



United States
General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-222177

July 15, 1993

The Honorable John D. Dingell
Chairman, Subcommittee on Oversight
and Investigations
Committee on Energy and Commerce
House of Representatives



Dear Mr. Chairman:

In a letter dated March 1, 1993, you asked that we review and respond to the concerns of the Taxpayer Assets Project (TAP)¹ regarding public access to the Securities and Exchange Commission's (SEC) Electronic Data Gathering, Analysis, and Retrieval (EDGAR) System. The EDGAR System will contain the electronic filings of corporations. Filings include data on corporate earnings, assets, ownership, and other key financial information. SEC uses a contractor to develop and operate the EDGAR system. SEC also uses a dissemination contractor to make this information available to the public.² As agreed with your office, our review focused on determining what actions SEC has taken (1) to address TAP's concern that the dissemination contractor will not provide low-cost online public access to EDGAR data and (2) to offer such data in a variety of electronic formats to the public.

RESULTS IN BRIEF

SEC believes that its information dissemination strategy should result in reasonable prices to the public for EDGAR data. According to specific EDGAR contract provisions, the

¹ The Taxpayer Assets Project is a citizens' group composed of over 200 economists, journalists, librarians, and researchers seeking better, less costly access to EDGAR data through dissemination programs.

² We will use the "public" to designate the diverse individuals represented by TAP. These include investors, individual users, economists, researchers, librarians, and journalists.

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dissemination contractor is required to sell EDGAR data to other commercial information providers. Further, the contract requires that SEC annually determine whether fees for EDGAR data are reasonable based on the contractor's costs and ensure that excessive fees are adjusted. SEC believes that its dissemination strategy should provide adequate competition among online information providers--which will repackage the data and sell it to the public--resulting in reasonable prices.³ It is unlikely that SEC will be able to begin assessing how well its dissemination strategy is working before December 1993, when a significant amount of data is expected to be available in electronic form.

In response to TAP's interest in a variety of electronic formats of EDGAR data, SEC is exploring the feasibility and cost of CD-ROM and floppy disk formats. For example, SEC is working with the Government Printing Office (GPO) to pilot a CD-ROM product for all 1,400 depository libraries who request it.⁴ This pilot disk will contain a sample database of 6,000 filings. Also, SEC is evaluating whether to offer EDGAR CD-ROM disks for sale to the public through GPO.

BACKGROUND

The Securities Act of 1933 requires firms selling securities to file registration statements with SEC containing financial and other data about the firm and the securities being offered. Filing a registration statement with the Commission does not imply SEC approval or recommendation of a security, but serves to provide information to the public to aid in evaluating the securities' worth. Specifically, registration statements and annual reports that include information on earnings, assets, ownership, and other key financial data are required from companies whose securities are listed on the securities exchanges or that offer mutual funds to protect the public and ensure fair dealing. It is unlawful to sell securities unless a registration statement is in effect or the offering is otherwise exempt.

Copies of these documents can be viewed for free at SEC's headquarters and public reference rooms. SEC is planning to expand this service to its regional and branch offices across the country. Paper copies of documents are available for 24

³ Repackaging is the process of adding value by reformatting the data or enhancing accessibility to it.

⁴ Compact Disc-Read Only Memory (CD-ROM), the compact-disc format for computer data, is generally used for the storage of infrequently changed data and images, such as archival files.

cents a page and can be ordered by telephone. In addition, information filed with the SEC is available for sale from commercial information providers who obtain paper documents, excerpt selected data, and sell these excerpts on CD-ROM disks and through subscriptions to interactive online text retrieval services to the public.

Over the next 3 years, documents that were previously mailed to SEC in paper form--approximately 10 million pages per year--will be transmitted electronically to SEC's EDGAR System. On April 26, 1993, SEC began receiving electronic filings--replacing the paper filings--from approximately 500 of the 15,000 projected registered entities⁵ that will be using EDGAR by 1996. After SEC accepts each electronic filing it is then transmitted to the dissemination contractor for sale to other information providers and resale to the public.

The EDGAR contract mandates that the dissemination contractor make electronic filings available in three forms of annual subscription services. The contractor will sell (1) magnetic tapes containing all SEC filings received each day, (2) real-time on demand access to specifically requested filings, and (3) magnetic tapes of one or more of eight SEC-specified subsets of the entire database of filings. According to the contract, these services are designed to satisfy the needs of large-scale users and commercial information providers. The contract does not restrict the contractor from selling other information services or products using EDGAR data to the general public.

The 1987 SEC Authorization Act requires that the cost of EDGAR data dissemination be recovered from the public. Subscription prices will be established by the contractor based on market demand and reviewed annually by SEC. The contract allows SEC to adjust subscription prices if they are determined to be excessive. To provide assurance that the dissemination contractor's fees are reasonable, the EDGAR contract provides annual reviews of the dissemination contractor's costs, "based in part upon an audit of the

⁵ Registered entities are corporations, companies, public utilities, mutual funds, and other organizations that must file registration statements with SEC to use the open securities exchanges. Certain organizations are exempt, such as banks and savings and loans. Certain transactions are exempt, such as private offerings, local offerings, and federal or state government securities.

contractor's financial records by an independent accounting firm."

TAP first expressed concerns regarding the dissemination of EDGAR data in the summer of 1992, stating that SEC's EDGAR system would not provide the public with cost-effective access to EDGAR information. Our September 1992 report on EDGAR information dissemination concluded that access to governmentwide databases such as EDGAR created public policy issues that remain unresolved.⁶ In response to this report, TAP expressed its continued concerns that SEC could do more to broaden public access to EDGAR data.

DISSEMINATION CONTRACTOR'S ONLINE ACCESS FEES AND MARKET DEMAND FOR EDGAR DATA ARE UNKNOWN BY SEC AT THIS TIME

With respect to TAP's request for low-cost online public access to EDGAR data, SEC told us there is currently insufficient data to determine what online public access will cost and the market demand for this service. According to SEC officials, as long as all firms are not sending documents to SEC electronically, the EDGAR database will be incomplete and there is likely to be a small demand and a small market for EDGAR data in the near term. As a result, information providers may not carry EDGAR data yet or charge higher prices for it until the demand grows. Ultimately, SEC believes that market forces will ensure adequate access at reasonable cost.

SEC's timetable for EDGAR shows that, by December 1993, about 3,500 of the 15,000 registered entities should be filing electronically. This subset will include most of the Fortune 500 companies that would be of interest to the investing public. SEC's chief information officer (CIO) stated that he intends to perform a survey in early to mid-1994 to determine the market demand and access costs to the public for this volume of EDGAR information. The CIO suggested that this survey could be used to determine whether any adjustments to SEC's dissemination strategy are warranted.

SEC IS NOT PREPARED TO HANDLE PUBLIC ACCESS TO EDGAR DATA ON ITS COMPUTERS

SEC will use its own EDGAR computer system to receive, accept, and review SEC filings from 15,000 registered

⁶ EDGAR Information Dissemination (GAO/IMTEC-92-86R, Sept. 30, 1992).

entities before electronically forwarding them to the information dissemination contractor's database. Then, the information from these filings will be available to SEC employees using SEC's computer system to access the database on the information dissemination contractor's system. Although the EDGAR database is located at the contractor's site, the SEC retains a log of the filings at the Computer Operations Center in Alexandria, Virginia.

We discussed with SEC the feasibility of providing online public access to SEC's computer system instead of to the dissemination contractor's system. SEC's CIO told us that SEC currently was not prepared to provide the public with online access to its computer system. He was concerned about the security controls that would need to be developed to protect its computer system against computer viruses and data corruption. In our view, SEC would be exposing its computer systems and data to such risks by allowing the public online access to its systems without a careful analysis of the threats and vulnerabilities and installation of appropriate countermeasures.

He also believed that SEC's EDGAR computer system did not have the capacity to handle online requests from the public. In this regard, he said that no more than 50 to 60 SEC users could conduct simultaneous searches on this computer system. He also believed that if SEC were allowed to disseminate EDGAR data, SEC would incur additional costs for communications lines and system capacity needed to accommodate online public access. Further, additional SEC staff may be needed to train public users on how to access and search the EDGAR data.⁷

While we did not evaluate the capacity of SEC's EDGAR computer system, we noted that the system operates on a minicomputer that is not designed to handle large-scale online operations. Further, should SEC choose to provide the public with access to its own database of filings, additional computer capacity and search software would be needed.

⁷ SEC staff include examiners and others who accept registration statements from registered entities. Only the 700 SEC staff and the 15,000 registered entities were considered in the planning of the EDGAR oversight and regulation modules of the system.

SEC PLANS TO OFFER EDGAR DATA
IN A VARIETY OF FORMATS

In response to TAP's concern for EDGAR data in a variety of electronic formats, SEC is evaluating the feasibility and costs of producing EDGAR data in CD-ROM and floppy disk formats and is considering options for making these products available to the public.

To evaluate the CD-ROM format, SEC is working with GPO to pilot test the distribution of a sample database of 6,000 filings in CD-ROM format. Producing the CD-ROM disk will require special formatting of the EDGAR data. The pilot program will give SEC information on actual market demand for the EDGAR CD-ROM product. During the pilot program, GPO will make available the EDGAR CD-ROM disks to all 1,400 depository libraries. The public will be able to access EDGAR information free of charge through this library system.

SEC is in the process of determining whether offering CD-ROM products for sale through GPO would conflict with the terms of the EDGAR contract, which provides for the sale of EDGAR data through commercial information providers. If SEC's legal staff determines that selling EDGAR CD-ROM data through GPO does not violate the terms of the EDGAR contract, GPO will include the product in its catalogues and book stores, take orders, and accept payment. SEC will not incur the additional cost of marketing the product.

In addition to the CD-ROM approach, SEC is evaluating the feasibility of selling filings on floppy disks at headquarters, public reference rooms, and offices nationwide. This will address the potential public need for data on floppy disks that could be used on a personal computer in the home or office, while protecting the information on SEC's computer system from computer viruses and other security threats.

RELATED MATTERS

On May 17, 1993, we met with the project director for TAP to discuss the group's continued interest in public access to EDGAR data. He reiterated the importance of this issue and told us about two other ideas that he had discussed with SEC officials.

One of TAP's suggestions was that SEC establish a forum to continue the dialogue to broaden public access to EDGAR data at reasonable cost. SEC's CIO told us that SEC is willing to

establish a forum to meet regularly with the public, including TAP.

TAP's project director also proposed making EDGAR data available through Internet.⁸ However, the value of this approach over other approaches has not been fully evaluated by TAP or SEC. TAP suggested that using Internet would produce cheaper public access fees compared to those of commercial information providers. SEC's CIO said that SEC prefers not to change the current dissemination strategy before assessing how well it is working. Any other approach SEC considers will need to be evaluated for impact on the current EDGAR contract and 1987 SEC Authorization Act. In this regard, the EDGAR contract will open for competition in 1997 and offer an opportunity for changes like using Internet or some other option.

AGENCY COMMENTS

SEC's chief information officer agreed with the contents of this letter. We have incorporated his comments in the letter as appropriate.

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We conducted our review in accordance with generally accepted government auditing standards at SEC's headquarters office in Washington, D.C. We met with the project director for TAP to discuss TAP's concerns. We also reviewed pertinent documents and interviewed SEC officials to determine what actions SEC has taken to address TAP's concerns.

As agreed with your office, unless you publicly announce the contents of this letter earlier, we plan no further distribution until 10 days from the date of this letter. We will then send copies to the Chairman, Securities and Exchange Commission; the Director, Office of Management and Budget; and interested congressional committees. Copies will

⁸ Internet is a loosely organized system of interconnected computer networks. For example, networks like SeraNet, PrepNet, NearNet, et al., belong to the Internet "network of networks." Internet offers mail, file transfer, remote log-in, and other services.

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also be made available to others upon request. If you have any questions about this letter, please contact me or Mary Ellen Chervenik, Assistant Director, at (202) 512-6418.

Sincerely yours,



Howard G. Rhile
Director, General Government
Information Systems

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