

Rudor

MEMORANDUM

February 3, 1988

TO : Edgar Executive Committee
Ken Fogash
Paul Gonson
Nina Gross
Mary Joan Hoene
Ernestine Zipoy

FROM : John Penhollow 

SUBJECT : NASAA/States Access to Edgar

Introduction

This memo summarizes the results of our recent discussions with representatives of the North American Securities Administrators Association (NASAA) on the captioned topic, and recommends a Commission position for our meeting with NASAA at 10:00 a.m. on February 4.

As you recall, on January 14, NASAA asked the Office of Edgar Management (OEM) to delay the amendment of RFP Article C.6.3.2 concerning the state interface with Edgar. NASAA wanted more time to review the interface we had proposed and to discuss possible alternatives. Since then, we have met four times with NASAA representatives and have gained a much clearer understanding of their views on the state/Edgar interface as discussed below. As a result of these discussions, two options were defined for giving the state securities regulators access to Edgar functionality and data. Both options are summarized below. Their advantages and disadvantages are also highlighted and form the basis of the concluding recommendation.

It is important to recognize that our decision on the state/Edgar interface has political implications. For example, a staff member of the House Oversight and Investigation Subcommittee told me this morning that the issue has been brought to the Committee's attention. The decision on the state/Edgar interface will also influence our position regarding the SRO/Edgar interface, especially since some SROs have already expressed a strong interest in having the same access to Edgar as the states receive.

NASAA's View of the State/Edgar Interface

NASAA wants the Commission to provide the state securities regulators with direct access to the Edgar A&R subsystem and data base. The state regulators would gain access through a proposed NASAA computer system which would also be used for receipt and processing of state header information and correspondence related to state-designated filings. The NASAA computer facility would be used primarily for processing state filing fees and possible user fees, tracking state-designated filings, and controlling the communication links between the states and Edgar.

cost? | NASAA representatives believe the state securities regulators need essentially the same direct access to Edgar functionality and public data as the Commission users will have. The functional differences are primarily related to the way state-designated filings would be accepted and the necessary constraints on state access to the Commission's non-public files. Similar constraints would need to be imposed and software written to prohibit access to each state's non-public files by the Commission or other states.

NASAA has requested sufficient Edgar A&R subsystem ports to support between 100 and 200 state workstations by the end of the fifth year of Edgar operation. These ports would be shared among the state regulators via the NASAA computer facility. The build-up to this level would be at the rate of 15 to 30 workstations per year beginning with initial filer phase-in. NASAA and/or the states would furnish all state workstations, printers and communication links with Edgar. At some point, NASAA and/or the states might elect to install their own version of the Edgar A&R subsystem, although there is no guarantee of this.

why? | NASAA also wants some input to the management of the Edgar project. It has requested membership on the Edgar Project Management Committee. NASAA has no up-front funds to support its interface with Edgar nor does it have any funds to support the Edgar operation. Most of the fees it expects to collect from users will probably be used to support the NASAA computer facility and the associated communication links with Edgar.

Interface Options for Consideration

True?
 The Commission's decision to revise the earlier language of Article C.6.3.2 concerning the state/Edgar interface, was based on a better understanding of state requirements and the desire to create a more uniform interface with other regulatory agencies. There was a recognition that giving the states a free Level I subscription might violate the intent of H.R. 2600 so that provision was withdrawn in favor of the direct feed of state-designated filings. The Commission also offered to make available the Edgar receipt and A&R software for implementation on NASAA and/or state computer facilities. To satisfy NASAA concerns about maintaining and retrieving archival data, we have also added a batch query access to the Edgar public data base. In addition, we have given them access to the Edgar electronic bulletin board to post state filing acceptance messages. We believe that our revised interface proposal as defined by Option A below will satisfy the basic data access requirements of the state regulators.

While there are recognized technical and legal difficulties with implementing the NASAA proposal for direct access to the Edgar A&R data base (Option B), none appears to be insurmountable. However, we believe giving NASAA and/or the states direct access to the A&R subsystem at the levels requested would significantly increase the federal cost of Edgar. Moreover, giving NASAA direct access to Edgar and a voice in the management of the project as requested would greatly complicate project management and control, especially during the development phase. In addition, NASAA does not contemplate providing any initial funding for the development of Edgar. Therefore, the following Edgar access options are discussed on the assumption that the federal government will be the sole source of funds, and the Commission will be fully responsible for the development, operation and management of Edgar. *Is this error settled?*

Option A

As currently planned, only Commission users would have interactive access to the Edgar A&R subsystem. A direct feed of state-designated electronic filings would be transmitted to the proposed NASAA computer facility as contemplated in the attached revision of RFP Article C.6.3.2. NASAA would be expected to install a modified version of the Edgar A&R subsystem to provide the same electronic file processing and archival retrieval capability that will be available to Commission users on Edgar.

In order to give the state securities regulators access to all Edgar public filings, a batch query port to the Edgar A&R subsystem and data base would be provided via the NASAA computer facility. Batch queries would be executed on a first come, first served basis as system priorities and resources permit. System management functions and interactive queries would be given priority over batch queries in all cases. Batch queries could result in downloading filings to the NASAA facility for distribution to the states.

To further aid the state securities regulators and promote the concept of one-stop filing, a separate link between the NASAA and Edgar computers would be maintained so that messages concerning filing acceptance, rejection, etc., by the states would be posted on the Edgar electronic bulletin board. This would give filers a single point of access for determining the status of their filings.

Advantages

1. The state securities regulators would have access to the electronic filing information they need to perform their function.
2. NASAA and/or the states rather than the Commission would be responsible for providing the level of Edgar functionality and public reference capability they need.
3. The federal cost of this access would be small relative to Option B and we believe the project could move forward without further Congressional and OMB approval.
4. Project management would be less complex.

Disadvantages

1. Since NASAA may lack adequate funds for establishing the state computer facility envisioned for this option, the one-stop filing concept might suffer. This could delay, reduce or eliminate a key external benefit for the Edgar project. However, even without the construction of a NASAA computer system with extensive functionality, use of the electronic bulletin board might provide effective one-stop filing with those states that rely on effectiveness of filings made with the Commission.

duplicate

2. This option might be more expensive than Option B, considering the cost of both federal and state facilities.
3. NASAA and/or the states may conclude the Commission is unwilling to cooperate with them as fully as they desire.

Option B

As outlined in NASAA's proposed revision of the RFP (attached), the state securities regulators would be given interactive access to the Edgar A&R data base through a specified number of ports via the NASAA computer facility. NASAA estimates that between 100 and 200 workstations would be required by the end of five years of Edgar operation.

Access to the A&R subsystem by the states would include full use of Edgar public filings and the electronic bulletin board. Software development and additional storage capacity would be required to accommodate state-generated files. Security features would have to be developed and installed to prevent unauthorized access to non-public files and data bases.

A software function would be provided in the Edgar A&R subsystem to identify and transmit to the NASAA computer all state-designated headers (but not the filings) and related correspondence for state acceptance processing. There would also be a function to permit the states to post filing-related messages on the Edgar electronic bulletin board as discussed under Option A.

To satisfy state public reference functions, the contractor might be required to provide access for a number of state public reference terminals. We expect that the states would assume responsibility for establishing and operating these terminals and their associated communication links with Edgar.

Advantages

1. The state securities regulators would have direct interactive access to all public information in the A&R subsystem with essentially the same functionality as Commission users.
2. The probability of achieving the benefits of one-stop electronic filing at an early date would be increased.
3. NASAA and the state securities regulators may conclude that the Commission is cooperating with them fully.

Disadvantages

1. The cost of Edgar to the federal government would be much higher than Option A.
2. Due to the added cost of this option and the fact that a substantial amount of federal funds would be spent to benefit the states, the Commission would need to seek Congressional and OMB approval before awarding the contract. This could easily delay contract award until well into FY 89.
3. The need for resolution of technical design and system capacity issues to accommodate this option make it probable that the contract could not be awarded without substantial delay.
4. Management of the Edgar project would be more complex.
5. The states would have little incentive to discipline their usage of the Edgar system since it would be developed and operated at federal expense.
6. Implementation of this option for the states will result in similar requests by the SROs which in the interest of fairness the Commission would probably grant.

Recommendations

Based on the above analysis, and in the absence of any significant political pressures, the Office of Edgar Management recommends Option A, even though NASAA still favors Option B. Given the delays that Edgar has experienced to date, we believe it is important to maintain project momentum. Option A avoids the approval delays, funding uncertainties, and project management complexities of Option B.

Once Edgar is developed and operational, the Commission and NASAA will be in a better position to decide whether further enhancement of the Edgar interface with the state securities regulators is desirable and, if so, how it should be funded and implemented. It is likely that the federal/state electronic filing environment will ultimately become a distributed network of mini-Edgar facilities as envisioned with Option A. If so, the cost of delaying the implementation of the state facilities should be relatively small and may be totally offset by technology and design improvements based on the Commission's experience with operational Edgar.

Finally, OEM also recommends that the Commission not oppose NASAA should it decide to pursue Option B with the Congress. However, if this occurs, we should stress the importance of minimal delay, adequate funding and focused management responsibility.

Attachments

cc: Project Management Committee

Option A

PRE-PROCUREMENT SENSITIVE FOR RESTRICTED USE ONLY

DRAFT 2/3/88

Article C.6.3.2 - State Agencies - Pages C-112-113

"At the request of the SEC, the contractor will make available to the state agent and/or to the individual states the software used or developed for the SEC receipt and A&R subsystems [and provide the potential capability in the receipt subsystem to receive and distribute the information necessary to make the state facility viable. In addition, the state agent will be provided a Level I subscription to the Edgar data base at no charge (See Article C.6.4.1)]. Software developed for the SEC shall be made available at no additional cost to the state agent and/or the individual states. The contractor shall specify the terms and conditions under which the remaining software will be made available.

"The SEC A&R subsystem will be capable of identifying and transmitting on a real-time basis to the state system(s) all SEC filings and associated headers that are marked for distribution to the states. Transmittal to the state system(s) will occur after filing acceptance by the SEC, by one of the following methods selected by the state agent and/or the individual states: direct communication (dedicated line or dial-up), overnight magnetic tape, or normal production schedule computer output microfiche. The Edgar electronic filings provided to the states by the SEC shall be used only for regulatory purposes and not commercially disseminated.

"In an effort to minimize state data storage requirements the contractor must offer a batch query function by which the state agent can access SEC on-line and retrievable archived public filings. Requests to access and download such filings will be routed through the NASAA and/or state facility and processed as a background job on the Edgar A&R subsystem. That is, such requests will be queued and processed on a first come, first served basis, according to system priorities and availability.

"The contractor must also offer a capability for posting state-generated messages on the Edgar receipt and acceptance bulletin board. Further information concerning the possible scope of the state facility is contained in a Discussion Memorandum prepared by the North American Securities Administrators Association, Inc., which is available at the SEC."



NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION, INC.

555 New Jersey Avenue, N.W., Suite 750
Washington, D.C. 20001
202/737-0900

NASAA

January 29, 1988

Mr. John Penhollow
Securities and Exchange Commission
450 5th Street NW
11th Floor, Room 10194
Washington, D.C. 20549

RECEIVED

JAN 29 1988

OFFICE OF EDGAR MGT.

Dear John:

The purpose of this letter is to provide the Office of EDGAR Management with a draft markup of the RFP document reflecting the elements of state access proposed by NASAA.

To summarize, the states are seeking some form of shared access to the following EDGAR system resources.

- I Receipt processing of state related electronic filing documents.
 - A. Processing of the State Header.
 - B. Read access to the Receipt Subsystem, Suspense File.
 - C. Receipt and re-routing of certain state requested filing material.
- II Access to the Receipt & Acceptance Bulletin board for posting of state generated acceptance and exception messages.
- III Direct real-time Data Feed of state filed documents.
- IV State workstation access to the A&R Subsystem for retrieval and review of filings.
 - A. Query
 - B. Text reviewing
 - C. Personal annotation
 - D. Electronic File Folders
 - E. Text and numeric downloading
 - F. Routing to In-Box

- V Electronic Mail linking state users and SEC offices.
- VI Level I Dissemination Service as originally proposed.
- VII Representation on the EDGAR Project Management Committee (PMC)

We are looking forward to meeting you next Monday to discuss how the A&R Subsystem access we propose can be acceptably limited.

Sincerely,


Duane Whitt

cc: J. Meyer
A. Maguire
L. Polson
W. Howell
L. Brothers
J. Beyers

Attachment

C.2.6 State Access

The dual, complementary role of state and federal governments in securities regulation, requires many securities to be registered for public sale with individual states and the SEC. An important objective of the operational EDGAR system is to create an environment where securities issuers may satisfy state and federal requirements in the fewest possible steps (one stop filing).

To facilitate the implementation of a one stop filing environment, it is envisioned that certain EDGAR system resources will be shared with individual state securities administrators offices to provide state analysts with an efficient full text review of specific electronic filings maintained by the SEC.

The sharing of EDGAR system data and functions has three main elements.

- o Receipt/Processing of a state header document and the routing of state filed documents to a state operated computer facility (state node) responsible for state registration fee accounting and file tracking.
- o Access by state securities analysts into the EDGAR Acceptance & Review (A&R) database to allow on line full text review of specific filings and reference material.
- o Provision for a Level I Dissemination Service of all electronic filings received by the SEC to be used by individual states for regulatory purposes.

State user functions and the nature of state access are further

**defined in Sections C.3.3.4.10 State Workstation Functions and in
Section C.16 Overview of State Office Processing.**

C.3.3.4.10 State Workstation Functions

The contractor will not be required to design and implement a communications network for linking individual states into the A&R database. The contractor will be required to provide front end processor capacity, network control programming and operational control to support state telecommunications lines terminating at the operational EDGAR facilities. For estimates of these line requirements see Section C.4.5.4 State Phase-In.

Offerors should provide plans for supporting state related telecommunication links including host and front end processor software/hardware configurations and should indicate estimated host response time components for remote attached state workstations.

C.4.5.4 State Phase-In

It is anticipated that all states will be connected into EDGAR's A&R database by the end of the first five years of EDGAR operation. It is also anticipated that the states will be added at a uniform rate of approximately ten states per year.

Initially, participating states will be directly connected to the EDGAR computing facilities over dedicated, leased transmission facilities operating at 9600 or 19200 BAUD. Such facilities, including modems/CSUs, will be provided by the states.

Within two years of the first production (non pilot) use of EDGAR, the States Agent (NASAA) anticipates creating a state node for centralized state registration fee accounting. It is anticipated that a wideband (56KB or TI) link will be established between the State Node and the EDGAR Computer Facility.

After this point, network topology will probably route states directly into the State Node for file tracking and registration fee accounting applications with a passthrough capability to the EDGAR system over the anticipated wideband link for access to A&R Subsystem functions.

In any case the offeror needs to plan enough host based communications capacity to support up to fifty state nodes over the first five years and be in a position to support a wideband

computer to computer communications link following the development of a state node.

C.16 Overview of State Office Processing

State processing includes all activities relating to notification of filers as to individual state acceptance of specific filings; retrieval of filings for review and personal annotation; organizing documents and correspondence into electronic file folders and downloading of filing material for workstation processing and/or printing. The steps and services for accomplishing this are as follows:

- o Bulletin Board Posting -- state users will have access to the A&R bulletin board to post filing exception and individual state acceptance notices.**
- o Query Capability -- state users will be able to make on-line queries against specific filed documents and access a range of filings using a batch query submission. See Section C.5.2.2.**
- o Text Reviewing -- once documents have been retrieved with a query, state users may view and print documents. See Section C.5.2.7 and C.5.3.**
- o Annotation Capability -- state users may keep private online annotation files on individual filed documents. See Section C.5.4.**
- o Electronic File Folders -- state users can place documents into electronic file folders to collect related documents in one index. See Section C.5.5.**
- o Text and Numeric Downloading -- the system shall permit state users to download textual information into word processing or database files and the downloading of numeric data to spreadsheet or database files. See Section C.5.2.8.**
- o Routing to In-box -- the system shall automatically send a detailed message to the state node in-box when a state filing is received and permit the state node to send a similar message to the in-boxes of individual state users. See Section C.5.2.5**