comes to the SEC, and I guess most of
10 you know it goes through a validation process. If it is
11 accepted, the next thing that happens, and usually very, very
12 quickly, within seconds, it is distributed to two main points
13 of dissemination or output.

14 There is a subscriber data stream called the EDGAR
15 dissemination subsystem, and simultaneously the document goes
16 to the SEC's website, so these two channels are not really
17 competitors, but they are certainly equals in terms of the
18 timing of distribution. The moment one side has it, the
19 other side has it.

20 On the dissemination subsystem side, all of those
21 who subscribe, who hook up to the SEC, pay something in the
22 neighborhood of \$40,000 for a subscription. They are
23 permitted, if they so choose, to in fact resell to other
24 information companies down the line.

25 The SEC's website, a resource that I suspect

1 everybody in the room is familiar with, is to my mind
2 something close to a national treasure. When you talk to
3 people who have been in the business for a long time, people
4 are still amazed that you don't have to go to the SEC public
5 reference rooms anymore. The public reference room is in
6 your office on your P.C. Access to everything that has been
7 filed is just immediate, comprehensive, and complete. That
8 central database, if you are going to court, is the holder of
9 the document of record. I mean there is great comfort in
10 being able to come to sec.gov and be able to know that you
11 are assured of having the document that was filed.

12 On the ultimate user side, as you can imagine, a
13 wide, wide, wide variety of users are on both sides. On the
14 sec.gov side everybody from the issuers, to registrants, law
15 firms, accountants, individuals, academics, students, other
16 government agencies, a very wide range of users that have
17 free access to the information.

18 The commercial side works at being a bit more
19 sophisticated. I think you will find as you look at the
20 process that they go through and the products that they are
21 able to create, just exactly how much they can and do do with
22 the system as it exists today. The extractions of financial
23 data, even without tagging, on an automated basis approaches
24 something close to 90 percent without any hands manipulating
25 or extracting data, so there is a lot that can be done, and

1 is done, by way of preparing information for use by the
2 private side.

3 With that, I will turn it back over to you.

4 MR. DONOHUE: I would like to start off with
5 questions for John and Paul.

6 What information do investors use in making
7 investment decisions and how has your approach been affected
8 by the current market turmoil? John, you can go first.

9 MR. BAJKOWSKI: Well the individual investor, I
10 think, versus an institutional investor is dramatically
11 different in the type of information they use and where they
12 get it.

13 Very few individuals go through a detailed
14 fundamental model of a company. They rely on investment
15 newsletters, websites, and TV shows. They then typically go
16 to a website such as, say, Yahoo! Finance. 70 percent of our
17 members use Yahoo! Finance to research a company. There,
18 they will look at very basic factors. They will look at
19 price/earning ratios, perhaps the price strength, and debt to
20 equity ratios.

21 They are looking at very much summary information
22 on companies. They will have an overall viewpoint on the
23 type of companies they are looking for, but when it comes to
24 actual detailed financial modeling, it is typically very
25 limited. They will often be elements of the EDGAR filings,

1 but they won't go typically to the SEC website. They will
2 more than often go to a company investor relations section,
3 or in the case of, say, even Yahoo! Finance, you can look up
4 the EDGAR filings there. You will find that they will look
5 at the qualitative elements. They will read the management
6 discussion, they will look at the risk factors. And that is
7 the more, I think, diligent investor.

8 You will find that about 40 percent of our
9 investors are members focused on fundamentals. About an
10 additional 40 percent combine that with price activity. They
11 will look at how the price is following on a stock and look
12 at entry and exit points. Five percent rely strictly on
13 pricing and volume activity, without ever looking at a
14 fundamental statement.

15 So those are the kinds of ways the typical investor
16 looks at their information. And it is sort of interesting
17 when I mention, for example, in terms of mutual fund data.
18 Most investors are really surprised that the SEC collects and
19 maintains a database of mutual fund information. Most folks
20 simply go to websites like Morningstar to get an update.

21 So the SEC is valuable in collecting it, but I
22 think the value of that comes into passing that information
23 on to other intermediaries.

24 MR. HAAGA: I represent an institutional investor
25 in a mutual fund company, so we are sort of on two sides of

1 this. One is our own disclosures to the SEC, how do people
2 look at our mutual fund prospectuses and others, but the
3 other is how do we do research into the companies that we buy
4 for our portfolios, and I will focus in this part on the
5 latter.

6 We use all the tools John described, but in
7 addition -- And we find them very useful, by the way, these
8 data providers. Extremely useful, we love the formatting,
9 and XBRL is useful as far as it has gone. Importantly, they
10 include other information besides just what is on the SEC
11 website, so that is all very useful.

12 What this market turmoil has highlighted has
13 nothing to do with the delivery of information or the sorting
14 of information or the service providers. It really has
15 highlighted some of the deficiencies that have been around in
16 certain areas in the accounting rules and disclosure rules,
17 and we will get into those later, but there are three
18 principle areas. One is deliverables, one is off-balance
19 sheet accounting, and the other is fair value. Chairman Cox
20 talked a lot about those.

21 Since we are on the subject of disclosure and
22 market turmoil, and this isn't quite a disclosure item, but I
23 wouldn't be fair to our many shareholders if I didn't mention
24 that the one thing that we didn't know is that the rules
25 would be changed, and those of us who own preferred stock in

1 Fannie and Freddie didn't know and couldn't have known that
2 the Fed was going to come in and change the rules on those
3 and treat them like common. So disclosure would not have
4 helped in this market turmoil.

5 MR. WHITE: Thanks. I will follow up here a little
6 bit, but maybe just a remark or so first. This is a very
7 important initiative for the Commission, and I just wanted to
8 mention for those of you who were not aware of it, that it
9 was actually conceived in Corporation Finance by my
10 predecessor, Alan Beller, I think five, six, seven years ago,
11 and we are actually very pleased to have him here today on
12 the second panel to talk to us about where we are today.

13 When Alan first came up with this idea it was
14 called Project Alpha as we had been working on it. And as it
15 was born more recently here, we have gotten a much better
16 name with the 21st Century Disclosure Initiative. But we in
17 Corporation Finance are very pleased to be at the beginning
18 of this project and we are pleased that Alan will be here on
19 the second panel.

20 With that, I guess what I would like to focus on a
21 little bit is exactly how you use the information that is in
22 EDGAR today, and Glenn I guess I'm going to turn to you
23 first, and then we will go to the other investors. But we
24 obviously have a system today, the information comes in, as
25 Dave described. Do you go there and use what we have got, or

1 is it all through the secondary sources, in effect? If you
2 could expand on that a little bit.

3 MR. DOGGETT: Thank you. CFA Institute represents
4 a very global body of investment professionals, we are a
5 member organization. So as such, it is really easy for me to
6 say "Hey, there isn't an investor. You can't say everybody
7 does things in the same manner," and that is really, from a
8 disclosure and information use format, really what we like to
9 focus on. Whether you are a fundamental investor, or a --
10 investor or credit analyst, your needs for information differ
11 really depending on your outcome and what decision-making you
12 are looking for.

13 For your typical fundamental investor, an SEC
14 filing is deemed, as was mentioned earlier, the document of
15 record. Your investment decision on a quarterly basis of
16 whether to stay in a stock or sell out of a stock isn't
17 driven solely around the 10-K or the 10-Q filing. You are
18 using all the public information that is available, whether
19 it is an 8-K disclosure of a new transaction, or the press
20 releases for the most recent filing that is coming out, so
21 you are really basing your information on what is the current
22 market information. And the SEC collects that through
23 various filings, but the quarterly filing of financial
24 information is really what everything reconciles back to.

25 So we are always looking for that one core that, at

1 the end of the day, we can say this is what has been verified
2 for this company and is what we can ensure is where we are
3 going to move going forward. In a market like what we are in
4 today, what was reported last week may not be where the
5 market is today, so it will definitely change over time. But
6 that is how we look at the SEC right now, is that it is sort
7 of the endpoint. We come back to that to make sure that our
8 models are correct and that is where we have everything
9 going.

10 Now if you are a new investor, the SEC data is
11 really using that as the starting point because you are
12 having to build your history of your model, you don't have an
13 ongoing track record. But for most professional investors,
14 the SEC data is what they are using, and the filing is sort
15 of supplementary. They are getting their information from
16 third party data aggregators. There are some large ones out
17 there, FactSet or Bloomberg, that take you through the
18 process of downloading information system.

19 It is combining not only what is on the face of the
20 financial statements, but also some of the other information
21 in the supplemental disclosure notes as well as maybe
22 information from the company's website that they have
23 compiled into one source. So they are really using -- That
24 is the starting point for the external databases to build
25 their models going forward, and then coming back to the SEC

1 to ensure that their information has been appropriately
2 tagged and processed.

3 MR. WHITE: So are you actually going to the EDGAR
4 database? It sounds like you don't actually go to the EDGAR
5 database to get your data, you are getting it all third
6 party.

7 MR. DOGGETT: Well, you are going back to review
8 the filings. To say that the data is the only thing the
9 investors use would be incorrect. You are reading through
10 the management commentary, the MD&A sections. You need to
11 understand the quality of the information being disclosed in
12 the footnotes.

13 So the textual information around the values are
14 equally as important as the numerical values that you get
15 from the database. The process of keying the data into the
16 builder models, yes, you are probably going to be turning to
17 a data aggregator for some -- for larger investors.

18 Now our membership goes across small mutual fund
19 owners, small private equity managers, that can't afford
20 those third party databases. We did a survey last year when
21 we were looking at XBRL and found that there is a good mix
22 from people who solely use third party providers to people
23 who solely use information sources directly from the SEC.
24 But many other services, they are getting pricing services,
25 and other databases have links back in, so they are probably

1 not coming to sec.gov, but they are getting to the core
2 filings to use in their reviews.

3 MR. WHITE: Tim, from your perspective, how do you
4 go about this? Do you come directly to us, do you go to
5 third parties?

6 MR. THORNTON: Well John, first I would just like
7 to thank the SEC for giving Vanguard this opportunity to
8 share our thoughts on this.

9 And just as a little background, Vanguard has
10 around 9 million investors and we have 160 funds, and we file
11 a lot of stuff with the SEC. A lot of it is a little less
12 interesting to the individual investor, annual reports,
13 semi-annuals, and a lot of that. And our main disclosure
14 document is -- probably most people know as the prospectus.

15 And I guess I've got kind of good news and bad news
16 here. People don't go to -- like you have heard before --
17 they don't go to EDGAR to look at those documents, but the
18 elements in those documents are looked at all the time. You
19 talk about this week, Vanguard has a rather large website,
20 and we have about 5 million people that are registered for
21 it, and on a normal day we are doing about 100,000 people
22 coming in and looking at information about funds.

23 Primarily, again, I think you have heard, they are
24 looking for performance data, fees, objectives. They stay at
25 a pretty high level, but they are looking at the important

1 things. But in this last week, we have seen double that, so
2 we have seen individual investors to the tune of 200,000 a
3 day come in and look at this information. And it has
4 slightly changed what they are looking at. They are actually
5 looking at the actual fund holdings more. So they are
6 looking to see if the funds held AIG, they are looking to see
7 if the funds held certain investments.

8 And the only thing I would say about it is, they
9 are not necessarily going to EDGAR, and they are not
10 necessarily looking at the prospectus itself, too. Because
11 what we found is, in a recent week is that we had 700,000
12 people come into this area, but only 10,000 looked at the
13 actual prospectus. So what has happened is they don't use
14 the disclosure document, but they use a lot of the elements
15 that we have talked about also.

16 MR. DONOHUE: Tim, on that, can you differentiate
17 between those people who are already invested in those funds
18 and folks that are considering investing?

19 MR. THORNTON: We can, and what we see is -- we, of
20 course, have so many shareholders. A lot of our traffic is
21 from shareholders, but what we see is, I would say, is about
22 three quarters of it is people who are invested, and about 25
23 percent of people that are not invested in the funds would be
24 my estimate.

25 MR. DONOHUE: Paul, do you want to comment on how

1 your shop might differ?

2 MR. HAAGA: Yes, I want to answer John's question
3 by saying yes, we do go directly to EDGAR. And I think when
4 the institutional investors are talking we ought to
5 distinguish our mutual fund prospectuses from operating
6 company prospectuses that we do research with, and I am
7 talking about the latter right now, Tim was talking about the
8 former. But we do go directly into EDGAR. There are things
9 the aggregators don't give us that are directly in EDGAR, so
10 we do use that system. We also use all the different
11 aggregators and service providers.

12 I am a little concerned that the discussion
13 suggests that all the research is done from one's office and
14 one doesn't actually get out on the road. We supplement that
15 by -- We never invest in a company unless we have met with
16 management, and if it is a company that has department
17 stores, we go look and see if the shelves are neat. I mean
18 we take every possible angle on that, so I think it is
19 important.

20 We do it the same way Glenn talked about, we use
21 SEC and financial data to build models and then, as external
22 events happen that could impact those models, we change those
23 models so we don't look -- we don't need new data, we don't
24 look for new data, it is not available because they only file
25 quarterly and semi-annually, but we do go back and adjust

1 those models. But importantly, we go out and talk to the
2 companies.

3 MR. WHITE: But John, just from your description,
4 your group and the folks you think about don't really go to
5 EDGAR, if I understand it.

6 MR. BAJKOWSKI: I think the vast majority of them
7 do not. Looking at web -- We have surveys of members on a
8 periodic basis, and the vast majority use secondary sources.
9 Yahoo! Finance came up 70 percent. Morningstar, 50 percent
10 of our members use Morningstar, MSN Money, 35 percent. They,
11 I think, want to use a source that will sort of take the
12 information, make it comparable from company to company.

13 I think it is difficult often, unless you are
14 creating models and looking at a specific industry to go
15 through a financial statement to try to compare one's revenue
16 across the line or debt levels across the line. And I think
17 to the extent you are doing qualitative analysis and looking
18 at cross-sectional analysis and screening, many of our
19 members employ stock screening strategies. Well, they look
20 for stocks that are, say, value-oriented, have a low price to
21 book value. They will want to do cross-sectional analysis,
22 and you can't do that via an EDGAR type filing.

23 This is perhaps going ahead, but looking at the
24 IDEA platform, you have some test data up there currently,
25 and in there you can do comparative statements. You can take

1 some XML data, process it, and put it next to a company. And
2 I had a difficult time finding two companies where the
3 financial statement was comparable enough that it could be
4 processed, and the typical individual investor doesn't know
5 what XBRL is. They know what a P is, but they don't know
6 what the underlying scheme is. They don't know that type of
7 terminology. They rely primarily, I think, on secondary
8 sources.

9 MR. WHITE: Al?

10 MR. BERKELEY: I was just going to make the point
11 about the new technology being in its early stages and
12 comparability being the key issue. And as we work towards
13 data that is comparable, we will have a lot more people
14 coming directly to these sources.

15 MR. WHITE: Bob, what about your perspective, from
16 a company perspective?

17 MR. SORRENTINO: I wanted to just give you that
18 because I wanted to make you feel better. We do use EDGAR,
19 particularly a lot to look at disclosures of other companies.
20 Also if we are looking at a specific transaction, we may
21 reach out and try to find similar companies that have had
22 those transactions, so we can see how they have accounted for
23 it, and maybe even reach out to those individuals. And also
24 just from an investor perspective, that is also the starting
25 point for any new investor who tried to direct them to our

1 SEC filings as the starting point to learn about the company
2 and understand the business. So from those two perspectives
3 it is used extensively.

4 MR. WHITE: I was concerned that this national
5 treasure wasn't getting used.

6 (Laughter.)

7 MR. WHITE: We will be coming back to that. So,
8 Dave, more about the national treasure?

9 MR. COPENHAFFER: Exactly. When I was at Bowne, the
10 EDGAR database got used a lot. People in different offices
11 frequently looked at filings of competitors.

12 There is a component of sec.gov that doesn't get
13 talked about very often, but in fact one commenter who sent
14 in comments prior to the panel referenced the SEC's FTP side
15 of sec.gov. It is a little bit difficult to use, but for
16 many academics and for people who perhaps have some
17 programming skill, it is very, very powerful.

18 We used it at Bowne on a daily basis, we could pull
19 down information about every filing submitted in a particular
20 day. By looking at the header information, we could tell was
21 the filing self-filed, and then also we could tell who filed
22 it. Did Bowne file it, did Donnelly file it, did Merrill
23 file it? So it was terrific information on the market share,
24 it fed marketing initiatives to look at who are the
25 self-filers, what are the kinds of documents being

1 self-filed, is there an opportunity for something there? But
2 I'm sure on the academic side, that FTP component gets used
3 very heavily. Not all that easy to use, but something to
4 keep in mind.

5 MR. THORNTON: John, I would just say that you have
6 heard the theme, on and on -- People using EDGAR tend to be
7 sophisticated. They are not end investors. Because on
8 Vanguard's side I have seen fund managers, many people do the
9 sophisticated things we have heard here today, but I'm not so
10 sure I have ever seen my mom use it. So I think that is
11 really the common theme you are hearing.

12 MR. REED: Well we probably have time for another
13 question or two before we shift over to the filing processes,
14 but Al, can you talk -- we have heard references to data
15 tagging. Can you explain a little bit about what data
16 tagging is and also what it might hold for the future in
17 terms of the current market crisis?

18 MR. BERKELY: Yes. I am here in my role as
19 Chairman of XBRL US, which many of you may know is a
20 non-profit that we set up to create the standards for the
21 definitions of fields that would be used in the XBRL
22 implementation in the changes and improvements to EDGAR. The
23 process was very much a collaborative one in which we
24 identified for U.S. GAAP every data element that would be
25 acceptable in a filing, and worked with the accounting

1 industry, with issuers, with software companies, with the
2 data providers, with the intermediaries that David took us
3 through in his chart to get a common understanding of what
4 each field would mean, to lock that definition down, and to
5 make that compatible across the system.

6 There are five elements of value in data: accuracy,
7 completeness, timeliness, relevance, and comparability. And
8 the five elements of data value were very much in our mind
9 when we were trying to be sure that we had the ability to
10 define each element. Now that could be a number. Revenues
11 for the first quarter of 2008 would be it's own field. It
12 would have a definition that would be very explicit to it.
13 The nuances of what revenues are would have been dealt with
14 in the development of this taxonomy so that there may be 200
15 definitions of revenues depending on what industries a person
16 is in and how that definition applies to that circumstance.
17 But once you understand the definition that you are going to
18 use, it becomes comparable across the way.

19 The beauty of this system was evidenced in a pilot
20 that we ran at NASDAQ in 2000, 2001, 2002 in which we took 30
21 semiconductor companies, Pricewaterhouse voluntarily tagged
22 the data for us, Microsoft voluntarily did the work to get
23 the XBRL tags right in their spreadsheets, and we had it on
24 NASDAQ.com for the public to look at. It was frequently used
25 by end investors because it was so easy.

1 Let me talk just a second about the role of
2 convenience in whether databases get used or not. Clay
3 Christensen up at Harvard Business School has done some
4 really good work on what the sort of Maslow hierarchy of
5 needs equivalent is to get a new technology accepted. It has
6 to do the function you say it is going to do, it has to do it
7 reliably, it has to do it conveniently, and last, it has to
8 be with a cost that you can incur.

9 A lot of what we are hearing and talking about now
10 is the movement from a functionally satisfactory EDGAR, which
11 is highly reliable but not very convenient and has large
12 hidden costs in terms of labor for the person using it, to a
13 new technology curve based on XML and XBRL that will become
14 extremely convenient and very low cost. And you will see a
15 massive expansion into people who are so-called non-users
16 now, people who will be able to use this technology easily
17 and conveniently, and intermediaries who will be able to add
18 additional value to it just the way they have been adding
19 value so far.

20 So having been involved in the pilot at NASDAQ and
21 having been involved in the delivery of the 16,000 tagged
22 items to the SEC for the XBRL implementation, I am very
23 encouraged and I come at this with very explicit knowledge.
24 I started my career -- I see Esther Dyson is here -- We
25 started our careers together ordering annual reports from

1 companies, there was no EDGAR, and transposing those in 13
2 column pads, and then being delighted when EDGAR brought all
3 that together. This next transition will be just as
4 significant. It will be a new technology curve and it will
5 be a transforming in the democratization of access to this
6 data.

7 MR. REED: Do you have any thoughts about the
8 current market system and how XBRL could --

9 MR. BERKELEY: Sure. This credit crisis, from my
10 point of view, is based on a lack of trust, and the trust is
11 based on a lack of information. And I was talking tonight --
12 excuse me, this morning, on a train coming down. One of the
13 documents that a person was trying to analyze on a complex
14 mortgage-backed security was 2,300 pages long, and the
15 implications of that, as Phil Moyer at EDGAR online says,
16 only the sales side has read these documents.

17 There is no way -- the data is trapped in an
18 iceberg of paper in these current systems, and if we could
19 just tag that data it would be instantly available. That
20 iceberg would melt, that data would be freely available, and
21 it would be accurate, it would be complete, it would be
22 timely, it would be relevant, and it would be comparable, and
23 you would get all five elements of data value out of it.

24 And it could transform the understanding not only
25 of the buy side who bought these instruments, not having a

1 clue what the underlying facts were, it will also
2 revolutionize the ability of the regulatory system, the
3 credit rating agencies, to drill down and understand on a
4 comparable basis exactly what they own and what those values
5 are. Without understanding those details you will never
6 understand the value and therefore the price of what you own.

7 MR. DONOHUE: I would like to follow up really on
8 what was just mentioned and the comment Paul Haaga had made
9 in the very beginning about, I think, some helpful
10 information that might have been available relative to
11 derivatives and off-balance sheet items.

12 And I would really like to ask Glenn and John, as
13 you are doing -- folks that you represent, what types of
14 information might have been helpful if it was available in
15 the EDGAR system? Taking what we have learned, so far at
16 least, from the crises we have been through and thinking
17 about it, what would have been helpful, even if folks didn't
18 go directly to EDGAR, but rather if that information was
19 available in EDGAR potentially to third parties to do
20 something with? And so I throw that out as an opportunity
21 for you to help us here.

22 MR. BAJKOWSKI: Well I was sort of trying to go
23 over that myself, and I think the difficulty is most
24 individuals don't have -- aren't accountants, aren't
25 financial analysts, they are lucky if they read through the

1 financial notes of a financial statement. They rely really
2 on analysts to come up with recommendations on stocks.

3 I mean I looked up Lehman Brothers statement the
4 other day, and sure enough, they were rated as being more
5 risky than Goldman Sachs. But as of July 25th, its financial
6 strength was C++. I mean if you are relying on that, you are
7 thinking, 'Well, okay, it is a risky investment and perhaps I
8 should give it a lower valuation,' but there is no
9 understanding that this is about to go bankrupt. And to the
10 extent that you are relying on analysts and relying on
11 statements that may be older, I think it is difficult to
12 really have predicted this sort of overall meltdown.

13 But I think disclosure is a very important process
14 and I think pushing forward and making this information
15 available as quickly as possible is critical.

16 MR. DOGGETT: Yes, if you go back 18 months, the
17 key word would have been disclosure. 2007 year end documents
18 had very little disclosure because many of these instruments
19 were treated as off-balance sheets, so they were sold by the
20 company, and that's one of the things we really want to see,
21 is bringing that information where the company has a hook
22 into that long term operations of that instrument. Is there
23 some recourse back to the company, understanding what is
24 going to happen when this instrument starts to fail, what is
25 the company responsible to pay out, to cover?

1 Some of the things that we look for is a broader
2 sensitivity analysis, somebody forecasting what happens when
3 the market does slow down. Today's market is one that
4 couldn't be predicted, but all the models had things
5 continuing to look upward swinging. We want to make sure
6 that the analysis going in is presented back out, not just a
7 one percent swing, but what is a five percent swing due to
8 the information?

9 MR. BERKELEY: I would just like to comment on the
10 comment that was made about people looking to analysts. One
11 of the things that we ought to add to Chairman Cox's list of
12 problems, such as the regulatory gap, is the unintended
13 consequences of the evaporation of research on thousands of
14 public U.S. companies. It is not a simple problem, but we
15 ought to be looking out of box at things like allowing
16 companies to pay to have sensible comparative reports written
17 on themselves.

18 Right now, if the company pays for research, it is
19 perceived as somehow tainted. There is no incentive in the
20 broker-dealer business model these days to write any research
21 on any but the most frequently traded stocks. So you will
22 have 25 to 30 percent on the most liquid stocks and no
23 analysts on thousands of stocks that are perfectly viable
24 companies and I really recommend that to the Division of
25 Corporate Finance to look at.

1 MR. DOGGETT: I just wanted to follow up that both
2 the International Accounting Standards Board and the
3 Financial Accounting Standards Board, we feel they have been
4 very active in coming up with sets of disclosures that will
5 be helpful to investors. There are many things in their
6 recent requirements and their professional review of illiquid
7 markets, recommendations in there we feel will have benefit
8 as they become incorporated.

9 MR. WHITE: I thought maybe we would change
10 directions here for a moment now. I guess we have been
11 talking about this so far from the investor or user side. If
12 we could switch for a few minutes and talk about it from the
13 filer or company side. And I guess what I really would like
14 is a kind of basic description from, I guess I will say the
15 three groups that we have represented here today, of how you
16 prepare information and file it and assure yourself of its
17 accuracy in the process.

18 And I guess I would like to start from the large
19 company perspective, Bob, if you could talk about it from
20 Xerox, and then we will go to the smaller company perspective
21 to Kara and how you do it at Bluefly, then from - I will ask
22 our fund representatives to put on their filer hats and ask
23 Tim and Paul to come in. Bob, can I start with you?

24 MR. SORRENTINO: Yes. John, if I get too
25 long-winded, just stop me, okay?

1 But basically the process is we have multiple
2 locations and units around the world and we collect
3 information in a consolidation system, data warehouse of
4 financial and non-financial information, that is all brought
5 together. It is all subject to Sarbox controls in the
6 locations, so when it comes in it has been - it is supposed
7 to be accurate, so we then consolidate it. Right now it is a
8 manual process to take that information and put that into our
9 SEC filing documents, but that is what we do. We generally
10 have multiple versions of our documents, they go through a
11 lot of different corporate reviews.

12 We then also reach out to our legal group, investor
13 relations, we reach out to tax and treasury to get their
14 input, so we have our external auditors reviewing the
15 documents, and then also our external counsel reviewing the
16 documents, so there are a lot of different reviews of the
17 documents being made. So we bring it together, it then goes
18 to our CFO, CEO for review and basically, when we have a
19 good, near-final version, we send it out to our disclosure
20 committee and our audit committee.

21 Again, another review, and kind of the process
22 right at the end is to have a disclosure committee to make
23 sure that we haven't missed anything of significance in our
24 disclosures. We also have our audit committee review, same
25 thing. Then kind of the final process is CFO, CEO sign off

1 as well as the legal sign off. Then from that process we
2 also use, as Dave pointed out -- the process is very similar
3 to what he pointed out in the Powerpoint, we use a third
4 party provider to prepare the document for filing. That is
5 probably where it really draws down to a manual process
6 because we have a lot of proofing. You know, we get the
7 document back, make sure it is accurate, make sure nothing
8 got lost, we have some final edits, and then we do our final
9 filing entry into the EDGAR system.

10 Then similar to what Dave had said too, we then use
11 that document and post it up on our website. We also, for
12 the annual report, we will use it as the basis for the
13 glossy. So it has a lot of different uses after it is filed.

14 MR. WHITE: So, Kara, do you go through all those
15 steps?

16 MS. JENNY: We do. Good morning everyone. I'm
17 sorry I can't be there in person. It is interesting
18 listening to Bob speak because I think we share a lot of the
19 same process. And we are a single entity, we don't have the
20 same consolidation or the same level of repetition and manual
21 process in what we go through.

22 We do have data warehouse where we get our data,
23 but it needs to then be conformed into and SEC-friendly
24 format, it needs to have revenue recognition principles
25 applied to it just to make it GAAP-friendly. We then,

1 through a series of Excel documents, do an aggregation,
2 upload it into Word documents, and the same process is
3 followed. It goes through levels of review, several levels
4 of management, it goes to our internal counsel, it will go
5 through another level of review, and then it will go through
6 an external review with auditors, disclosure committee.

7 I think that our disclosure committee is involved
8 more in the beginning so that we are making sure we are
9 covering all aspects of our business and we are addressing
10 them. And then once we have a good document, it is -- the
11 disclosure committee meets on it. The CEO, and myself, and
12 the president go through it, and then it is sent to our audit
13 committee, sent to -- the board then receives from there and
14 at that time we actually convert the document into an
15 EDGAR-friendly version using a financial printer where we go
16 through the same process of proofing the document back and
17 forth.

18 I think the one clarification I make is we don't,
19 for cost reasons and the size of our company, we don't print
20 glossies, so we keep a manual, we keep in parallel a Word
21 document we then use, in most cases, depending on what type
22 of filing it is, to send to investors should they request the
23 information. So it seems like we are going through a lot of
24 the same process that Bob and his team go through, and I
25 probably would hazard a guess that we have less people on our

1 team to do the same amount of work.

2 The one other thing I just wanted to comment on
3 that was said earlier, and I don't want to take us back, but
4 in terms of use of EDGAR reports, we do as a company
5 absolutely get great information from the EDGAR system. We
6 find it a very valuable tool, but what I am seeing, as a
7 small company, is investors and the creditors that we use,
8 they are not necessarily as savvy in going to EDGAR first, so
9 if a creditor or a vendor has a question, they will still
10 call our company. We do not have a dedicated IR team, as
11 most companies our size do not, so it is also sort of an
12 additional burden to get them the information because it is
13 not their first place to go, their first place to go is still
14 the company.

15 MR. WHITE: Bob?

16 MR. SORRENTINO: John if I could just say that -- I
17 won't say anything about the staffing, but --

18 MR. WHITE: You learn how to do it better.

19 MR. SORRENTINO: No, but that is probably true.
20 But just on the XBRL, because that is kind of a new facet of
21 reporting. We have been a voluntary filer now since we
22 brought it in-house, to do it in-house through some software,
23 and clearly I think it is a good tool, and I think one we are
24 getting some better experience with.

25 We are still struggling. I think it seems to lend

1 itself very well to financial information, tabular data, at
2 least that is our experience, and we are still trying to --
3 with the footnotes, and I hear what is being said if we are
4 tagging some of that stuff it is very difficult because a lot
5 of footnotes are not standardized, and to try to tag them, it
6 becomes a little more difficult.

7 So that is my only caution on XBRL, as we go down
8 that path, again, it seems to lend itself very well to
9 financial data, but I am a little concerned about it from a
10 narrative text standpoint.

11 MR. WHITE: Paul and Tim, do you want to -- which
12 one of you would like to go first on your perspective?

13 MR. HAAGA: For mutual fund filings as issuers, our
14 major filings are two, the shareholder reports that are filed
15 semi-annually, and the prospectus or other SEC reports are
16 the two main ones. Gathering the data from our accounting
17 and our legal people is not that hard.

18 Probably the biggest changes are in the annual and
19 semi-annual reports where we have a market commentator of the
20 portfolio counselors, and that is the most effort and the
21 other documents are mostly updating the financial information
22 that is pretty straightforward. We do not file through a
23 third party, we have our own off the shelf software that
24 EDGARizes things -- I have learned to make verbs out of nouns
25 in preparation for this -- and we are a voluntary EDGAR -- in

1 the voluntary EDGAR model at -- So we are also EDGARizing --
2 excuse me, XBRLizing things, which we do manually, mostly the
3 risk and rewards section.

4 The real issue for us comes with the printing, and
5 it is the real expense. Our SEC filings are not a burden and
6 not a problem, it is getting the documents out to
7 shareholders. We are required to mail to virtually all of
8 our shareholders a copy of an annual report and semi-annual
9 report. About two-thirds of the content of those is
10 footnotes to financial statements, rarely if at all changed,
11 and very rarely, if at all, read.

12 To give you an idea, in 2007 we mailed 70 million
13 shareholder reports. That is not prospectuses, just
14 shareholder reports. If you add in our prospectuses to our
15 shareholder reports, it was 18.2 million pounds printed in 13
16 plants. There were 362 tractor trailer loads of paper. It
17 is funny, I brought this up two years ago, but I would update
18 it. We killed 161,000 trees mailing people things that --
19 printing and mailing to people things that didn't change very
20 much, were repetitive, not likely to be read, and could have
21 been up on the website. I figured out that while we are
22 having this roundtable, my company will kill about 250 trees.
23 In fact, two or three fell just since I started this answer
24 to this question.

25 So I plead with you -- When we bring this up, one

1 of the -- They say, well, we have got these changed
2 disclosure initiatives. The summary prospectus, that is a
3 wonderful initiative. We are delighted, and we are all on
4 board with that and commend it. And secondly, we have the
5 initiative for XBRL to allow these things to be searched.
6 That is a wonderful initiative, we are very supportive of it.

7 The problem is while waiting to get stuff up on the
8 web while we do these other initiatives, I say put it up on
9 the web and do these other initiatives, and the trees are
10 very much on our side. A bunch of us contribute to a group
11 called Tree People, and I have had the experience of writing
12 a check to Tree People, a large check, so they could plant
13 100 or 200 trees in the Los Angeles area. And what I was
14 working on just before I wrote the check was viewing an
15 annual report that would kill about 10,000 trees, so save me
16 from the cognitive dissonance that I am experiencing.

17 Thank you.

18 MR. WHITE: Can you beat that one Tim?

19 MR. THORNTON: Well, I don't want to pile on, but
20 Vanguard has the same remorse prospectus issue. I just give
21 one of the reinforcing points. Unfortunately, we take out an
22 equal amount of forest because of that document disclosure.
23 But one of the things that is really interesting for us is
24 that over 1,300,000 people have asked us to stop mailing it
25 to them. So they sort of admitted that they would prefer to

1 have it online. So I think it just really reinforces how
2 ready people are to get those disclosure documents
3 electronically.

4 MR. HAAGA: To interject, yes, the real problem is
5 that you have to opt out of receiving paper documents and not
6 in, and so you have got inertia working against you. We have
7 had people e-mail us and put comments on our website
8 screaming at us to quit sending them paper, and we send them
9 an e-mail to let them fill out a form to stop getting paper.
10 They don't fill it out.

11 MR. THORNTON: We actually had 1,300,000 investors
12 willing to do that, actually turn that form up.

13 But I want to go back to answering the other
14 question, which is what is it like to file. I was speaking
15 to a friend of mine -- I am sort of going to give my age away
16 that she has been doing this for 20 years, and she told me it
17 basically hasn't changed. In a way, I think that is good,
18 right? I think that speaks to the maturity of the process
19 and it speaks to the quality of the process, it speaks to a
20 lot that we heard about the actual data.

21 But again, if it is 20 years old, it is sort of
22 pre-electric typewriter, I mean, in a way, and I think you
23 know that it has got a lot of these issues.

24 MR. WHITE: But it is a national treasure.

25 MR. THORNTON: It is a national treasure, it is

1 just not an electronic one. On some level, we -- What I kind
2 of think is funny is we have the controls to talk about, we
3 have these big process maps on the wall about how the
4 inefficiencies are horrendous.

5 And we have 20 people who are responsible to
6 produce these documents, but they end up in legal, and legal
7 ends up being a publisher. We are all working in these Adobe
8 tools, and you see lawyers and folks and they end up being
9 the final publishers of this, the process. And again, it
10 works well, but again, it is a process that needs some
11 improvement.

12 MR. WHITE: So I think Buddy is going to ask about
13 cost now, but I think we got the question answered. But go
14 on, Buddy, ask it anyway.

15 MR. DONOHUE: Well I think Paul answered, I don't
16 know that Tim answered it, but Kara, I would like to ask from
17 your perspective what are the costs involved in satisfying
18 the SEC disclosure obligations, and are those really driven
19 by the technology and information we are requesting or are
20 there other things that are driving your costs in terms of
21 complying with the filing requirements?

22 MS. JENNY: I would say the two greatest costs we
23 have are the external printer, and those costs, as well as
24 internal costs and headcount costs we need to make sure we
25 have got enough layers of review and control in the process

1 so that when documents come out they can be ticked and tied,
2 they can be sure they are QAed and filed appropriately. I
3 think the other thing to keep in mind is that it is never a
4 fixed cost, because given a small company and the dynamic
5 environment that we operate in, you could have a month where
6 you file three 8-Ks, you could have a month where you file 10
7 8-Ks.

8 On average -- I have been trying to do a little bit
9 of research on average, and assuming there is an agreement
10 attached to it, an 8-K can cost a company our size about
11 \$1,000 to file and printing fees. So that is the base and
12 you sort of scale it, that just gives you an idea of what the
13 cost is, and that excludes us doing press releases to satisfy
14 some NASDAQ requirements we have. So it is quite costly.

15 MR. THORNTON: And as Paul said, the cost for us is
16 the 20 people and the system, but it is more the actual
17 mailing. Again, our cost in there is over \$10 million just
18 to do the actual mailings.

19 MR. DONOHUE: Bob, your thoughts?

20 MR. SORRENTINO: Well it is similar to what Jenny
21 was saying. I think probably -- We have a pretty small
22 corporate reporting staff, and then also we have our external
23 printing costs, the most direct costs that we have associated
24 with. But clearly we have units throughout the world feeding
25 us information, feeding us financial and non-financial

1 information, and then also the review processes. So the
2 costs are pretty large, but I wouldn't say specifically for
3 the filing -- the Sarbox controls and making sure we have
4 accurate data and that it meets all the GAAP requirements as
5 well.

6 But clearly one of the biggest costs that we do
7 have is with the annual report and the glossy, so maybe we
8 are still -- we still have a pretty sizable mailing, and it
9 is a glossy, which is probably our most expensive, and can up
10 to about \$300,000 as part of that mailing and filing. So
11 that is probably our biggest direct cost from a filing
12 perspective.

13 MR. DONOHUE: A question.

14 MR. AGUILAR: May I interject a question? I'm not
15 sure how this is all working here.

16 MR. WHITE: Yes, please.

17 MR. AGUILAR: I apologize. This is Aguilar, and I
18 apologize for not being there. But I have found the
19 conversation quite interesting. I really have a question
20 about the mailing of the prospectus versus it being on the
21 website, trying to save as many forests as we can, trying to
22 be environmentally sensitive.

23 But a question as to whether the information that
24 is required in the prospectuses -- Are you taking that
25 information and putting it pretty much as is on your

1 websites, or how much are you having to manipulate it in
2 order to make it investor friendly, and how much investor
3 input are you having into that information? And are the
4 regulators asking you for the kind of information investors
5 want in the timely way they want it? I take it, at least
6 with the Vanguard numbers, you have better than 50 percent, 9
7 million investors registered on your website, but 100,000
8 using it daily during normal times, and in weeks like the one
9 we have had, a greater percentage.

10 So my question is, as we look at this 21st century,
11 what advice would you have, at least in the mutual fund area
12 and perhaps others, for being more responsive to the investor
13 needs, and how do you in your environments reach out to
14 investors to try to determine that they are getting
15 information in an appropriate, timely way?

16 I know that we talked about that earlier in the
17 panel, but I couldn't find the non-mute button on the remote,
18 so I am a little late on that question, but if you could
19 address that, I would appreciate that.

20 MR. THORNTON: That is a fabulous question. For
21 the most part, as I said before, the prospectus, I don't know
22 if you have seen the prospectus, but if you looked at the
23 prospectus for something like our Index 500 fund, I think it
24 is about 80 pages.

25 And what we have managed to do is ultimately

1 distill the important information pretty much down to a
2 single page on a website. Now there is a lot of data behind
3 that. There is no question there is a lot of data behind
4 that, and if you want to go look at the individual holdings,
5 of course you are going through some more data. But really
6 what we have managed to do, as far as the end user, is to
7 distill down a big subset of what is in the prospectus. And
8 we use that in two ways.

9 We actually bring shareholders into Vanguard and we
10 ask them if it is okay, we put them behind a glass window,
11 and we watch them use the website, and we ask them questions
12 about what they do. And we have made modifications to what
13 we offer based on that type of feedback, and we actually have
14 quite a few more users on the website. I mentioned the
15 numbers, 200,000 just looking at our funds area, but the
16 other day, three-quarters of a million folks logged on our
17 site and looked at balances, et cetera, and we got lots of
18 feedback about how they feel we could make it better and we
19 use that.

20 So that is the two recommendations I would have, is
21 just listen, shareholders are more than willing to tell you,
22 and then clearly the data, what they are using. There are
23 just so many things that are out there, but it is highly only
24 used by investment professionals or required for legal
25 reasons. Paul?

1 MR. HAAGA: Commissioner Aguilar, thank you. That
2 is a good question. We are focusing on SEC filings and
3 disclosures because that is the subject matter, but it is
4 important to remember what else is out there.

5 We have two -- Our funds are used by advisors who
6 don't sell directly to the public or make available directly
7 to the public. We have two websites, one for the public and
8 one for shareholders and one for the advisors. The advisor
9 website has a lot of calculation tools and marketing, if you
10 will, information. I don't like that term because I don't
11 think they sell funds, they advise people about owning them.
12 But it is beginning to be marketed information.

13 On the shareholders site, there are a lot of things
14 that are very relevant to shareholders that are not -- can't
15 be included in the prospectus that is put out once a year or
16 even the shareholder reports that are twice a year, and that
17 is updated less -- Monthly we update the top ten holdings,
18 investment results on rolling periods, a number of things
19 like that, and we will also include commentary.

20 I think if you go to any mutual fund website there
21 will be information about whether the money funds are going
22 to take advantage of treasury insurance and information about
23 the current market turmoil and what they think about it, and
24 they do come there. And one of our challenges has been
25 people expect something to be on the website instantly, and

1 we can't write it carefully that quickly. But the website
2 has been an enormous tool and it goes way beyond the SEC
3 filings.

4 MR. THORNTON: I would just follow up there. One
5 of the things that recently, with the market turmoil, we
6 pretty much have had to put a video up every day, and there
7 have been Chairmen or several fund managers, and we are
8 having activity, over 100,000 folks a day are looking or
9 listening to that information.

10 MR. WHITE: Commissioner Aguilar, do you have more
11 questions?

12 MR. AGUILAR: No, no more questions. Thank you for
13 your answers though as a group. I greatly appreciate it.

14 MR. WHITE: Just looking at my watch here, I think
15 it is probably about time to go to our closing segment. What
16 I guess we would like to do is go down the panel, starting at
17 the end here with Al, but what we would like from each of
18 you, and when I say closing thoughts, is probably a little
19 bit of an expansion over what we have been talking about so
20 far, and maybe to look ahead a bit at what is going to be on
21 the second panel.

22 As you know, this panel was to talk about where we
23 are today, and the second panel is to talk about where we
24 might be moving. But since you guys won't be here on the
25 second panel, our question -- I think we would like to hear,

1 if you could, is give us some of your thoughts of where you
2 think we should be moving as well as obviously comments on
3 what we have talked about so far.

4 So Al, if we can start with you.

5 MR. BERKELEY: Thank you very much. I think that
6 it is really important that panels like this are held and in
7 this sort of awkward democratic process we have a balance of
8 all these different interests of different people, disclosure
9 versus privacy versus business competitiveness, that we get
10 it right.

11 I have had an opportunity to -- I have been
12 e-mailing Joe Grundfest and I have a bit of a preview on what
13 he and Alan Beller are interested in. I think it is
14 completely a -- and I am not going to talk about what they
15 are going to talk about in the next panel, but I find that it
16 is completely compatible with the technological innovation
17 that we have been working on in XBRL trials and the
18 implementation of the GAAP taxonomy in XBRL.

19 These are really important moves because it means
20 the SEC is moving from one older technology curve to a new
21 price performance curve in the delivery of information and
22 the democratization of access. So I think these are going to
23 be quite important. I am also interested in Liv Watson, who
24 is going to be on the next panel. I hope she will talk a
25 little bit about how XBRL is expanding into other areas

1 outside of SEC reporting.

2 And the reason I mention this is because these
3 technologies take long incubation periods to become
4 effective. You know the DARPA really developed the
5 technology of the internet in the '60s, and it didn't really
6 burst on the scene until the final piece called a browser
7 fell into place in the '90s, so that was really a 30 year
8 incubation period. XBRL has been around more than a decade,
9 and it is a great idea and it is in its own gestation period,
10 and I think we will find that it will be a piece of a set of
11 technology and policy puzzles that will bring real
12 democratization and access to data and make it extremely
13 convenient, extremely cost effective and able to help us
14 avoid the kind of catastrophe that we are having right now
15 through the transparency that is in an analyzable format.
16 Thank you.

17 MR. WHITE: We are going to Dave next, and then
18 Kara, you will be up next after Dave.

19 MR. COPENHAFFER: Thanks John. I have some somewhat
20 disconnected thoughts based on the discussion. As I am not
21 an accountant, this sounds too glib to even propose. From my
22 conversations with people and particularly looking at XBRL
23 and the way things work today, it is clear that the whole
24 process of footnotes within the reporting scheme presents
25 really enormous challenges. And the question which arises,

1 in my mind is, is it possible to work in a way that reduces
2 the amount of footnote-ization.

3 One of the examples that was used a lot in XBRL
4 discussions was a component, retail sales per square foot.
5 Only by looking at the footnote, are you able to tell does
6 that footage calculation include or exclude warehouse space.
7 Is there a way to begin to move information out of the bottom
8 out of text up to the top of the document so that XBRL and
9 other extraction schemas actually become much more powerful?

10 There are a number of, I will say, easy hits that
11 the SEC can do. They don't go to dramatic changes or
12 improvements. There has been some talk about trying to make
13 more sense out of SEC form types. There is an awful lot that
14 can be done in very basic form type consolidation. There are
15 something like 280 to 300 different form types that are used
16 in EDGAR submissions. Many, many, many of those are
17 essentially replications that don't need to be identified as
18 a separate form type.

19 S3 is a good example. There are nine different
20 variants of form type S3. There is S3, S3/A for an
21 amendment -- post-effective amendment, automatic shelf
22 registration. All of those variants of form S3 could really
23 be removed from the form type designation, put into some sort
24 of a header, what rule is being followed. When you are
25 filing those you could really do some condensing and

1 collapsing there.

2 Last point I will make is that we have had good
3 descriptions of the filing process, but it is not always as
4 complex and even chaotic as it is being described, in some
5 instances it is even more chaotic than what we are hearing
6 about, that documents and material that is going to go to the
7 SEC frequently exist in many, many different forms and
8 formats, and I worry a little bit about a process that is
9 going to try to condense or collapse information into a block
10 which someone sitting in a PC can slug into a box or a block
11 that goes directly to the SEC without an intermediary. There
12 is appeal, perhaps, in trying to do something close to that,
13 but in practicality I think it becomes very difficult to do
14 well and to get it right. I will stop there.

15 MR. WHITE: Kara?

16 MS. JENNY: Well I would hope, I guess, that when
17 contemplating the features that a system and modernization
18 would have, that the Commission would consider the needs of
19 the small reporting companies as well as their sources and
20 the needs of their investors, as well as their ability to
21 bear the cost of compliance. We all are going through
22 compliance and that is obviously adding cost to our
23 structures that we have had to absorb.

24 So I would hope that anything that is proposed in
25 the future would obviously contemplate that. And one thing

1 specifically is when we look at the needs of the investors is
2 that many small companies such as myself are closely held.
3 So to get information to as many investors is not the same as
4 if you have a much larger investor base. So I would just
5 hope that things like public flow and whether or not
6 companies are closely held, things like that would be
7 considered in overall compliance.

8 Another thing that when I sort of socialize this
9 issue with my colleagues that we talked about is, I have been
10 on both the public and private side of accounting, and there
11 is one thing to be said about forms. It gives us a
12 discipline and it gives us a process. So it is very easy for
13 legal counsel, internal, external, it is easy for the
14 accounting teams, public accountants, they are rallying
15 around a process on getting the Q filed, and everyone can
16 rally around a process of getting a K filed, and I think that
17 sort of absent that process there could be the risk of things
18 sort of falling apart.

19 Everybody likes that process, so while it might not
20 be the best one and form-based reporting is certainly a
21 little more burdensome for companies, I think that it is a
22 clear cut process and I'm sort of just throwing out there the
23 idea that removing total process -- you don't want to remove
24 the whole process and it is nice that everyone at least
25 speaks that same language and understands what needs to

1 happen to get something filed. So I will just leave it at
2 that.

3 MR. WHITE: Thank you. Glenn?

4 MR. DOGGETT: Thank you. From the investor
5 perspective, today we have heard a lot about 10-Qs and 10-Ks
6 and the process, and it really comes down to seeing that that
7 is a compliance process. And as these rules change of what
8 is being delivered, I really want to bring the financial
9 statements back to being a communication tool to the
10 investors. The underlying information is what we use for
11 investment decision-making, so we really want to highlight
12 that focus in the process. It is a communication tool, and
13 the compliance is sort of this reason why we are doing it,
14 not a compliance process that investors get to use.

15 As we move forward with any changes, scalability is
16 going to be a big issue. Just as individual investors have
17 different needs from professional investors, as I mentioned
18 earlier, credit analysts, equity analysts, buy side, sell
19 side, all have different data needs, so a one size fits all
20 way to pull out basic information and detailed information,
21 that is what we have now in this form filing. Let's make
22 sure we have scalability. So if I need the entire footnote
23 disclosure I can get it, if I need a key aspect, I have
24 access to pull that information, so customizing the
25 information to the user.

1 The last point I want to make is just reinforcing
2 the five data elements that Al mentioned, especially
3 reliability and comparability. These are the key fundamental
4 aspects of any data analysis is doing your comparative review
5 against company and time. And in that respect,
6 implementation is key, and we will watch how the SEC moves
7 forward to ensure that investors are best served.

8 Thank you.

9 MR. WHITE: Tim?

10 MR. THORNTON: So I think first we would reinforce
11 the national treasure kind of comment. I think the system
12 itself --

13 MR. WHITE: That is good, we like it.

14 MR. THORNTON: The system itself, it has got a
15 wealth of data, and I think we would also reinforce the
16 desire by the SEC to get XBRL and interchange of data things.
17 It makes a lot of sense, but especially from -- I see your
18 perspective. When you think about it from the mutual fund
19 perspective, when we think about these investments, we know
20 that our end shareholders, our end shareholders, probably
21 will use our website, they won't go to the EDGAR website, we
22 kind of know that data.

23 But I am positive that that data being available
24 will result in a lot of innovation and Googles and Yahoos and
25 others who will use it, and our end shareholders will

1 benefit. I mean you can see a benefit, but it is a little
2 indirect. When you think about our filing process, I talked
3 about it has been around for 20 years, and we know we are
4 going to make that better. When we make that investment, we
5 will make the investment to use XBRL.

6 And I will just say that Vanguard is a very
7 technologically savvy company. Last year we spent over \$600
8 million in technology, and I guess what I would consider is,
9 even for us, this is a big investment, it is going to take us
10 time to get our systems right. So I would just ask the SEC
11 to consider the pace at which they require that. And I guess
12 I would also like to wish we shouldn't kill trees, right, to
13 my neighbor?

14 MR. WHITE: Paul?

15 MR. HAAGA: First of all, thanks again for having
16 me. I am delighted to be able to participate.

17 Given what is going on, it is hard to just focus on
18 disclosure. I am glad we talked about disclosure, I am
19 really glad. In this initiative there are a number of really
20 important things here.

21 I do harken back to what Al said, it is all about
22 trust, we have been reminded of that in recent days.
23 Trusting the completeness of the financial instruments, trust
24 in the market participants, and probably most importantly,
25 trust in the regulators, and I think that all of those need

1 to be attended to and reinforced. We would like to make a
2 submission mostly focused on accounting rules and disclosure
3 requirements in the areas of fair value derivatives and
4 off-balance sheet accounting and technicals, so I won't try
5 to summarize them here, but we would like to suggest some
6 changes.

7 In addition, it is important to remind us that we
8 can rewrite the rules all we want, but the enforcement of the
9 accounting rules is important. Just to cite one example, I
10 think the enforcement of the off-balance sheet accounting
11 rules was insufficient, as the banks have proven. They had
12 liabilities for some SIVs and other things that were off
13 their balance sheet that we didn't know about. The
14 challenges with the current accounting rules have made the,
15 what I would call, march towards convergence with IFRS even
16 more questionable to us. I think all the ways in which our
17 accounting rules have been somewhat deficient here are worse
18 in IFRS, so I would be careful of those.

19 And I guess finally I would say that while
20 disclosure is extremely important and it is in fact the basis
21 of securities regulation, it can only go so far. We talked
22 about what should Lehman Brothers have disclosed right before
23 their problems arose. I think the only thing useful that
24 they could have disclosed was to let us know that they were
25 the next victim that the short sellers were going to take out

1 and shoot, and they didn't know that. So let's remember all
2 the other rules, and I am glad that Chairman Cox in his
3 opening statement about a number of initiatives, in fact I
4 wouldn't add any to the ones, I think he hit them all very
5 nicely.

6 So thank you for having us, thanks again for this
7 important initiative, and keep up the great work. I know my
8 friend Buddy has been staying up all night, so I appreciate
9 your being on the watch.

10 MR. WHITE: Thanks, Paul. John?

11 MR. BAJKOWSKI: Well first of all, I do just want
12 to thank the SEC for the whole electronic filing process. I
13 mean 20 years ago we began offering a stock database to our
14 membership, and we were looking at data vendors -- a vendor,
15 we went to visit their offices in Richmond, and they employed
16 a pool of analysts and secretaries that were basically
17 getting annual reports from companies, being mailed from
18 their offices, and typing them into computers. I think the
19 transition to EDGAR has made the data more accurate, timely,
20 and cheaper for the individual investor.

21 In fact, 20 years ago, if you wanted to get a
22 reasonable database, you were spending a couple thousand
23 dollars a year, and you were perhaps getting monthly updates.
24 Today you get updates that are real time, they are free to
25 the individual investor, they simply need computer access. I

1 think going forward, looking at XBRL tagging, again I think
2 it will make the financial statement more transparent and
3 more accessible, and even if the individual investor does not
4 necessarily go to the SEC website to get the information, it
5 will flow to them and it will be a valuable asset to the
6 process.

7 MR. WHITE: Thanks. So Bob, you are going to get
8 the last word here.

9 MR. SORRENTINO: Thank you also for the opportunity
10 to be here today. Just from a company perspective, I think
11 Xerox would like to help you as you go through this process,
12 and we would like to provide whatever input we can to the
13 process because we think it is a very important one.

14 And just from a user perspective, the only thoughts
15 I will leave you with is the staffing issues and costs
16 constraints are a problem with big companies as well as small
17 companies, and we are asked for more and more disclosure, and
18 I just think we should be careful as we go down that path
19 because there is a lot of disclosure out there, and now XBRL
20 is another avenue that we are asked to provide, that we just
21 look at the current disclosures and maybe there are ways to
22 summarize the information better. I think the FAS151
23 derivatives disclosure is a good example, bringing all the
24 derivatives disclosures into one spot that a company has, I
25 think that is a good option rather than expanding

1 disclosures.

2 And then just from a tool perspective, we like the
3 idea of a company website or filing system. Hopefully it can
4 be more interactive, directly interactive with the user to
5 maybe try to eliminate some of the costs and redundancies
6 that are there in the process today. Thanks.

7 MR WHITE: Thank Bob. We said you were going to
8 get the last word, but Commissioner Aguilar, would you like
9 to have the last word?

10 MR. AGUILAR: Only to thank all the speakers. This
11 has the potential, quite frankly, of being boring. It has
12 been anything but. So I thank you. This has been a good
13 start for us to go away and scratch our heads so we can make
14 things better. So that is my last word. Hope that is what
15 you were looking for, John.

16 MR. WHITE: Thank you.

17 MR. REED: Well thank you, and I will just send us
18 off here. Thank you all very much for your attention, and
19 thank you to the panelists for this terrific discussion. The
20 initiative staff will develop a proposal for the
21 Commissioners in the next several months, and hopefully have
22 more work from the advisory committee, and this is
23 foundational to what we do.

24 So thank you all for your attention, and we will
25 resume at 11:00 after a break.

1 (Whereupon, at 10:53 a.m., a brief recess was
2 taken.)

3 PANEL TWO: MODERNIZING THE SEC'S DISCLOSURE SYSTEM

4 MR. LUTZ: Welcome back.

5 First of all, I would like to thank the panel for
6 an interesting and somewhat spirited discussion. When we
7 first proposed that topic to Chairman Cox, he just looked at
8 me and said, "Oh, that will really excite them," and I
9 promised that we would make it interesting, and I think the
10 panelists certainly did.

11 MR. WHITE: That's because you didn't know that the
12 national treasure was going to emerge.

13 MR. LUTZ: We always have hidden surprises here.

14 So we looked at what the current system is. This
15 panel will explore what a system could look like if we moved
16 to an electronically-based structured database form of
17 disclosure. It is a big question, it is a big issue,
18 involving a lot of detail. Certainly we are not going to be
19 able to cover everything given the limited amount of time
20 that we have, but I think we have enough people on the panel
21 to give you some very specific ideas as well as stir up some
22 interesting discussion.

23 So now I will turn it over to our panel. Joining
24 both Buddy Donohue and John White is Jim Kaput. Jim is a
25 special counsel to the 21st Century Disclosure Initiative.

1 Jim?

2 MR. KAPUT: Thank you Bill. This is our second and
3 final panel of the day. We expect it to run until about
4 12:45 p.m.

5 Just a couple of reminders. John, Buddy, and I
6 will be leading this discussion for each of the panelists,
7 and I understand Commissioner Aguilar is still with us via
8 videocast, so any commissioner is also welcome to ask
9 questions as well.

10 As this second panel nears its close, Buddy is
11 going to end the discussion phase and give each panelist a
12 chance to make a final comment or closing thought, and any
13 commissioner will have that opportunity as well.

14 Also, to ensure that this discussion runs smoothly,
15 I am going to ask that panelists and commissioners who wish
16 to be recognized signal in some way so that we can call on
17 you, and we will try to make every effort to recognize
18 everybody.

19 With that, I would like to introduce our panelists.
20 Starting on the far end, Alan Beller is a partner at the law
21 firm of Cleary Gottlieb Steen & Hamilton. Mr. Beller served
22 as the Director of the Division of Corporation Finance, a
23 predecessor to John White, one of our moderators today, and
24 as Senior Counselor to the Commission from 2002 to 2006.

25 Steve Bochner, next to Alan, is a partner at Wilson

1 Sonsini Goodrich & Rosati with over 25 years experience
2 practicing corporate and securities law. He served on the
3 SEC's recent advisory committee on smaller public companies
4 back in 2005.

5 Eric Roiter also joins us. He is a lecturer on law
6 at Harvard University Law School and Boston University School
7 of Law. He is a former Senior Vice President and General
8 Counsel of Fidelity Management and Research.

9 Next to Eric is Esther Dyson. She has spent her
10 career as an investor, an entrepreneur, and has served as a
11 board member on a variety of start-up ventures, including her
12 current role as Chairman of EDventure Holdings, it is a
13 holding company for her various business endeavors.

14 Doug Chia is Senior Counsel and Assistant Corporate
15 Secretary at Johnson & Johnson. He is responsible for
16 matters of corporate governance, securities regulation, and
17 public company disclosure.

18 Professor Hillary Sale joins us. She is the Chair
19 in Corporate Finance and Law at the University of Iowa
20 College of Law and faculty advisor to the Journal on
21 Corporation Law.

22 Liv Watson is a member of the board of directors of
23 IRIS business services and the former Vice President of
24 Global Strategy for EDGAR Online, Inc.

25 And joining us by videocast is Professor Joe

1 Grundfest. He is a professor of law and business at Stanford
2 Law School and Co-Chair of the Rock Center for Corporate
3 Governance. He is a former Commissioner of the SEC, having
4 served during the years 1985 to 1990.

5 As we did with the first panel, we have divided
6 this second panel into two general areas for questions. For
7 the first half hour or so we will focus on the perspective of
8 investors, just as we did in the first panel, and how a
9 modern disclosure system would improve their ability to
10 access high quality investment information. Then we will
11 turn to filers and consider the benefits and concerns that
12 they would like to see addressed by a modern disclosure
13 system.

14 And as we did with the first panel, we will begin
15 with presentations. I am going to go back to Bill in a
16 second, but Bill will first describe one company file
17 approach to a modern disclosure system. Next, we will ask
18 Professor Grundfest to describe a proposal for a
19 question-based filing system that he and Alan Beller have
20 written about. And then finally, Liv Watson will help us
21 understand some of the different approaches to disclosure
22 taken in other countries.

23 With that, Bill, if you would like to start.

24 MR. LUTZ: Okay. Actually, I have some Powerpoint
25 to show you some things. I can't see if you can see the

1 Powerpoint or not, but -- Is it up?

2 So, to access disclosure information today as it is
3 filed with the SEC, you ask yourself the question 'I want to
4 look at the earnings per share of the XYZ Corporation for the
5 third quarter, but I want to take and compare their EPS with
6 everyone in their industry.' Not a very difficult question,
7 so off we go to EDGAR land. And this is what I find when I
8 look up the XYZ. But it asks me what form type do I want.
9 Well, I may not be sure, so I want the 3-Q, so I hit the
10 little button that says 'All Forms,' so I will take a look at
11 the forms, and I get this on the site, which is a list of all
12 the form types. It is a 61-page document. All I have to do
13 is read through 61 pages to find the form that I want. Okay,
14 I found my Q.

15 So, I am going to go look for Q, and this is what I
16 get for the XYZ Corporation. And by the way, please note in
17 the fine print -- you always have to read the fine print at
18 the bottom -- that this is 1 to 25 of 52, so I have to go
19 through 52 listings. Now please note that this assumes that
20 I know what I am looking for. Okay, got it. Here we go,
21 10-Q. And if I read through it and know what I'm looking for
22 and where to look, there I find my earnings per share. Now
23 all I have to do is the same thing over and over and over
24 again for every company in that industry if I want to get my
25 comparison.

1 Okay, if we really want to do it better with easy
2 access to high quality information, we are going to have to
3 rethink the way that the SEC collects information and the way
4 that it stores it and makes it available for access. One
5 approach we call the company file. I stress that this is one
6 approach. There are many approaches that need to be
7 explored. Joe Grundfest and Alan Beller will discuss another
8 approach.

9 Okay, so we have the SEC file. Please note that
10 little green box with all the little ones and zeros, that is
11 a website. That is that place in cyberspace where you will
12 go to find the information, and that is where companies will
13 file their information in a structured format.

14 So we are not talking about forms, we are talking
15 about filing disclosure information in a structured format.
16 And notice that for only one time will a company have to give
17 its name, address, and phone number, unlike the 14 times it
18 has to do now each year. Think of it as when you set up an
19 online shopping account with Amazon or some other company.
20 You give them your name, address, mailing information, credit
21 card info once, and every time you go back, you only change
22 it if you have to update it.

23 So a company file system would work the same way.
24 There would be information -- the term that is used is
25 'evergreen.' That is, it only has to be re-affirmed

1 regularly, not reloaded every time. So during the year, a
2 company would file regularly mandated information, as they do
3 now, only instead of filling out forms, now they could simply
4 do it online.

5 So that information is structured, which is key to
6 this whole system, and because of that structure it becomes
7 easily accessible. And a company file user interface will be
8 built around the needs of the investors. So when you go to
9 the SEC website at that time, there would be a user interface
10 that would allow you to access and interact with the data.
11 That does not preclude you, for example, from using a third
12 party software, your own software, or whatever. And then we
13 can serve the needs of the high-level subscribers, the
14 sophisticated users, the retail person, all of them would be
15 saved off the same data structure.

16 So in reinventing this, we are going to give
17 investors, no matter what kind or type of investor, easy,
18 quick access to the same high quality information that they
19 have today.

20 That is the general overview, now the rest of the
21 panelists will discuss other possibilities, as well as the
22 problems inherent in this.

23 Thank you.

24 MR. KAPUT: Thank you Bill. Professor Grundfest,
25 if you are available, you could do your presentation now.

1 MR. GRUNDFEST: Good morning ladies and gentleman.
2 Let me just confirm, can you hear me?

3 MR. KAPUT: Yes.

4 MR. GRUNDFEST: Excellent. Thank you, Jim. I just
5 want to make sure that the technology actually works.

6 The questionnaire-based approach that Alan Beller
7 and I are suggesting that the Commission consider is actually
8 quite simple, we think, and also not very different in many
9 ways from the company file information that has just been
10 described.

11 The way the questionnaire would work would really
12 be extraordinarily simple. You would take Regulation S-K, as
13 it currently exists, and you would turn it into a series of
14 questions, and by responding to these questions you
15 automatically generate a structured database of the form that
16 was just discussed in connection with the company file
17 information.

18 The questionnaire approach, however, also allows
19 certain advances in the nature of, for example, having pull
20 down menus that provide even greater structure, and having
21 check the box situations. And with regard to any one of
22 these pull down menus, or recheck the boxes, we think there
23 should always be a field where the registrant can provide
24 additional information in the event that they are concerned
25 that the specific response, which might be quite discrete,

1 doesn't fully capture all of the subtlety associated with
2 their position. The ability to have these full text
3 responses in connection with any one of these approaches we
4 think addresses one of the concerns that attorneys have about
5 XBRL and that the tagging in and of itself would give rise to
6 legal liability.

7 So what we have is a system that in effect would
8 put online a questionnaire, companies would respond to the
9 questionnaire, they would have a legal obligation to update
10 the questionnaire exactly on the same schedule that we run
11 into today under 10-K, 10-Q, and 8-K, and this approach would
12 very simply get rid of all forms. You would have one master
13 questionnaire, you would have a set of update requirements,
14 and you would be updating the questionnaire according to that
15 schedule.

16 Now some of the features of this approach that we
17 think are worth focusing on immediately are, number one, it
18 is content neutral. You could implement this approach by
19 simply taking all of the Regulation S-K requirements that
20 exist today, transform them into a questionnaire, and you get
21 exactly the same information extracted in a form that we
22 believe is cheaper, easier, and better for the companies
23 filing and for the user as well.

24 In addition, as Al Berkeley earlier suggested, the
25 approach that we are generating would be fully XBRL

1 compatible. As soon as you respond to a particular question,
2 the system would have the XBRL tags associated with that
3 response. So the approach that we are suggesting is not at
4 all a substitute for XBRL. It is another, and we think,
5 simpler and more legally sensitive approach of implementing
6 the same objectives that XBRL has in place.

7 Third, the approach that we suggest does not
8 require that companies repeat themselves. If you have a look
9 at the vast majority of 10-Ks and 10-Qs, more than 90 percent
10 of the information is merely repetition of information that
11 you would have seen in the last document. Who needs that?
12 The market responds to new information. That is what drives
13 prices, that is what investors want. If you have got a Q and
14 if you have to update the Q, then the only thing the general
15 counsel has to do is amend the responses to questions where
16 the information has changed since the last disclosure. The
17 system would then automatically tag the changes and bring
18 investors attention to the new information, which, as a
19 practical matter, we know is what moves the market anyway.

20 In addition, the approach that we are suggesting
21 would eliminate the duplicative disclosures that currently
22 constitute the vast majority of the filings. And to the
23 extent that we have these multiple, duplicative disclosures,
24 there is only one way to describe it. It is waste, waste,
25 waste, waste for the people that are required to file, for

1 the people that are required to read, and for the system that
2 has to handle all of this additional and totally unnecessary
3 information flow.

4 This approach, as I have already suggested, would
5 allow the equivalent of a company-based filing system and it
6 would be able to do so without any change in the statutory
7 structure, so the SEC would be able to use its current
8 regulatory authority to achieve that objective.

9 We do also believe that this approach will be
10 substantially cheaper for all the filers once it is put in
11 place. We do expect that there will be transition costs, but
12 there are transition costs whenever you run into a system
13 like this. But because the system that we propose would very
14 closely track the existing S-K disclosures, it should be very
15 easy to do a simple mapping of the current disclosures into
16 the new questionnaire, and then all you have to do is refresh
17 and update.

18 The system would also, we think, allow for much
19 easier and cheaper construction of databases that would allow
20 for comparability across companies so you would be able to
21 get your EPS data very, very rapidly, as well as
22 comparability within companies over time.

23 That is basically the proposal. We have got a
24 relatively short 10-page paper. For the students in the
25 audience and for others, you can get full text off the SSRN

1 website, www.ssrn.com, and then just search on Alan Beller's
2 last name or on my last name, and you should be able to find
3 it.

4 That's all.

5 MR. KAPUT: Thank you very much. Liv Watson is
6 next, and she is going to help us understand what is being
7 done in some other countries.

8 MS. WATSON: First of all, I would like to thank
9 Bill, Jim as well, for the opportunity to participate in this
10 panel.

11 I believe that we are at the tipping point of major
12 change in how individual investors and the external community
13 will access, analyze information, and how value-add is built
14 on top of this information. I am one of the founders of
15 XBRL, and as some of you know me, they call me the member
16 with the most miles. I have traveled to over 80 countries in
17 the world in the last few years helping them understand the
18 impact, the tagging of information with open global standard,
19 such as XBRL, will have on them as to impact.

20 So my goal today is trying to tell you what the
21 current trends around the world are for implementing XBRL and
22 then talk about where I see the future will take us, which is
23 where the tipping point of revolutionary change will set in.

24 I would like to start with looking at what the
25 current system of tagging is. You have what I called a chart

1 of account structured tagging system all over the world where
2 capital markets are tagging information, and then you have
3 kind of the Wild West of the U.S. and Canada with extension
4 and free flow of communicating your information to the
5 stakeholders, making it more difficult today when it is
6 locked up in PDF files and other text formats to actually
7 look for that information and extract that information to
8 make analysis. So on your left side, or my left, talking
9 about structured data, these other capital markets in the
10 world are tagging and giving a chart of account that you have
11 to fill in.

12 Now from the investor standpoint we have found that
13 the tags that they are asking for are not necessarily all the
14 information that the user needs, and they have to go back to
15 the company's filing to get the recent information to make
16 the real analysis. Now with regards to this approach to
17 giving a TurboTax authoring to, as I would kind of refer of
18 it, to kind of have a drop down menu, you can look to India.
19 The Bombay National Stock Exchange has moved toward this kind
20 of compliance solution.

21 However, they are not dealing with an extension of
22 structure, but rather a form-based approach, which we are
23 moving away from, to looking at what kind of data items to
24 report. Now in the Wild West we still have the issue of
25 tagging the footnotes and it lends itself very well to

1 structured data. But I can tell you in all essence that if
2 we block tagged even the footnotes, it may make a huge
3 difference and value-add to the individual investors, because
4 we are really at the time of revolutionary change.

5 And it is just like at the end of the century when
6 you asked the end user -- And my point is maybe the end user
7 is not the right person to ask for what they want. Remember
8 the change from candles to the light bulb? If you asked a
9 user what he wanted or she wanted at the turn of the century,
10 they wouldn't ask for the light bulb, they would ask for
11 longer burning less smoking candles. So this whole notion of
12 asking the end user what they want might not be the right
13 approach. So I encourage the Commissioner, the Disclosure
14 Initiative, 21st Century, to actually go beyond just to ask
15 the user and use your imagination as you design the system.

16 So the current system has a lot of manual
17 processes. As I said, they have this tagging mechanism today
18 available, either an Excel add-in, which can kind of then be
19 involved into what I call the Turbo analyst disclosure
20 system, or you have a web-based, or you have an outsourced
21 model, an internal add-on that you tag the information going
22 out.

23 Currently, the SEC, Securities and Exchange
24 Commissions around the world are not proactive in looking for
25 this information. It is impossible to find which companies

1 are dishonest or basically just in huge economic risk. And
2 then you have the data aggregators today who add value to
3 this information, and the cost of data to the individual
4 investors for the others with deep pockets is impossible for
5 them to reach, so they cannot. So they do go to central
6 repository, they do go to the viewer, et cetera, to be able
7 to access this information, and of course still today, where
8 do you know where to find it even if you find the sec.gov
9 website.

10 So when I talk about the revolutionary change that
11 is about to happen -- and I'm not sure why my slides are not
12 showing up all the way, but they will be available -- but any
13 manual data processing and analysis that depends on the
14 routine that can be reduced to a set of rules or broken down
15 into a set of repeatable steps can be automated with global
16 information standard, such as XBRL. And once this data is
17 tagged and more consistent over time, I think and believe
18 that the revolutionary change will be the democracy of
19 information as it becomes machine readable.

20 Just at the turn of the 1997 when machines beat the
21 world champion in chess, consistent data is going to
22 revolutionary change as data becomes more consistent and
23 tagged. And that is when the future model is going to
24 change. XBRL is going to be brought further into the
25 organization, it is going to be tagged further in into the

1 organization, and automating the process, moving away from a
2 form-based thinking to data items. The SEC is going to be
3 able to be proactive and not go in and shoot the wounded as
4 in the case of today.

5 When you look at where the economic analytical
6 models will come is when mass collaboration sets into place
7 and you can streamline this information into an innovated
8 marketplace where everybody can contribute. And it is going
9 to be a revolutionary change that none of us in this room can
10 predict, just like when the internet first hit the
11 marketplace.

12 So with that, I would like to turn it. As I said,
13 we might not ask the user necessarily because they might not
14 ask for the light bulb. Let the mass collaboration take
15 place. Information such as sustainability reporting and
16 others will take into place.

17 Thank you.

18 MR. WHITE: I just wanted to comment on behalf of
19 the Commission staff that we are not armed and we are not
20 preparing to shoot the wounded. Sorry, Jim.

21 (Laughter.)

22 MR. KAPUT: Thank you, John. Thank you for your
23 enthusiasm, Liv.

24 Our first question is for Esther Dyson. Esther,
25 what are the most critical elements or concerns that you

1 think a modern system of disclosure must consider?

2 MS. DYSON: First of all, by way of my own
3 disclosure, I just want to say even though I was positioned
4 as representing small investors and small companies, I
5 actually worked for Forbes magazine for three years and then
6 worked on Wall Street for five years, but I still represent
7 the little guy who doesn't want to spend a whole lot of time
8 pouring through SEC filings, et cetera, et cetera, et cetera.

9 So I think the real issue here isn't disclosure so
10 much as it is intelligibility, and that is kind of a
11 challenge for the SEC because you need to ensure that the
12 important data is disclosed, ideally that is comparable, and
13 over time you want to bring more and more of the footnotes
14 into the structured data so that the footnotes that are the
15 outliers that you should be paying attention to get brought
16 in either with new data structures or whatever.

17 So first let me just comment on this whole issue of
18 data. The first two presentations -- the first presentation
19 was about the data. Let's have a structured company file.
20 The second presentation was about a way into and out of the
21 data. In this case, the structured questionnaire, it is
22 really a way of generating the structured file. So they are
23 not compatible or incompatible, they are -- They should be
24 compatible.

25 You should have a structured data file, you need to

1 define what is in it, you need to define the elements of it
2 and so forth and so on, and then a structured questionnaire
3 is a fine way of creating it, but I am not sure that that
4 should be the SEC's job. It might be the job of 18 different
5 software companies. One would have a questionnaire, one
6 would have forms, one would have a template. The SEC's
7 concern should be with the structured data file and what is
8 in it. Then you can have a whole lot of third parties,
9 including individuals, who go directly to the data file who
10 figure out how to make sense out of that data file.

11 The thing that I would ask as a small investor, or
12 indeed as a large investor -- often the most interesting is
13 not just in the footnotes, it is in the board of directors
14 and the personal connections of the boards of directors with
15 other directors or the personal connections of individuals
16 within the company. And I don't know how to -- I don't know
17 exactly how to make a law, and maybe it is not appropriate to
18 have a law, but from the point of view of the investor, the
19 interesting stuff, as Paul Haaga said, it is 'Are the shelves
20 in the department stores tidy? Was the Chairman of the
21 company previously a gambler or previously a lawyer or
22 previously a shop clerk?' These are the kinds of things --
23 None of those are either good or bad, it is simply
24 interesting. These are the kinds of things people want to
25 know.

1 Liv talked a lot about Web 3.0, Web 4.0. There is
2 a huge amount of information that can be made meaningful or
3 relevant using visualizations of various kinds, whether it is
4 the webs of interconnections of individuals, charts that show
5 curves and discontinuities and all kinds of things.
6 Providing data in a format that can be easily rendered is
7 probably the most important job of the SEC. In technical
8 terms, you want to have a whole bunch of APIs, that is
9 application programming interfaces. Not simply a single user
10 interface, such as the questionnaire, but software hooks that
11 enable third parties to use their own software tools and to
12 develop new kinds of tools to analyze the data and make it
13 meaningful.

14 The notion of the Wiki that Liv raised, that is one
15 approach. But the essence of a market is that I'm going to
16 look at the board of directors connections, and someone else
17 is going to look at same-store sales, and we will all have
18 our different points of views and our different filters on
19 the information. People who come up with interesting filters
20 may have insights that helps to create the market.

21 Final point, I think the press is tremendously
22 important with all of this. Lots of individual investors
23 don't have time. The press may or may not have time, but it
24 ought to have time. An active press that forces disclosure,
25 that asks questions on behalf of investors, on behalf of

1 people who deal with companies, is tremendously important.
2 So in the end I would like to create an expectation that
3 companies should be transparent and intelligible. They will
4 not be to most casual investors, but in the 21st Century I
5 want to a press that can ask those questions, that can
6 understand the answers, and that will make those answers
7 clear to investors and people in the marketplace.

8 MR. DONOHUE: Eric, you bring a very interesting
9 perspective to this panel from your years at Fidelity, and
10 like Paul and Tim, have a perspective both from the fund as
11 an issuer and from a rather large fund complex as an
12 institutional investor. I would like you to take a moment
13 and maybe talk to us about what types of information you
14 think would have been helpful in our current environment that
15 we are in or other environments that one could envision, and
16 how that information could have been made more accessible by
17 the types of regimes that folks are speaking about now.

18 MR. ROITER: Thank you. Well, I would like to
19 start off by observing that the discussion that we have had
20 so far and typically the discussion that ensues when the SEC
21 addresses questions of disclosure invariably tilts toward the
22 equity markets and stocks of issuers, with the benefit, if
23 there are any silver linings, of what has happened over the
24 last couple of months, we see the obvious interconnectivity
25 between the fixed income markets and the equity markets. And

1 I observe this at Fidelity every day. We had a vast team of
2 researchers on the equity side and we had a substantial team
3 of researchers on the fixed income side, and they talked to
4 each other. Often the canary in the coal mine, the earlier
5 warning signs were discerned by the fixed income research
6 analysts.

7 So I would encourage the SEC, when thinking about
8 not only the delivery of disclosure and how to make it
9 accessible and understandable, but also the content of
10 disclosure, to readdress or reconsider how best to integrate
11 fixed income and equity analysis, investment research, and
12 decision making, because they are not only interconnected,
13 but they do have different emphasis.

14 On the fixed income side, you want to know about
15 liquidity, you want to know about leverage, you want to know
16 about certainly the creditworthiness of the issuer, you want
17 to know about working capital, and those are very immediate
18 questions. You can't wait for a 10-Q to come out to make an
19 informed judgment on some of those issues.

20 I would invite the SEC to reconsider Reg FD. Reg
21 FD had a two-sided edge to it. It granted the privilege to
22 the rating agencies to sit down and speak to issuers'
23 management on the fixed income side. We wrote a comment
24 letter years ago when Reg FD was first proposed and said that
25 money market funds had to be in a position to continually

1 assess the minimum credit risk of money market instruments in
2 the money market funds, and the funds themselves were being
3 put at a disadvantage. They were actually made into
4 second-class citizens, in effect, because they didn't have
5 the access to company management that the credit rating
6 agencies did, and I applaud the work the SEC is doing now to
7 reconsider the role of rating agencies in that regard.

8 More broadly, I would say that the challenge that
9 the SEC has here is to balance two concerns that I think can
10 be reconciled, but they are competing concerns. One is that
11 what we have seen over the last 10 years is the development
12 of online search tools and other features of the web that
13 nobody could have predicted. And the emergence of search
14 engines like Google, nobody could have really predicted, and
15 we are at the point we are today because people with
16 different ideas were able to introduce those ideas into the
17 marketplace and we have had the benefit of an evolutionary
18 process.

19 So whatever the SEC does, I would think you would
20 want to create a regime in which evolution can occur
21 naturally and not be held back by rules that inadvertently
22 keep them back. On the other hand, this is the competing
23 factor, the SEC is rightly concerned about setting standards,
24 because if you had a formless universe to compete in, then
25 you may not get the evolution that you want. So many of us

1 held back waiting to see whether Blu-ray would prevail over
2 HD. I was one of the first purchasers of a Beta VCR, and I
3 learned to my dismay that sometimes you do need an industry
4 to settle on a standard. And here too I think the SEC is
5 rightly concerned about coming up with structure, but within
6 the structure to have it be amenable and actually invite
7 evolution.

8 In terms of the content, I know that is not the
9 subject of this roundtable, but I just returned to my first
10 point. I think a lot of what people naturally tend to
11 discuss in forums like this, really when you stand back and
12 look at it, is more of an equity-based discussion, and the
13 events of the last several months have reminded us that there
14 is a fixed-income investment world out there as well, and
15 whatever system you design, you certainly ought to try to
16 accommodate the needs of fixed-income investors, because at
17 the end of the day that is extremely important not only to
18 themselves but to the equity investors as well.

19 MR. KAPUT: Thank you. The next question is for
20 Liv. You have talked about structuring and tagging data and
21 how a more rigorous information architecture helps facilitate
22 access to information. Can you speak specifically about how
23 that might do that for the investor?

24 MS. WATSON: Sorry about that. I keep forgetting
25 this button here. Technology at its best.

1 I think that what you have from the investor
2 perspective, they want a lot of information. I also want to
3 go back to saying news is very important, repetition risk.
4 So the information you collect here at the Securities and
5 Exchange Commission, even though it is valuable to the
6 individual investor, there are other things that come into
7 play.

8 And my point to that is that, yes, creating these
9 data dictionaries for 10-Ks and 10-Qs is very important to
10 making this disclosure information interactive and
11 discoverable, and whoever will design the next Google search
12 engine for analytical data sitting on the SEC's tag, the
13 information, is going to make a revolutionary change. But
14 the fact that the information now is not locked up in text or
15 can be discovered and machine readable and having that mass
16 collaboration is totally changing the way companies are going
17 to look at or investors are going to look at the information.

18
19 So my message is to encourage as much of the
20 information is not just sitting on the SEC website, but the
21 SEC should also consider participating in broadening the
22 scope of these data definitions that are being developed in
23 the marketplace, and have a collaborative effort around these
24 other taxonomies, data dictionaries, that this information
25 can also be discoverable, because the SEC is taking one good,

1 giant step to solve the problem, but let's look at, because
2 XBRL, in all essence, is a supply chain standard. So any
3 constituent in the supply chain would need to participate and
4 provide their information and tag their information if it is
5 going to be valuable to the individual investor, or you are
6 kind of just putting a band aid.

7 So encourage -- This problem is global, it is also
8 regional to each country, but we need an infrastructure of
9 these taxonomies if we are going to actually be having a
10 useful solution to the individual investors, or they are
11 still going to have to go to intermediaries to get that
12 information unless it is developed through web services and
13 tagged information.

14 So my message? Yes, it is going to make a huge
15 enhancement to the individual investors to be able to access
16 this information and the innovation in the marketplace is
17 going to be built on it, but I encourage the Securities and
18 Exchange Commission, not just in the U.S. but all over the
19 world, to contribute to an infrastructure of these taxonomies
20 and how they need to be available so they truly can
21 democratize this information that is needed for the
22 hard-earned money of individual investors to the marketplace.

23 MR. WHITE: I think would like to turn now to
24 something that Chairman Cox highlighted in his remarks, which
25 is the fact that we are very focused on helping investors

1 evaluate the risk associated with complex financial
2 instruments and transactions today. So I will make this
3 question to the whole panel, but Joe and Alan and Eric, I am
4 thinking the three of you as being some of the first to
5 answer. How can we move to a more modern disclosure system,
6 a more structured system that has been described here by Bill
7 and by Joe? How is that going to help us with this very
8 important goal that we have and this very important focus
9 today?

10 Joe, do you want to start, or Alan?

11 MR. GRUNDFEST: Sure, I will accept the invitation.

12 I think we have to be realistic. What we are
13 talking about today is technology that changes the way
14 information gets from the registrants to the user. We are
15 not talking about changing the nature of that information,
16 and I think the question that you just posed goes to the
17 second question. How do we change the nature of the
18 information? How do we get better information about
19 valuations? How do we improve the valuation information,
20 which is, I think, the big issue that we are facing today.

21 So I really think that at a certain level,
22 everything that we are addressing today is orthogonal to the
23 huge problem that faces our capital markets in the moment.
24 If we want to go to the question of what can the SEC do that
25 it is not already doing, and it is already, I think, trying

1 to push just about as many buttons as it thinks it has.

2 What I do is suggest that we go back and revisit
3 one of the themes that Chairman Cox presented when he opened
4 the conference this morning, and I think that Chairman Cox
5 has very, very properly identified the credit default swaps
6 as a cause of great concern in the current market
7 environment, and if there is a more opaque market, I don't
8 know what that market is, especially if you adjust opacity
9 for size. The notion that there has ever been anything this
10 large and this opaque, in my view, has no historical
11 precedent.

12 So the question then is what if anything can the
13 SEC do about that situation, and what I would like to do is
14 suggest an approach that could be perceived as
15 extraordinarily bold, but when you are facing difficult
16 circumstances, sometimes you do need to consider fairly bold
17 approaches.

18 And I suggest the SEC grab the bull by the horns,
19 the bull here being the credit derivative swaps market and
20 the like. Now at first glance those of us with some
21 familiarity with the SEC rules and regulations, which are
22 very neatly collected in very small print in very large,
23 thick, and heavy books, would remember that the
24 Gramm-Leach-Bliley Amendments to the SEC -- actually quite
25 fascinating, and I think reporters would have a great time

1 digging into these provisions.

2 I will just take the Exchange Act, Section 3(a),
3 which in effect prohibits the SEC -- and this is really
4 fascinating -- The SEC is prohibited from promulgating,
5 interpreting, or enforcing rules or issuing orders of general
6 applicability in a manner that imposes specific reporting
7 record keeping requirements or standards having to do with
8 any securities-based swap agreements and of course
9 non-securities-based swap agreements. So it is not only that
10 the SEC arguably lacks authority, there is statutory language
11 that can be interpreted as preventing the SEC from actually
12 doing anything.

13 Well, what do you do in this context? At one level
14 what I'm about to suggest sounds, I think, a little
15 aggressive, but if you look at it, it is something that I
16 think can be done, and that is pay no attention to the
17 Gramm-Leach-Bliley prohibitions, all right? There is a way
18 to work around them. In particular, I think that in
19 cooperation with the Fed, Treasury, CFTC, and the banking
20 regulators, the SEC should consider writing the rules and
21 regulations that the federal agencies believe should be in
22 place governing the OTC derivatives markets today.

23 The regulatory agencies can then, on a national and
24 international basis, approach all of the significant market
25 participants and ask them voluntarily to abide by these new

1 rules and stands that would apply to the marketplace. My
2 prediction is that in today's capital market environment,
3 every responsible participant in the marketplace will sign up
4 and voluntarily agree to those standards. If one reads the
5 statutory language carefully, there is no prohibition in the
6 language from having the SEC work on a set of standards that
7 market participants can voluntarily sign on to.

8 And that is, I think, the most rapid and effective
9 way of addressing the problems in the credit derivative
10 market. It would allow the regulatory agencies to move
11 forward without waiting for Congressional action,
12 Congressional action is not going to be coming anytime soon
13 in this space, and the markets do need some certainly,
14 clarity, and transparency as quickly as we can provide it to
15 them.

16 MR. WHITE: I guess I would point out that our last
17 adventure in voluntary regulation in the CSE program caused
18 some concerns. But in any event, Alan?

19 MR. BELLER: I am going to be slightly less bold,
20 but before that I am going to follow in the tradition of the
21 current political campaign and answer a question I wasn't
22 asked.

23 MR. WHITE: Alan, it sounds like your mike isn't
24 working. Maybe you should use Steve's.

25 MR. BELLER: Is it on?

1 MR. WHITE: Why don't you use Steve's.

2 MR. BELLER: I told Steve you had given me a dummy
3 mike and you had me sitting out here in Siberia for a reason.

4 MR. WHITE: Hey, I already introduced you as the
5 founder of this whole project.

6 MR. BELLER: Is that better?

7 MR. WHITE: Far better.

8 MR. BELLER: I want to go back and talk about the
9 how again for just one minute. A couple of things that are
10 in the questionnaire structure that Joe and I have put
11 forward, although it hardly would be unique to it.

12 One, it is important -- We have talked about
13 structure, and Bill Lutz talked about structure and
14 disclosure. The current system is outside of the financials
15 and maybe the notes which XBRL is targeting first is entirely
16 a freeform system. So although you can look, you can search
17 for the words 'termination payment' or something, you can't
18 search for termination payments and exec comp, you can't
19 search for liquidity rations in MD&A.

20 And by having a system, which can be a
21 questionnaire with pull down menus, and it can be something
22 else, obviously, you go to a structure which facilitates
23 tagging and it also facilitates searching. So you have got
24 data which is more easily examined both across companies,
25 across industries, and across time, and that is one of the

1 very important advantages of moving to something of the sort
2 you are talking about.

3 Secondly, this hasn't been mentioned but I think it
4 is very important, it was mentioned on the last panel, some
5 people want the headlines, some people want the lead
6 paragraph, some people want all 100 pages. An electronic
7 disclosure system of any sort which is properly set up can
8 permit you to do a kind of layering that lets the people who
9 want to read the headline only read the headline, it lets the
10 people who want to read the lead paragraph only read the lead
11 paragraph, and if people want to read the whole three pages
12 they can read the three pages.

13 This makes a lot of lawyers very uneasy, because,
14 oh, you have got the buried facts doctrine, and, oh, if we
15 don't let investors read the whole -- if we don't make the
16 whole three pages available, they are only going to read the
17 headline and they are going to say they were misled, blah,
18 blah, blah. I don't think those kinds of concerns should
19 limit the flexibility that we are talking about.

20 Finally, and this plays into some of the things
21 that were being said about the structure and allowing third
22 parties and collaborative efforts to play a role in figuring
23 out how this data gets used, I don't think you should start
24 with the foregone conclusion that all this information ought
25 to reside on an SEC server. You might get there, but I don't

1 think you should start there.

2 You can imagine a system where all the SEC whatever
3 we call EDGAR the second time around is called, is just a set
4 of web addresses, for example, and the web addresses are
5 where the data resides. The SEC needs a mechanism to verify
6 that the data doesn't get changed, and there are
7 technological ways of doing that. I am not predicting a
8 conclusion here, I am only asking you to start at a different
9 starting point from the foregone conclusion that the data has
10 got to be on an SEC server.

11 MR. WHITE: Do you have a liability scheme that
12 went with that?

13 MR. BELLER: No, because I think if you can verify
14 the data on the other server through a hash or something like
15 that, you can have exactly the same liability scheme you have
16 now.

17 MR. WHITE: So it is company information, in other
18 words.

19 MR. BELLER: Yes, yes, exactly, but it doesn't have
20 to sit on your server.

21 MR. WHITE: Okay, Eric?

22 MR. ROITER: I wanted to return to your earlier
23 point and speak a minute or two about credit default swaps in
24 particular. I think the thinking that Joe has explained is
25 very interesting. I thought he was going to get to a

1 different conclusion, which was after we have figured out all
2 the rules, let's go to Congress and get Congress to enact
3 legislation that would empower the agencies to adopt those
4 rules. I can't think of a better time to go to Congress and
5 ask for new authority than now. Your case is never going to
6 get any stronger than it is right now.

7 In terms of what you could do by way of disclosure,
8 I would say you could do something, but what we have
9 experienced here, I think, is larger than the disclosure of
10 any single issuer. What we have seen here is systemic risk
11 with a vengeance coming into the market.

12 So you would need the ability to have access to
13 data throughout the system in order to evaluate systemic
14 risk. Much of that might not even be risk of publicly
15 reporting issuers. So the other pieces here to be examined
16 are other regulatory techniques other than disclosure to
17 address what has happened and to try to at least reduce the
18 risk of something like this happening again. So you have to
19 consider leverage limits, capital adequacy requirements, and
20 consider the functional equivalents of different types of
21 financial institutions, and try to rationalize the capital
22 adequacy and leverage limits that apply.

23 One would think that you ought to at least move
24 towards convergence in terms of capital adequacy standards,
25 at least to the extent that different types of financial

1 institutions are engaged in a particular activity like credit
2 default swaps.

3 I want to return to, again, the subject of the
4 rating agencies. I don't think that the credit default swap
5 market would ever have developed to one-tenth of its size had
6 not the credit default swap issuers or insurers not had the
7 benefit of investment grade ratings.

8 And I think a lot of the counterparties to credit
9 default swaps looked at those transactions as they looked at
10 just buying short term debt, commercial paper, or other debt
11 obligations of those institutions, and if they said to
12 themselves 'Well AIG is a triple A credit. We buy their
13 commercial paper, don't we, or we buy other short term debt.
14 So if we are comfortable buying short term debt from a triple
15 A rated issuer, why should we not feel equally comfortable
16 being the counterparty in a credit default swap?' None of
17 that could have happened but for the system that has been in
18 place where investors basically relied on rating agencies to
19 make those kinds of evaluations.

20 MR. WHITE: Hillary, you have a comment here?

21 MS. SALE: I just want to make a quick comment to
22 sort of return us to the modern disclosure system, because I
23 think that disclosure by itself, obviously very important,
24 and somebody needs to do something about regulating the
25 credit default swaps -- and I actually think we will figure

1 that out in the near term, the Federal Reserve has stepped up
2 to the plate at least in the short run -- but one of the
3 benefits of the kind of system that we are discussing today
4 is that it takes disclosure and makes it more transparent.

5 And transparency is clearly key to having investors
6 have access to the information, to having the market function
7 more efficiently. And this kind of a system which would
8 allow us, assuming information is disclosed, to access it
9 across companies, compare it, see where the shifts are and
10 what the dynamics are would be extremely valuable.

11 MR. WHITE: Alan?

12 MR. BELLER: I want to go back to the credit
13 default swap point for just a moment, because I agree with
14 what Eric said about the systemic issues being, in effect,
15 beyond disclosure. But I also think there are some important
16 disclosure initiatives the Commission could pursue. I think
17 many of them can be pursued, frankly without rulemaking.
18 Management's discussion and analysis is one of the great
19 principles-based rules in the SEC's toolkit.

20 An example of that is if you look at the CFO
21 letters that CorpFin has put out over the last nine months.
22 All of them are directions to issuers to think about the
23 principles of MD&A in the context of particular market
24 developments. They could be a little less checklist-y and a
25 little more 'do if it is material,' and then you wouldn't see

1 20 pages that don't tell you very much in some cases, but it
2 is exactly the right approach.

3 And to Eric's point, what we are seeing here is the
4 reemergence of the importance of credit and liquidity in the
5 analysis of company's health. Liquidity has always been the
6 poor stepchild of MD&A. People write and write and write and
7 write about net income and it is very hard to tell whether
8 they are going to run out of money next Wednesday or not
9 because it is not terribly -- Well, actually, if they are
10 going to run out of money next Wednesday they probably say
11 it. But if there is a good chance they are going to run out
12 of money a year from next Wednesday it is very hard to find.

13 And I would have thought that by seeking more
14 information under the rubric of MD&A about credit
15 concentrations and liquidity and exposure, concentrated
16 exposure to particular companies or groups or companies or
17 industries, you would at least -- you won't deal with the
18 issue of the privately held funds and their risk to the
19 system, but you would deal at least in part with the issue of
20 what is the financial health of publicly traded companies.

21 And as I say, I think you can do a lot of that
22 without making a rule, so that is something I would urge the
23 Commission to think about.

24 MR. WHITE: If I may, just very briefly. I agree
25 with Eric, this is absolutely the right time to go to

1 Congress and ask for the additional regulatory authority. It
2 is a gimme. If there is going to be a lame duck session, I
3 think having the Administration pull together all the
4 relevant agencies that would need authority over this
5 currently unregulated market should be a very high priority
6 for that session. The lack of statutory authority is a real
7 problem in terms of getting our arms around this issue.

8 And then I also think that Alan's entirely correct
9 observation that the SEC has the ability to get more
10 information out there that could actually be beneficial in
11 stabilizing the markets by eliminating a degree of
12 uncertainty that currently pervades all market participants
13 through, how shall I say, an interpretative approach, Dear
14 CFO letter, or what have you, again, is something that you
15 guys should look at very, very seriously.

16 Liv?

17 MS. WATSON: Yes, as I listen to the discussion
18 around the panels here, I would like to differentiate two
19 things.

20 The credit crisis and everything that we have today
21 goes toward accounting standard setting and information
22 standards for a 21st Century disclosure is about an open,
23 global standard of dissemination of information and any
24 platform is not going to solve the accounting issue. That is
25 done by legislation, it is done by all this other -- So for

1 this system to be a disclosure system of the 21st Century, we
2 need to look at a system that embraces an open information
3 standard. No matter what kind of legislation and new
4 accounting standard that you provide, XBRL or data tagging is
5 about collaborative taxonomies being built between.

6 So for this system, the 21st Century disclosure
7 system to have an impact on the individual investor, which
8 this is here to protect, we need to start talking about how
9 that infrastructure -- and it goes back to what I said in an
10 earlier comment -- we need to look at what kind of taxonomies
11 need to be delivered, because it is not -- This information
12 is not going to just be available to the investment houses
13 with deep pockets anymore.

14 This information will democratize. If we can build
15 these taxonomies, this infrastructure, to be available to the
16 marketplace. And you are going to get millions of eyes
17 looking at this risk analysis and things like that versus a
18 few that this current system allows.

19 So going back to one more point, it is to build
20 trust, this information needs to be discoverable. XBRL as an
21 information standard allows you to do that. The bigger
22 problem is the SEC today is -- we are focusing on 10-Q and
23 10-Ks. We need to broaden the scope of these taxonomy
24 development and what should be available, and accounting
25 standards are going to evolve over time. But this

1 infrastructure needs to be in place for this 21st century
2 disclosure system to be successful.

3 MR. WHITE: Buddy, do we want to move to our next
4 phase here now to look at this from a filer perspective?

5 MR. DONOHUE: I think that is a good idea.

6 For Doug and Steve, we would like to focus on small
7 and large operating companies with the following question.
8 In order to provide benefits for filers and their investors,
9 what features should a company file system or any new system
10 provide, and how could a modern system reduce filing costs?
11 I would like to start off with the smaller issuers, and I
12 think, Steve, that is probably your belly work.

13 MR. BOCHNER: Great. Thank you very much for
14 having me here. And obviously any cost of reporting and
15 compliance is going to be disproportionately expensive for
16 smaller public companies, so I appreciate you looking at all
17 of this from the standpoint of the issuer.

18 I think those of us who have practiced securities
19 law for a while have gotten very comfortable with the forms.
20 The S-1s, the 14As, the 10-Qs, they kind of feel like an old
21 pair of jeans after you have worked with them a while, and I
22 think change is sometimes difficult. But this was a
23 construct that was designed really for a paper-based society.

24 And if you look at the emerging growth issuer,
25 after a couple of venture financings, they enter the

1 reporting arena not really with a company filing but with a
2 transaction document called an S-1, typically. It is a very
3 lengthy, expensive document. It has a business section, risk
4 factors, MD&A, many millions of dollars to prepare.

5 And it really, in a sense, although the liability
6 goes on, it is sort of prepared for a moment in time. And
7 then four months later, let's say depending upon the issuer's
8 fiscal year end, there is a 10-K that gets prepared. A lot
9 of repetition, lot of the same information, some new
10 information, and then you go on from there. 10-Qs, 8-Ks,
11 there is a proxy statement, and then the next year there is
12 another 10-K.

13 And to Esther's point, where is the most recent
14 business section, when was it changed, have the risk factors
15 been updated, where are they? And you can see the
16 inefficiency of just having this linear parade of documents
17 that you are left with, and it not only impacts the investor,
18 it impacts the boards of directors, the disclosure committee
19 processes, the auditors, the lawyers, even the staff review
20 time.

21 So I am a fan, and I think the smaller issuer
22 community will be a fan of moving to a company file where you
23 can imagine rather than an S-1 or a transaction document
24 being the first kind of coming out party for a company going
25 public, it is a 34 Act filing, let's call it a C-1, a core

1 registration or a company filing. And that is the document
2 and that is the place that has the business section, the
3 company information. And then that is supplemented by
4 periodic and current reports, maybe we will continue to call
5 them 10-Qs and 8-Ks, maybe we will call them something else.
6 Maybe they will be appended to, maybe they will be a part of
7 the core company registration.

8 But now there is a place where you can go, there is
9 one place rather than the serial list of documents where it
10 is hard to figure out what got updated when and, frankly,
11 where things are. I think it is tough for securities
12 lawyers. It must really be difficult for the average
13 investor. So this would allow all constituencies to, I
14 think, reduce replication, improve their processes, focus on
15 the core information rather than repetitive processes that
16 exist today in filings that call for the same kinds of
17 information and the same kinds of forms.

18 So I think once you move to that sort of a
19 conceptual approach, the benefits are obvious, such as the
20 cost, the trees, the tagging of when things got updated and
21 how current something is.

22 MR. DONOHUE: Steve, thank you. Esther, I assume
23 you have a question?

24 MS. DYSON: I just want to make a brief --

25 MR. DONOHUE: You are the first person to actually

1 follow that instruction.

2 MS. DYSON: I listen to the documentation.

3 Just in technical terms, the way to think about
4 this is the documents are reports. There is technical -- You
5 have a database and then you have a report from the database
6 in answer to a particular set of queries. So the idea here
7 would be to have this continuing, call it a living iceberg
8 with a lot of water inside, and then you tapped the water
9 through a faucet, and that is the report. The report can be
10 an S-1 filing, if you are doing a public offering, it can be
11 a quarterly, it can be an update to something.

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

20 MR. BOCHNER: I agree with Joe and Alan. I don't
21 think the statutory construct needs to be tinkered with at
22 all. In that kind of construct, the S-1 would simply become
23 a much smaller offering document that would refer to the core
24 company filing, and that is where you would go -- that is
25 where the due diligence would be done, the updating that is

1 required would be done with that core filing. So it would be
2 much more approachable and, I think, much more understandable
3 from an investor's perspective.

4 MR. WHITE: If I could just ask a question, either
5 Alan, to you, or Steve. A number of references here, I guess
6 I will call it to a periodic reporting system, which is what
7 we have today, and then I hear the word 'continuous' come in
8 from Esther, I think both times she has commented. Could you
9 just kind of put those two together as we think about this?
10 From a legal standpoint.

11 MR. BELLER: Again, the how and the what, it seems
12 to me, are separate issues, and you could use a company
13 filing system with period disclosure, current disclosure,
14 continuous disclosure, or whatever.

15 It seems to me that where we have evolved to at the
16 moment is we have got this building block, the first building
17 block, the lowest building block is a periodic disclosure
18 system. And we have added onto it a more robust current
19 disclosure system than we had five years ago, and then you
20 then got on top of that companies, which for market or
21 business reasons put out press releases or other 8-Ks that
22 they are not required to put out but which for a variety of
23 reasons they feel it is appropriate to put out. Either they
24 want to talk to analysts, and the FD requires them to put
25 something out, or they think the market ought to know before

1 the next 10-Q date or whatever.

2 The rhythm that has developed around the periodic
3 system is a rhythm that I think has considerable substantive
4 importance to it and contributes to the reliability of the
5 disclosure that the SEC gets in ways that I think we should
6 be very careful about disregarding or discarding. You have
7 now got procedures involving audit or auditor review. You
8 have now got more recently procedures that have developed
9 around disclosure committees and very serious senior
10 executive attention to periodic disclosure documents. You
11 have got CEO and CFO certifications.

12 And to move to a system that stops relying on that
13 as the base of disclosure and moves to something --
14 disclosure whatever is material whenever it happens, I
15 understand the appeal of that, but I think it raises serious
16 issues of reliability that I would go to only with some
17 concern. And I think you get most of the benefits of the new
18 disclosure system without doing that.

19 MR. BOCHNER: John, I don't think we -- I think we
20 can start with the core filing and basically keep the current
21 processes, the CEO/CFO certifications, the 404 audits, and so
22 on, just the same way they are today. And I would not be an
23 advocate of, for example, every time you file an 8-K or have
24 a material impairment, let's say, you have to go into the
25 core filing and update everything. I think the costs of

1 doing that, particularly for smaller issuers, would be
2 prohibitive, and frankly, could dwarf the cost experience we
3 had with the 404 experience.

4 So I don't think, initially, I don't think you need
5 to change that. I wouldn't impose any additional duty to
6 update, I don't think you need to change the liability
7 scheme, and I would keep those existing processes, but just
8 move the construct to, rather than this serial parade of
9 forms, to a core filing that gets updated -- those sections
10 of that core filing get updated the same we are today with
11 the same kind of processes.

12 MR. DONOHUE: Doug, you have been quite patient
13 over there. What are your thoughts?

14 MR. CHIA: First of all, I would thank the
15 Commission and the staff for inviting me to be here.

16 I want to kind of follow up on what Alan and Steve
17 were talking about in terms of moving to doing away with the
18 paper-based filing and coming up with something that is more
19 of an evergreen type of approach. Some people have used
20 continuous, some people have used the term evergreen.

21 I think as much as we have good intentions to
22 moving to a system that is completely electronic yet keeping
23 the same kind of timing and rhythm around the 10-Ks, 10-Qs,
24 8-Ks, et cetera, despite that, once you move there, the
25 pressure is going to be on to move to an evergreen filing

1 system, because at some point someone is going to say 10-Q,
2 10-K, 8-K, all these 40 day, 65 day filing periods and
3 deadlines, what is that based on? It is based on an
4 antiquated paper-based system, where in an electronic age,
5 there is no reason that companies can't make real time
6 disclosure.

7 And the SEC seems to have been moving towards the
8 concept of real time disclosure in recent years, especially
9 with the amendments to Form 8-K, the four business day,
10 sometimes two business day filing requirements. Someone,
11 probably the end users, probably the investors, are going to
12 say 'We have to push the companies to push things out faster
13 and keep things up to day on a minute by the minute basis.'
14 So whenever someone thinks that something is material, get it
15 up on your website, there is no reason you can't do that.

16 So as much as we want to go at this deliberately, I
17 caution that once you go down that road you might be on a
18 slippery slope to that, and I think you are going to see -- I
19 don't want to rain on anyone's parade here, but I think in
20 the process of trying to get this through you are going to
21 see a lot of resistance from the issuer community because
22 they are already thinking about that, and unless you relax
23 the liability standards for the evergreen disclosure, people
24 are going to be extremely hesitant to move in that direction
25 and say 'What, you mean within two days I have to get

1 everything up on my website and I am completely liable for
2 it?'

3 So I think -- I am just cautioning on moving in
4 that direction, and this is where you are going to see a lot
5 of resistance from the issuer community, especially the large
6 issuer community that can't turn on a dime and has a lot of
7 operating subs and all kinds of stuff go on in those
8 operating subs and it takes a while for those issues to
9 bubble up to the top, and then it takes time for the
10 disclosure committee to meet, for the CFO and the CEO to get
11 comfortable to sign off on certifications, et cetera. Again,
12 liability.

13 MR. DONOHUE: Doug, very good concerns there.

14 MR. GRUNDFEST: If I might, I agree with everything
15 that has just been said. I think the vision of a real time
16 disclosure system is -- in concept it sounds wonderful, in
17 practice it is hellaciously difficult to implement, therefore
18 I think it is important that we move forward in a way that
19 preserves a periodic reporting requirement that reasonably
20 balances the legitimate interests of the reporting community
21 with the interest of the investor community. You can't be
22 running these things real time. It is simply, I think,
23 impossible for the issuers to do.

24 MR. DONOHUE: Thank you. Esther, before we move to
25 you, Hillary, any thoughts?

1 MS. SALE: I will just add to what Joe Grundfest
2 just said, which is that, first of all, we have a statutory
3 scheme and it would be best not to have to go to Congress and
4 ask to change it.

5 But in addition to that, I think it is really
6 important that the SEC control the technology and not let the
7 technology control the SEC. I think any one of us who
8 teaches on a daily basis and has experienced this sort of
9 introduction of the internet constantly into the classroom or
10 laptops in the classroom understand how those choices get
11 made before we think about what it will do to the educational
12 environment, and I think the same thing is really important
13 here.

14 The SEC has to be clear upfront that it is in
15 charge of the technology and where it is going to use it and
16 access it, and that is one way of responding to the issuers,
17 because I think that the point that Doug just made is a
18 really important one. The issuers will be nervous if they
19 think the technology is going to control the reporting
20 instead of the reverse.

21 MR. CHIA: I think the original point that I was
22 asked to address, I want to be able to address in terms of
23 what are large companies going to be looking for out of this
24 new system, whatever it is.

25 I think it is important that whatever we come up

1 with, it is something that people want to use. Right now you
2 have an EDGAR system that people ignore because it is not
3 user-friendly, people don't use it. Companies have their own
4 internal reporting systems that they use on a day to day
5 basis to manage their own information and look at their own
6 information. They don't use EDGAR. EDGAR is something that
7 you are forced to comply with a couple times a year and it is
8 a complete burden, if you will. And once you file on EDGAR,
9 you go back to the system that you have at home, whether it
10 be a Word document or an Excel spreadsheet or something like
11 Hyperian or something like that.

12 I think you have got to create something that
13 companies are going to want to use as their own internal
14 database mechanisms, and in order to do that I think you
15 should, in a sense, follow behavior. Go look at what
16 companies are using internally to manage their own
17 information. Go look at Bloomberg and Thompson and these
18 companies that create the experience for the end user. I
19 think all these service providers should be involved in the
20 design process because, in some sense, they have already
21 invented the wheel and they have got things on the market
22 that are market tested and people use. They have Bloomberg
23 screens that people have up on their stations in the
24 companies, and in the investor side, that people have gotten
25 very comfortable with.

1 And I think that is a real good place to start
2 looking in terms of what do people want and what do they want
3 to look like. Let's look at how they actually repackage the
4 EDGAR information today and learn from that.

5 MR. DONOHUE: Esther?

6 MS. DYSON: I just want to clarify that word
7 'continuous.' The database itself is continuous, but the --
8 from the point of view of the filing company, the periodic
9 report is tremendously important. What is interesting is not
10 what your sales were last week. What is interesting is when
11 you sit around and you look at those sales and you think
12 'Well, what is the likelihood of returns, how have my
13 liabilities increased?' And that stuff takes time to think
14 about.

15 The periodic report actually forces that thinking
16 to take place. I have sat in many board meetings where you
17 sit around and you say 'Well, what do these data mean? How
18 should we modulate what we say? Should we increase our
19 reserves for bad payments? Has our inventory gone up?' stuff
20 like that. That stuff is not continuous and it is not real
21 time. It is precisely the product of being forced to come
22 out with a statement and think about what is it that these
23 numbers actually mean. So I am very much in favor of
24 periodic reports off of a continuous database.

25 MR. DONOHUE: I would like to actually ask, Eric, a

1 very quick response from you on this because we are getting
2 towards the end of our time. But when you were at Fidelity,
3 you lived under a real time, constant updating of
4 registration statements for -- I don't even want to hazard a
5 guess on the number of registrants that you were responsible
6 for. Any insight for the folks on the panel about how that
7 worked?

8 MR. ROITER: Thank you. I should know that by now.

9 It is quite different in the mutual fund industry,
10 at least at Fidelity, compared to an operating company. Yes,
11 Fidelity has I think now about 365 mutual funds. And if you
12 think of each of those funds as separate corporations, that
13 is a very daunting exercise to update all of that disclosure.

14 But in fact these are 365 ways to deliver
15 investment management services to clients, and so you have to
16 step back and think how can we standardize and systematize
17 the disclosure that we have to make knowing that we are
18 providing investment management services through 365 or so
19 vehicles. So it is a different approach. There is a lot of
20 commonality, obviously, across funds. Yes, there is more
21 commonality within, say, domestic equity funds than, say,
22 money market funds.

23 So the challenge has been always to find ways to
24 scale the disclosure requirement, and there is a dedicated
25 team, very expert individuals, who come to work every day and

1 disclosure. And a standardized language library was created
2 with a lot of internal controls around it so that you had a
3 base -- it is a lot like the company file proposal of Joe and
4 Alan. So you didn't have to start from square one every time
5 you had to do an updated prospectus.

6 Can I say a couple of points though that I think
7 might apply to operating companies and to mutual fund
8 disclosure when you go the company file system, which I think
9 has the dual virtue of being simple and elegant, and I think
10 it is a great proposal.

11 The SEC historically has had a couple of things
12 that it was able to do through paper-based disclosure, and I
13 just have a question -- or an observation about how that
14 would live in a company file universe. One has always been
15 prominence. How do you achieve prominence, or do you think
16 now that prominence is not necessarily such an important
17 objective to have in disclosure?

18 The other is kind of related to that. It is, I
19 would say, competition for the real estate that is the paper
20 document. And you see this sort of priority creep.
21 Everything is important, so everything has to go on the first
22 page or second page of a mutual fund prospectus, because
23 placement as well as prominence has had a significant role to
24 play in how the disclosure rules themselves have over the
25 years been crafted. So I am sure the technology is readily

1 adaptable to deal with those issues of prominence and
2 prioritization.

3 But that takes me to kind of a third observation,
4 and that is that the SEC has always thought that -- making an
5 investment decision, so it is an IPO, or if it is a mutual
6 fund, you are purchasing the securities of the continuous
7 offering of mutual funds. There is a requisite critical mass
8 of information that the SEC believes is important for the
9 investor to have.

10 So if you go to a company file, you are going to
11 have that information populating certain fields, but you will
12 have other information that is populating other fields. And
13 if you have sort of a neutral universe of fields, then I
14 imagine you would probably want a mutual fund investor, for
15 example, to say 'Well, I am making an investment decision, I
16 am thinking of buying these shares of a particular fund. I
17 will hit one keystroke that will take me to all the elements
18 of data and information the SEC has decided are important for
19 my investment decision,' so you will sort of magically
20 construct, with one keystroke, the prospectus for a mutual
21 fund.

22 It does call into question, in my mind, the summary
23 prospectus. So if everything is online and you are
24 populating a series of fields, what difference does it make
25 that you have something called a summary prospectus, and that

1 gives certain advantages over delivering a full statutory
2 prospectus. It gets down to do you have to deliver paper,
3 because everything we are talking about has this implicit
4 premise that if we do this, then we don't have to have the
5 paper delivery that Paul Haaga spoke so eloquently about.

6 Now if that is the premise, that is fine with me.
7 There are some legal issues to address, I acknowledge that,
8 so I am sure that the SEC will take that into account,
9 because you would be defeating the very purpose of the
10 virtual world that you would be creating online if you still
11 required issuers, both corporate and mutual funds, to deliver
12 paper documents.

13 MR. DONOHUE: Eric, thank you, and Liv, we will get
14 to you for your closing comments. I would like now to move
15 towards closing comments, but before we go there, Commission
16 Aguilar, I just want to offer you an opportunity if you had
17 any thoughts or observations or questions.

18 MR. AGUILAR: Thank you Buddy. It has been really
19 interesting. This panel has certainly matched the first
20 panel for making things very intriguing and interesting, and
21 I thank all of them.

22 I haven't asked many questions because I have been
23 in the thoughtful mode from Professor Grundfest's idea about
24 volunteer regulation and what perhaps can be done there to
25 expedite things while legislation is considered. But I think

1 to John White's point, our recent experience with that wasn't
2 stellar.

3 I query however whether there is room there in that
4 area, and I still am thinking about Alan Beller's thoughts
5 about the SEC perhaps being a link to websites, and I guess
6 query there whether we would lose some necessary controls
7 over what is disclosed so that if there was a hiccup, we
8 don't get a phone call that says 'We accidentally hit the
9 delete button and now all that is all gone so we don't know
10 what was in it.' So things about what controls we could have
11 over that kind of technology are important thoughts.

12 And I certainly appreciate Doug Chia's love of
13 EDGAR, or not. Certainly it is a frustrating system to use,
14 but it is one that we are continually improving.

15 So I guess I say this to let you know I have been
16 listening very carefully to what has been provided, and the
17 questions that I have maybe have been embedded in some of my
18 statements. But I think there will be a lot to follow up on
19 with respect to the thoughts and ideas that our commentators
20 have so thoughtfully provided, and I know that this is just
21 the beginning of many further discussions, and I want to
22 thank again the panelists.

23 But I really don't have any questions ready for
24 prime time. I probably will follow up in due course to try
25 to explore some of these good ideas that have been provided

1 by our commentators. So thank you, Buddy.

2 MR. DONOHUE: Thank you. Liv, any closing comments
3 you would like to make?

4 MS. WATSON: Yes, I do. Four comments. One of the
5 things we talked about is continuous real time reporting to a
6 21st century disclosure system. Before we can even talk or
7 dream in that direction, we need a framework for continuous
8 auditing and assurances.

9 One other thing is that I wanted to leave everybody
10 with a thought. I don't think that we have a choice but to
11 provide interactive tag data to the marketplace for this 21st
12 century disclosure system. All the major -- China, India,
13 Japan, South Africa, Israel, South Korea, just coming back
14 from Latin America, are all like projects of interactive data
15 in the capital marketplace where some capital marketplaces
16 have gone as far as to tagging historical data to be able to
17 provide analytics and look at trends and analysis. So I
18 don't think the question is can we even afford not to think
19 in an interactive data format.

20 The other thing I wanted to say to the
21 Commissioners and to the Securities and Exchange Commission,
22 we heard over the panel here is that one size does not fit
23 all, and rendering of this information might be something
24 from the SEC website to make it comparable might be something
25 you want to rethink as any comparable data needs some

1 massaging.

2 And the fourth is, thank you everybody for having
3 me here and allowing me to share my thoughts to this panel
4 and I want to thank you all for that.

5 MR. DONOHUE: Professor Grundfest, I think we will
6 get to you just after Hillary has an opportunity to talk if
7 that is fine.

8 MS. SALE: Thank you, and I want to thank you all
9 for including me today in this discussion and the project. I
10 find it very interesting. I wanted to say a couple of things
11 in closing.

12 I think it is very important, and we have talked
13 about it here today, that as you go forward you think about
14 the current cycle of reporting as your organizing principle,
15 and then think about where the technology fits into the cycle
16 and how to build them together so that translating the
17 technology into what is a reporting cycle, for the important
18 reasons that Esther mentioned in terms of people coming to
19 the table, sitting down, and rethinking what they are
20 reporting.

21 It is also important just for all those people who
22 produce what are currently forms. It is an organizing
23 principle for them and it makes sense that they need time in
24 between to rethink and then employ the technology. I think
25 the technology and the concepts of it, whatever system you

1 choose, will have tremendous benefits to the marketplace.
2 When we think about all the people who take information
3 currently and attempt to digest it, from the analysts to the
4 media, they slice it and dice it and then they report it, it
5 is extremely valuable for those who are trying to figure out
6 what to do with our investments or trying to analyze system
7 risk in the marketplace.

8 And this kind of approach where people can pick up
9 cross-company comparisons with ease will be a much more
10 effective way of allowing those people who are supposed to be
11 taking the information and translating it and making it
12 available, this will be a much more effective way of
13 achieving that.

14 And then finally I just want to say that really
15 goes to the transparency point which is one of the biggest
16 missions of the SEC, to take information and make it
17 transparent, and transparency builds trust, and we need trust
18 in our markets right now.

19 MR. DONOHUE: Thank you. Professor Grundfest.

20 MR. GRUNDFEST: Yes, so let me just recapitulate
21 the two main points that I would like to share with the
22 group.

23 First, with regard to the big problem that we have
24 facing our capital markets today and the extent to which that
25 the credit derivative products are related to it, my

1 suggestion would, as I have suggested, be to grab the bull by
2 the horns, have the SEC and the other cognizant regulatory
3 agencies cooperate, get out there with standards that would
4 not be temporarily voluntarily adopted by the industry,
5 follow that up as quickly as possible with legislation that
6 would clearly give the agencies the authority to put these
7 rules in place, and that would then make the voluntary
8 mandatory.

9 Given the reality of today's world, I think that
10 these regulations would be viewed as 'voluntary.' Anybody
11 would know that if they didn't comply with these 'voluntary'
12 standards, given the reality of what we see today, would have
13 hell to pay sooner or later, hopefully sooner. So I do think
14 the situation is very easily distinguished from the unhappy
15 experience of the voluntary regulations surrounding the CSEs,
16 which is a whole separate conversation to be had.

17 And then with regards to the topic of the SEC's
18 disclosure system, I heard far more agreement and consensus
19 than disagreement. I think it is fair to say that there is
20 universal agreement that we need to get to a structured
21 database, and it should in one sense or another be tagged.
22 And to the extent that there was dispute, it was really
23 around the edges, small details, which is how do we get to
24 the structured database, where does the structured database
25 reside, what is the cheapest and most efficient way of

1 getting from here to there?

2 But I think we should all take comfort in the fact
3 that there is a fairly broad consensus about where that is
4 and that the world we have today is not where we should be.
5 So let's figure out the fastest, cheapest, and best way of
6 getting from here to there. It is worth doing and it is
7 worth doing well.

8 MR. DONOHUE: Thank you for those thoughts. Doug?

9 MR. CHIA: I guess first of all, for the record, I
10 don't love EDGAR. I liked it a lot when it first came out,
11 but --

12 MR. DONOHUE: That is a relief. EDGAR's feelings
13 are hurt, you realize.

14 MR. CHIA: I realize that and I will have a
15 delicate conversation with him later, but --

16 MR. AGUILAR: Doug, just so you know, you were
17 quite clear the first time around.

18 MR. CHIA: I'm sorry. Well, EDGAR, like a lot of
19 national treasures out there, at some point need to be moved
20 into the Smithsonian, so I think now is the time to do that.

21 A couple points here. When we are creating the new
22 system, be sure to get issuers involved. We are the ones
23 that have to produce all this wonderful disclosure, and in
24 order for it to be quality disclosure, it has got to be
25 something that we can embrace upfront and really play a part

1 in shaping.

2 Second, take your time. There is no real rush
3 here. Whatever we do, let's test it, let's tweak it like you
4 would any product or movie or movie trailer. Put it in front
5 of focus groups, have lots of different groups, including the
6 American Association of Retired Persons use this. You have
7 all different kinds of people who are relying on this, so
8 let's be very deliberate about it. Create something that
9 companies are going to want to use, like I said before. If
10 everybody wants to use something, people will feel ownership
11 into it and will come up with ways of making it better, as
12 opposed to if you come out with something that people really
13 don't like, they're not going to have much of a stake in
14 seeing it continuously improve.

15 And I think the last point I would like to make is,
16 educate the public before you roll this out so they know what
17 this is, what is coming, and what it is going to do for them.
18 Learn from the lessons of eProxy. eProxy came out last year
19 and retail investor participation in the voting process went
20 down dramatically, and a lot of people -- that happened
21 because they didn't know what was coming, and when they got
22 something in the mail they had no idea what to with it.

23 And so I think from that, since I am coming to
24 Washington from New Jersey, I have a burning desire to say
25 whatever we come up with, let's make sure that it not only

1 works for Wall Street, but also works for Main Street.

2 MR. DONOHUE: Esther, can you top that?

3 MS. DYSON: I won't even try.

4 First of all, let me incorporate by reference
5 thanks to everybody I should be thanking.

6 And to come to this really sort of high level,
7 there is this tension between disclosure and regulation. The
8 ultimate theory, and a very American theory, is if you
9 disclose everything, the market will regulate itself
10 because that data will deter investors, and all you really
11 need to do is require disclosure. The problem is that then
12 you start saying, well what exactly is it you need to
13 disclose, and if you forget to ask for something, then people
14 can ignore it until it bites them at the very end.

15 But I think in general you want to have very
16 structured data. You want to have particular data
17 definitions, data requirements so that, as we have said many
18 times, that data is comparable across companies, it is
19 comparable period to period. But you want to make sure you
20 leave it open enough and you always have that final question
21 in the questionnaire, is there anything you want to tell us
22 that we will be asking you about later, or something along
23 those lines. What is it that is not in these required
24 disclosures that you really ought to disclose. How you do it
25 is the challenge. From that point of view -- Let me leave

1 that as my first point, and then just two more.

2 The second point, make the technology lightweight,
3 don't make it too complicated. Make it so that you can --
4 each company can maintain its data, and easily generate the
5 reports that will be compatible with everyone else's reports.
6 So keep that as the common ground, but keep that fairly
7 lightweight.

8 And the third point is, now let the market do its
9 work. Now let third parties come in, let there be third
10 party tagging systems that don't create those liabilities so
11 that you have a large and robust -- everything from Yahoo!
12 Finance to third parties to blogs to the press to self-styled
13 investor types who can do the tagging, who can do the data
14 sets, who can do the visualizations.

15 And then finally, create this assumption that if
16 you can't understand something, don't invest in it.

17 MR. DONOHUE: Thank you. Eric?

18 MR. ROITER: Let me join everyone else in thanking
19 the staff and the Commission for hosting the roundtable. It
20 has been a privilege to take part in it. I don't want to
21 repeat everything that others have said, although I am
22 broadly in agreement with what others have said.

23 I would repeat, however, the suggestion that you
24 think of what the SEC is doing as something that will
25 compliment what the private sector is doing, or conversely,

1 the private sector should be complimenting what the SEC
2 should do. And the SEC shouldn't feel that its mission
3 should be to occupy the entire field or to replicate what is
4 being done in the private sector.

5 It is very difficult, probably impossible, to talk
6 about how disclosure is made available and is delivered
7 without intruding on the questions of what is disclosure,
8 what is the content of disclosure. We saw ourselves this
9 morning get into a discussion about credit default swaps, but
10 I would like to suggest that as the SEC is thinking delivery
11 questions and accessibility questions, that you involve
12 economists, and in particular capital market economists
13 because one important aspect, maybe the most important aspect
14 of disclosure is to get to pricing efficiency. So if you
15 have the right disclosure, then the markets should be
16 sufficiently pricing the securities that are in the market,
17 and that should have a lot to say about the way you design a
18 disclosure delivery system.

19 There is a lot of economic discussion about the
20 role of retail investors in helping achieve pricing
21 efficiency, and you actually have two schools of thought.
22 One is that the markets efficiently price if the content is
23 there and retail investors really don't assist in the pricing
24 efficiency process, but there is another school of thought,
25 and I was reading a paper on my way here yesterday that takes

1 some evidence to show that individual investors indeed
2 contribute towards pricing efficiency, and I think that has
3 to inform the Commission's decisions about the delivery of
4 disclosure.

5 The other point I would make is that when we do
6 think of individual investors we need to keep in mind that
7 the paramount objective should be a prudent allocation of
8 their assets across different asset classes, keeping with
9 their financial objectives. And there is a tendency, when we
10 talk about disclosure, to think in terms of knowing
11 everything there is to know about a particular issuer and
12 comparing that particular issuer to other particular issuers
13 or to the industry in which it competes. But we have just
14 seen, again, a reminder that the most important thing for
15 individual investors is to think in broad terms of being
16 well-allocated across different asset classes.

17 And I know it is not the subject of this particular
18 roundtable, but sometimes I think we can lose sight of the
19 priorities of factors for individual investors, and as much
20 as we all want to make convenient and accessible disclosure
21 about particular issuers for retail investors, I think we are
22 all well served if we keep in mind that at the end of the
23 day, it is how investors allocate their investments across
24 the universe of asset classes.

25 MR. DONOHUE: Eric, thank you, a good reminder for

1 all of us. Steve?

2 MR. BOCHNER: Thank you, and also thanks for having
3 me here. I have enjoyed it, learned a lot, and feel honored
4 to participate.

5 You invited a number of different constituencies
6 here, investors, academics, lawyers, regulators, and we
7 didn't rehearse this before we came up here, and I think one
8 of the most heartening things you can take away from this is
9 just the concurrence that a movement to a new system is the
10 right thing to do.

11 There is a lot of details to get worked out and
12 issues to get worked out, but I think the reason there is so
13 much concurrence about the idea of shifting from the
14 paper-based system we have got today, this linear system, to
15 an internet-based system is that we have the opportunity, if
16 we get it right, to do something which sometimes is rare in
17 regulation, which is to reduce costs for the issuer community
18 and at the same time improve investor protection. So I
19 encourage you to take advantage of that and thanks again for
20 having me.

21 MR. DONOHUE: Thank you Steve. And Alan, I
22 understand you started this, so we will let you finish it.

23 MR. BELLER: Does this one work? I think it does.

24 You are referring to the infamous Project Alpha?

25 Thank you --

1 MR. DONOHUE: Actually, your mike isn't working, I
2 hate to tell you.

3 MR. BELLER: Thank you for having me here this
4 morning. I think most of what I would say as concluding
5 remarks has already been said, so I will I think restrict
6 myself to saying three things quickly that have mostly been
7 touched on.

8 One is that by changing the delivery system and
9 going to a company file, or whatever you want to call it, you
10 could do it with exactly the disclosure rules you have now,
11 and we have talked about, at least with respect to
12 periodicity and so forth, and there are some advantages to
13 that.

14 But this is also an opportunity to look at the
15 rules, and you don't get this broad an opportunity very
16 often, and so I would say as part of this project the
17 Commission ought to look at some substance as well as how it
18 is going to be delivered. There is some very low-hanging
19 fruit just in terms of consistency. 8-K says things
20 differently from S-K and so on and so forth. That is pretty
21 easy, but it would nonetheless be a real improvement for the
22 people who have to write this stuff, and frankly, for the
23 people who have to read it.

24 The harder question, which we have been tip-toeing
25 around today, and it is not really the subject of this

1 it successfully.

2 I would like to thank everyone who participated,
3 especially Commissioner Aguilar joining us from Atlanta.
4 Thanks to the moderators, our panelists, and special thanks
5 to the members of the initiative team who worked so hard to
6 bring this together. Hudson Hollister, Paul Knight, Linda
7 Sterling, Howard Kaplan, Matt Caruth, and not least of which,
8 Jim Kaput and Matt Reed, not just for serving as moderators,
9 but for all the other work they have done on the initiative
10 so far. I am very lucky to have so many people make me look
11 good when I can do so little.

12 And I would like to remind all of you that you can
13 get more information on the SEC website. There is a special
14 spot for the initiative, and we post information regularly.
15 And secondly, until October 22nd we will be accepting written
16 comments from the public on any aspect of the initiative or
17 any aspect we have talked about today, and I encourage you to
18 submit those written comments. We will indeed read them and
19 incorporate them into our report.

20 So one final note, for the law students who are
21 here, we have volunteered a Q & A session for them. That
22 will be held in the multipurpose room. You go out the
23 folding doors, turn right towards the Pepsi machine, and hang
24 a left. There will be people directing you in case you are
25 unsure.

1 Thank you once again for attending.

2 (Whereupon, at 12:59 p.m., the roundtable was
3 concluded.)

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