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(202) 272-2650



EDGAR: TRULY A REVOLUTION

**Conference on SEC In Depth:
Advanced Reporting and Compliance**

Remarks to SEC Institute, Inc.

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**Charles C. Cox
Commissioner
Securities and Exchange Commission
Washington, D. C.**

The views expressed herein are those of Commissioner Cox and do not necessarily represent those of the Commission, other Commissioners or the staff.

Good afternoon.

It's a pleasure to be here.

I'm sure you've all heard of the French Revolution, the American Revolution and the Industrial Revolution. Well, I'm here today to talk to you -- not about another revolution -- but about a revolutionary development in corporate disclosure -- EDGAR. EDGAR is the Commission's Electronic Data Gathering, Analysis and Retrieval System. Unlike the French, American and Industrial Revolutions, EDGAR doesn't have the potential to effect far-reaching political, economic or social changes. It does, however, have profound implications for the way in which corporate information is collected, processed and disseminated under the Commission's mandatory disclosure system.

Just imagine yourself fifteen to twenty years from now. After dinner you go directly to your home computer -- which doubles as your television set -- to check your electronic mail. You find that you've received a proxy statement from a company in which you own stock that is about to hold its annual meeting and a prospectus from a mutual fund that you're thinking of investing in. First, after reading the proxy statement, you transmit your proxy electronically. Next, you peruse the mutual fund prospectus, call up your spread sheet analysis to perform some calculations, and then place an order with your broker for one thousand shares of the fund. Finally, you pop in a disk that you've brought home from the office -- which, by the way has obviated the need for you to carry a briefcase -- so you can catch up on some last minute work. After you're done, you flip on Monday night football.

Granted, such advanced and widespread uses of home computers are far in the future. Nonetheless, developments in the securities markets and at the Commission -- such as EDGAR -- clearly point toward this type of scenario.

To really appreciate the significance of EDGAR, I think first it will be useful for us to see how the computer revolution has affected the Commission's mandatory disclosure system. Next, I'll give you some details about EDGAR -- both the pilot system, which currently is in place, and operational EDGAR, which we expect to begin putting in place by late 1986. Finally, together we can explore the far-reaching implications of EDGAR for providers and users of corporate information.

I.

Let's begin with a brief discussion of the effect of the computer revolution on the Commission's mandatory disclosure system. A little history on information technology may provide some perspective. In the mid-1930's, few, if any, mechanical

media other than the telephone, telegraph and radio were available for the transmission of information. None of the media, however, was adequate to disseminate quickly, reliably and at a reasonable cost the large volume of business information needed by the marketplace. Paper, which was the most cost-effective means of information delivery, was predominant.

Developments in the past two decades have altered dramatically the environment in which society generally, and business in particular, transmit information. Specifically, technological advances and deregulation have triggered a revolution in the communications, data retrieval and transmission industries. The traditional paper-based system of data processing and communication is increasingly being displaced by highly sophisticated and reliable electronic systems of communication and data management. The age of instant communication and data retrieval via computer and satellite is no longer a distant probability, but an available and economically viable reality.

Evidence of easy access to computers and society's growing dependence on them is everywhere. Computers are now becoming commonplace in schools, in the business sector and in government. Just a couple of weeks ago the Wall Street Journal featured an article about filing tax returns with the IRS via computer. The IRS expects that taxpayers will be filing their tax returns electronically by the 1990's. Microcomputers also have found their way into the Commission. Even before EDGAR, microcomputers were used to conduct broker-dealer and investment company inspections. In addition, software programs have been developed to support the Commission's enforcement activity.

As to computers in the business sector, I'm sure you've noticed the proliferation of computers in your own offices. Word processors have -- for all practical purposes -- replaced the typewriter, and many businesses are utilizing computers for much more sophisticated tasks.

The computer revolution is no less evident in the securities industry. Systems have been developed to effect transfers of securities via book entry, thereby eliminating -- at least from a securities regulation standpoint -- the need for stock certificates. Similarly, the over-the-counter market has become a major competitive force as a result of enhancements in information technology. This competitive pressure has resulted in the modernization of the organized exchanges.

Two recent developments at the New York Stock Exchange -- the Touch Trade System and the Booth Command Station -- are illustrations of this modernization. The Touch Trade System consists of a touch sensitive twelve-inch color monitor which is placed in the specialist's booth, and a personal computer that is connected to the existing delivery and reporting systems that service the trading floor. Among other things, the Touch Trade System allows the specialist to determine the best opening

price instantaneously and to execute orders up to a certain amount automatically. Similarly, the Booth Command Station allows a member firm's clerk, among other things, to handle orders and to report back to his member firm executed trades simply by "speaking" to the system.

In addition to modernizing the way in which securities transactions are executed and cleared, there is a burgeoning use of microcomputers by the investment community for purposes of information access and of massaging data. Research analysts have ready access, on microcomputers, to a large body of reliable historical and current market information. Disclosure, Inc., for example, makes available, at the touch of a button, portions of the periodic reports filed by a large number of reporting companies. Subscribers can call forth specific details about a company instantaneously.

In addition, the improved availability of information, and the computer software that has been developed to analyze it, have added a new dimension to an analyst's research. Software packages like VisiCalc, the computerized spread sheet, permit the user of a microcomputer to compute the relationship of any number or variable on his screen with a minimum of effort. Before the advent of these facilities, it was necessary either to do the calculations by hand or to deliver them to a research department that often took weeks to respond.

Most recently, there has been a burst of activity by major brokerage firms in the delivery of electronic research products. Most of these firms make available an electronic news service, where customers can tune-in to the morning line put out by the research department. One firm delivers summaries of its research reports over quote machines. And -- to help their customers manipulate the data to their particular wants -- some of these firms are adding software to their research product lines.

Just as computers have become commonplace in schools, in the business sector and in government, they soon will be commonplace in the home. It is expected that there will be millions of home computers in the next several years.

This computer revolution has had a dramatic impact on the Commission's mandatory disclosure system. At the time the federal securities laws were adopted, paper -- as I indicated earlier -- was the primary vehicle for information delivery. Under the Securities Act, hard copies of prospectuses were the chosen means of informing investors and the market. Similarly, the Exchange Act contemplated hard copies of periodic reports and proxy statements.

With the development of computer capabilities and an extensive network of aggressive research analysts, market information became more accessible and more quickly and thoroughly disseminated in the market. This improvement in the efficiency

of the market paved the way for implementation of developments such as the integrated disclosure system and the shelf registration rule.

What we currently have is a disclosure system that is highly dependent upon the efficiency of computers and analysts to ensure that market information is disseminated throughout the system. It is a disclosure system that reflects the market's generally reduced reliance on the receipt of paper-borne information.

While the developments thus far are significant, they are only the tip of the iceberg. Every year the Commission receives close to six million pages of disclosure documents. These documents are prepared at the corporate headquarters and may be sent to printers, sometimes via diskette or directly over telephone lines. In any event, hard copies of disclosure documents are then delivered to the Commission's offices in Washington, where they are logged in and eventually copied on microfiche. Even vendors must enter this information into their electronic data base before it is disseminated to their customers. This process of preparing hard copies of disclosure documents, delivering them to the Commission, and transferring the information in those documents to microfiche or electronic data bases sometimes results in delays. For example, there may be delays in getting the information to the Commission, delays within the Commission and delays in providing the market with access to the information.

EDGAR is intended to address these problems and to bring to fruition the goals of the federal securities laws and the Commission's mandatory disclosure system -- that is, providing investors, securities analysts and the public with instantaneous access to as much corporate information in disclosure documents filed with the Commission as they need or desire. And, in my view, determining how information is to be disclosed is just as important to the success of the mandatory disclosure system as what information should be disclosed.

II.

Now that we have an appreciation of the effect of the computer revolution on the Commission's mandatory disclosure system, let's talk about EDGAR. Two years ago, Lee Spencer, then Director of the Division of Corporation Finance, gave a speech on "The Electric Library" -- an electronic filing, processing and retrieval system designed to enhance the effectiveness of the integrated disclosure system and the efficiency of the securities markets. 1/ Lee spoke in terms of

1/ Portions of my remarks are drawn from that speech. See Remarks of Lee B. Spencer, Jr. to the ABA Federal Regulation of Securities Committee: "The Electric Library." November 19, 1982.

the future, noting that the "electric library" could allow a registrant to transmit electronically disclosure documents to a memory storage disk or tape at the Commission. He also noted that analyst subscribers, registrants and investors could easily and quickly access this information on their desk-top computers. Well, the "electric library" is no longer a distant probability. It is a reality and it is here today in the form of EDGAR.

As I indicated earlier, EDGAR is the Commission's Electronic Data Gathering, Analysis and Retrieval System. The system is designed to accomplish three goals: (1) to provide investors, securities analysts and the public with instantaneous access to corporate disclosure documents on home and business computer screens; (2) to allow companies to make required filings directly over telephone lines or by way of magnetic tape or diskette; and (3) to enable the Commission staff to process and analyze filings more efficiently at computer work stations. Ultimately, EDGAR will reduce or eliminate reliance on paper in the receipt, review and dissemination of corporate information, replacing it with sophisticated state-of-the-art, electronic communication and data management systems. The growth of the EDGAR system is intended to coincide with the growth of home computers which -- as I indicated earlier -- is expected to be in the millions in the next several years.

The Commission has established and is working with a pilot program to test EDGAR. The EDGAR pilot contract was awarded to Arthur Andersen & Co. who, along with IBM and Dow Jones as subcontractors, installed and are operating the EDGAR Pilot System. In addition, a Pilot branch in the Division of Corporation Finance has been established to process the filings made by companies participating in the Pilot.

Last March the Commission published a release soliciting participants for the EDGAR Pilot Program. ^{2/} While currently there are approximately 150 companies participating in the Pilot, we have the capacity to handle up to 1000 and hope to have that many companies participating by the end of 1985. The volunteers represent a good cross section by industry, size, and geography, and include smaller registrants such as Albertson's and Cal-West Real Estate Fund as well as larger ones like GM and Exxon.

While participants in the EDGAR Pilot must familiarize themselves with the system, there are tremendous benefits in getting in on the ground floor rather than waiting until the system becomes operational. First, EDGAR is the wave of the future and -- to the extent that you familiarize yourselves with it -- your lives will be a whole lot easier. Second, companies participating in the Pilot will have a major role in shaping the final EDGAR system. Already, we are taking the

2/ SEC Release No. 33-6519, March 22, 1984.

suggestions of the participants and are responding to them. For example, recently we have changed our procedures so that direct transmission filers are notified that their filing has been received, rather than being notified only if there is a problem with their filing. Finally, I want to assure you that companies participating in the Pilot program are subject to no more review than companies not participating. Registrants wishing to participate in the Pilot should contact the EDGAR Pilot branch.

The Pilot program is being implemented in three phases. During the first phase, which began on September 24, 1984, registrants began to file disclosure documents with the Commission in one of three ways -- on diskette, magnetic tape or directly over telephone lines. Of course, direct transmission is the fastest and most direct way of making filings with the Commission.

During the second phase, which we are now in, the Pilot branch soon will be able to communicate with filing companies electronically by sending comment letters and other communications through electronic mail. The Commission also will implement internal electronic mail as well as other automation techniques to be used in the review process itself.

In the third phase, scheduled to begin next spring, an evaluation of transferring the experience of the Pilot to the rest of the Commission will begin.

During the Pilot program, dissemination of information filed with the Commission via EDGAR is limited to viewing terminals in the Commission's Public Reference Rooms in Washington, New York and Chicago, and the Press Room in Washington. These documents are also available to the public on microfiche, or hard copies made from microfiche, as is the current practice.

As experience with the Pilot is gained and equipment is upgraded, access to EDGAR, on a test basis, may be provided to other regulatory agencies and self-regulatory organizations. The North American Securities Administrators Association ("NASAA") passed a resolution in support of EDGAR and has designated three states to participate in a pilot: Georgia, Wisconsin and California. The NASAA pilot will test the direct transmission of filings in EDGAR to these states for their Blue Sky review. In addition, discussions also have been held with the National Association of Securities Dealers and the Exchanges about access to EDGAR. Ultimately, it should be possible to file all required disclosure documents through EDGAR, rather than making more than fifty different filings.

In June of this year, the Commission adopted temporary rules and forms to facilitate EDGAR filings which account for the difference between a paper format and an electronic format. 3/

These rules and forms address matters such as exhibits, required signatures and fees. For example, paper copies of exhibits may be filed, if it is impracticable to convert them to an electronic format. Signatures -- in the case of filings made by diskette or magnetic tape -- are executed on a separate signature page that is filed along with the diskette or magnetic tape. In the case of direct transmission filings, signatures are made by the entry of a personal identification number. A new form, Form ID, is used to obtain a personal identification number and also to obtain a company identification number and password necessary to make an electronic filing. Finally, the Commission has developed a procedure whereby fees for EDGAR direct transmission filers are paid by wire transfer or mail to a lock box. This procedure is optional for all other filers, whether on EDGAR or not.

The Division of Corporation Finance also has provided participants -- free of charge -- with an EDGAR User Manual, containing directions on how to use the system. The manual is being updated from time-to-time as experience grows and facilities are upgraded. A brochure on EDGAR also will be available in the very near future. If any of you would like to obtain a copy of the brochure, I suggest that you leave me your business card and I will be happy to send you a copy as soon as they are available.

Experience thus far under the Pilot has been very positive. Through the end of November, we received 199 filings from approximately 100 registrants. The Pilot successfully handled its first peak filing period in mid-November when 94 Form 10-Q's were filed. Other filings include Forms 10-K, 11-K, 8-K, S-3, S-8, S-14, S-15, T-1, 8-A as well as Rule 424 prospectuses and a preliminary proxy. One of the participants in the pilot -- IBM -- used EDGAR to file a Form S-15 in connection with its recent acquisition of Rolm Corporation. General Motors Acceptance Corporation is using EDGAR to file Rule 424 prospectus supplements in connection with a shelf registration statement for medium term notes.

The Pilot branch is staffed by experienced Commission employees who volunteered for the Pilot. They and the contractor have handled the few problems that have arisen, which usually are minor format errors.

A fully operational EDGAR system is expected to be phased in beginning in 1986. When EDGAR goes on-line permanently, registrants will be phased into the program. The operational system will include filings processed and reviewed by other Divisions as well as by the Division of Corporation Finance. The Commission hopes to make the system available to users 24 hours a day. This is consistent with developments in the internationalization of the securities markets, such as the possibility of a 24-hour trading day.

In September of 1984, the Commission published a release soliciting comments on approaches to managing and financing a contract to be let to a private vendor who will develop and implement the operational EDGAR system. 4/ It is estimated that the cost will be anywhere from \$50 to \$70 million. In response, the Commission received comments from companies such as Mead Data Central and Dow Jones & Co. Next July, a request for proposals will be issued to solicit bids from contractors interested in providing the operational system beginning in 1986.

Implementation of the operational EDGAR system raises a number of interesting questions, not the least of which is how the operational system should be financed. Should it be financed through general tax revenues or through end-user fees?

Because the objective of the system is improved dissemination of corporate information to the public, the Commission's initial inclination -- and the approach it took in the release -- is to opt for the latter approach of end-user fees. If end-user fees are ultimately determined to be the preferred method of financing, the Commission anticipates a cost sharing arrangement.

Under a cost sharing arrangement, the operational contractor -- who would be chosen on a competitive basis -- would agree to provide the Commission with the equipment necessary to operate EDGAR in exchange for the right to sell the data. Specifically, the contractor would recover its costs through the sale of data and services to institutions and individuals in both bulk and non-bulk transactions in a regulated environment. In this regard, the Commission would be faced with the delicate task of balancing the need of the public to have instantaneous access to the SEC data base with the need of the contractor to recover his reasonable -- but not excessive -- costs. The contractor also would be free to market a wide array of value added services in an unregulated environment, such as user-driven extract reports or specialized analytical routines combining SEC data with other financial or market information.

The question of financing the EDGAR system and other questions -- such as the monopoly implications of granting an exclusive contract to one vendor to operate the EDGAR system -- obviously must be addressed before the system becomes operational.

III.

Now let's talk for a few minutes about the implications of EDGAR. As I indicated earlier, EDGAR will accelerate the filing, processing and dissemination of corporate disclosure information. When the system becomes fully operational,

4/ SEC Release No. 33-6548, September 5, 1984. The comment period ended October 30, 1984.

registrants will no longer have to deliver filings physically to the Commission; rather they will be able to transmit all such filings electronically.

The most dramatic impact of EDGAR will be on the securities markets. EDGAR has the potential of revolutionizing the method in which investment decisions are made and executed. As I indicated earlier, delays in transforming hard copies of disclosure documents to microfiche cause delays in making corporate disclosure documents publicly available. EDGAR will provide investors, securities analysts and the public with virtually instantaneous access to corporate disclosure documents on home and office computer screens. Instant availability of information could be crucial for investors and analysts during a merger or takeover battle, when new filings often occur daily.

EDGAR also will make it possible for investors and analysts to do much more sophisticated economic analysis. Because information in disclosure documents would already be in the computer data base, investors and analysts could request components of massive reports, screen current market and financial data in a matter of minutes, and compare the various investment alternatives available.

The staff is also looking at how the data base should be indexed. For example, through telephone lines to software systems, it may be possible for investors to call up on their home computer screens all the stocks that closed yesterday at less than seven times earnings, those which yield over 6%, those that are selling at discounts from their book value per share, and those that have low debt-equity ratios. Such lists could then be sorted by industry category, the size and nature of company and the markets in which they are traded. Once an attractive investment opportunity had been identified, the investor would be able to review on his home computer screen the latest annual, interim and other reports filed with the Commission.

The ability to access rapidly and analyze massive amounts of data is particularly significant in an environment where attractive investment opportunities come and go very quickly. By the time such information could be assembled manually, it most likely would be obsolete.

There is also the prospect of instant computer analysis and execution of securities transactions. Already, systems are being developed that allow users of home computers to route orders electronically to their broker-dealers for execution. And systems, which soon will be available, will route orders directly into automated execution systems without physical handling by a broker.

EDGAR also could have several positive effects on our securities markets generally. First, by revolutionizing the method by which investment decisions are made and executed, EDGAR could bring individual investors back into the stock market. In the last few years, some individual investors have been leaving the stock market because of the perceived informational advantage of institutional and other professional investors. Some believe that encouraging those investors to return to the stock market would provide desired liquidity in the marketplace and diversity among stockholder constituencies.

In addition, EDGAR could improve the market for the stocks of some less widely followed companies. At present, it may be overly burdensome for a market-maker or a broker to devote substantial time and effort to following a company whose stock is thinly traded in the over-the-counter market or even on an exchange. However, when access to information about such companies becomes instantaneous and relatively effortless, market-makers and brokers may be more willing to deal in those stocks, thereby improving the market for those securities. In short, EDGAR has the potential of making the entire stock market more "efficient."

This decline in the reliance on paper also should accelerate Commission review of corporate disclosure documents. For example, it is now possible for a staff member to call up a company's disclosure information, draw a spread sheet and work on a comment, all at the same time. Also, as I indicated earlier, registrants and the Commission staff will be able to communicate with each other electronically, rather than by mail.

Obviously, EDGAR will have an effect on the staff's productivity, reducing the time it takes to process disclosure documents. This increase in productivity will be important, considering the Commission's budgetary constraints and the fact that the number of public companies has increased from 9,000 in 1980 to approximately 10,500 in 1984.

Ultimately, the system also could be used to eliminate hardcopy delivery of documents that are required to be furnished to investors as well as filed with the Commission. For example, once the information in a proxy statement is put into a computer system, the registrant could notify shareholders by electronic mail when a vote is upcoming. These stockholders or their nominees could access the information on their personal computers and then by computer message -- as in our futuristic scenario in the introduction -- indicate the appropriate vote.

Undoubtedly, eliminating the need for hard copy delivery of disclosure documents to the Commission and investors will result in substantially reduced costs for registrants.

Looking far into the future, after EDGAR solves the problem of how corporate information is disseminated under the Commission's mandatory disclosure system, we may even be able to use EDGAR to solve the problem of what information should be disclosed. This may be particularly significant in the case of financial statement information, where there is always a problem of determining how much or how little information should be disclosed. In this regard, Sandy Burton -- Dean of the Columbia Business School and former Chief Accountant at the Commission -- predicts that in ten to fifteen years corporate financial statements will be replaced by a steady flow of computer generated financial information. Just think -- in this type of scenario, an investor could access through a microcomputer as little or as much financial information as he or she desires!

CONCLUSION

In closing, I'd just like to leave you with a couple of thoughts. First, computers are revolutionizing the way corporate information is collected, processed and disseminated -- and the Commission is in the forefront of that revolution with EDGAR. Second, EDGAR is no longer a distant possibility but it is here today. The pilot program is in place -- actual filings are being received -- and, within two years, other registrants will begin to be phased into EDGAR. For these reasons, I think it is critical that you not wait until the operational system is in place but start thinking now about how EDGAR will affect your company or your client. And that you consider the benefits to participation in the Pilot so that you too will be in the forefront of the EDGAR revolution.