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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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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](http://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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