

**MEMO# 18057**

September 30, 2004

# **SEC PROPOSES RULE TO ESTABLISH VOLUNTARY PROGRAM FOR REPORTING FINANCIAL INFORMATION ON EDGAR USING XBRL; ISSUES CONCEPT RELEASE SEEKING COMMENT ON BENEFITS OF TAGGED DATA**

[18057] September 30, 2004 TO: ACCOUNTING/TREASURERS COMMITTEE No. 28-04 SEC RULES COMMITTEE No. 79-04 TECHNOLOGY ADVISORY COMMITTEE No. 27-04 RE: SEC PROPOSES RULE TO ESTABLISH VOLUNTARY PROGRAM FOR REPORTING FINANCIAL INFORMATION ON EDGAR USING XBRL; ISSUES CONCEPT RELEASE SEEKING COMMENT ON BENEFITS OF TAGGED DATA The Securities and Exchange Commission has proposed rule amendments that would enable registrants to voluntarily submit tagged financial information as exhibits to certain filings made on the EDGAR system.<sup>1</sup> Registrants electing to participate in the voluntary program would continue to file their financial information in HTML or ASCII format, as currently required. The voluntary program is intended to enable the SEC to evaluate the usefulness of eXtensible Business Reporting Language ("XBRL") to registrants, investors, and the Commission. The SEC issued a companion concept release seeking public comment on: 1) the benefits of tagging data to improve reporting quality and efficiency; 2) the implications of tagging data for filers, investors, and the Commission; and 3) the adequacy and efficacy of XBRL as a format for reporting financial information.<sup>2</sup> Comments on the rule proposal establishing the voluntary filing program must be filed by Monday, November 1. Comments on the concept release must be filed by Monday, November 15. If you have comments on either the rule proposal or the concept release that you would like to be included in a possible Institute comment letter, please provide them to Greg Smith by phone (202/326-5851), fax (202/326-8314) or email (smith@ici.org). XBRL is an open source specification for software that uses tags to identify and describe financial and other information and facilitate the preparation, publication and analysis of that information. XBRL tags are machine readable, enabling users to extract, exchange, analyze and display tagged financial information.<sup>3</sup> XBRL was developed and continues to be supported by 1 See XBRL Voluntary Financial Reporting Program on the EDGAR System, SEC Release No. IC-26622 (September 27, 2004) ("Rule Release"), available on the SEC's website at <http://www.sec.gov/rules/proposed/33-8496.htm>. 2 See Enhancing Commission Filings Through the Use of Tagged Data, SEC Release No. IC-26623 (September 27, 2004) ("Concept Release"), available on the SEC's website at <http://www.sec.gov/rules/concept/33-8497.htm>. 3 Additional information on XBRL is

available at [www.XBRL.org](http://www.XBRL.org). 2 XBRL International, a collaborative consortium of approximately 250 organizations representing many elements of the financial community.<sup>4</sup> XBRL International has developed standard taxonomies that classify and define financial information in accordance with U.S. GAAP and SEC regulations. XBRL International plans to release for public comment a draft investment company taxonomy during November, 2004.

I. Proposed Rule Establishing Voluntary XBRL Filing Program In order to test and evaluate data tagging, the Commission's rule proposal would allow registrants to supplement their Commission filings by "furnishing" financial data on EDGAR as an exhibit using XBRL, beginning with the 2004 calendar year-end reporting season. The Rule Release indicates that once the SEC has gained experience with XBRL through the voluntary program, it will analyze the results and determine whether to terminate the voluntary program, continue it indefinitely, or require some or all filers to use XBRL in Commission filings. Proposed Rule 401 of Regulation S-T would allow filers, on a voluntary basis, to furnish specified financial information using XBRL. The XBRL-related documents would be furnished as an exhibit to either Form N-CSR or Form N-Q.<sup>5</sup> The XBRL-related documents must reflect the same financial information, prepared in accordance with U.S. GAAP, as appears in one or more portions of the registrant's official EDGAR filing:

- the complete set of financial statements;
- financial highlights information; or
- the schedule of investments.

The XBRL-related documents may be submitted either with the official EDGAR filing or in an amendment to such filing at a later date; however, registrant's may not submit the XBRL-related documents before filing the related official document. Registrants would be free to submit their XBRL exhibits regularly or from time to time and could stop or start as they choose. EDGAR users would be able to download XBRL documents to perform their own financial analyses. The Rule Release indicates that the SEC plans to develop an application, such as a style sheet, for registrants so that EDGAR users can view XBRL data in rendered or human readable format via the SEC website. This application would convert XBRL files into a document that would look similar to a traditional income statement or balance sheet.

Liability Issues To encourage registrants to participate, the rule proposal would provide limited protections from liability under the federal securities laws and exclude XBRL-related documents from being subject to certification requirements. Proposed Rule 402(a) generally

4 Organizations in the consortium include issuers, public accounting firms, software companies, filing agents, data aggregators, stock exchanges, regulators, financial services companies, and industry associations. 5 Division of Corporation Finance filers would furnish XBRL-related documents as exhibits to Form 10-K, 10-Q, and Form 8-K. 3 would provide that XBRL-related documents submitted in the program, regardless whether they are exhibits to a document incorporated by reference into a filing:

- are not deemed filed for purposes of Section 18 of the Securities Exchange Act or Section 34(b) of the Investment Company Act;
- are not deemed incorporated by reference;
- are not otherwise subject to the liabilities of these sections;
- are subject to all other liability and anti-fraud provisions of these Acts; and
- are deemed filed for purposes of Rule 103 of Regulation S-T.

Proposed Rule 402(b) generally would provide that a registrant is not liable under these Acts for information in its XBRL-related documents that reflect the same information that appears in the corresponding portion of the official version of the related filing, to the extent that the information in the corresponding portion of the official filing was not materially false or misleading. Finally, proposed paragraph (h) of Rules 13a-14 and 15d-15 under the Exchange Act and proposed paragraph (d) of Rule 30a-2 under the Investment Company Act would exclude XBRL-related documents from being subject to certification of disclosure requirements. Request for Comments The Rule Release requests comment on various issues including:

- Is the proposed rule permitting volunteer filers to furnish financial information in XBRL format appropriate? Is there a better way to accomplish testing and analysis of XBRL?
- Should the XBRL data be considered filed or furnished for purposes of

the voluntary program? Would filers be less likely to participate if the information were deemed filed? Should liability protections be increased beyond that proposed? • How should the SEC assess the usefulness of tagged data to the investing public? • What specific steps can the SEC take to encourage registrants to participate in the program? II. Concept Release Requesting Comment on Benefits of Tagged Data The Concept Release notes that issuer financial information generally is not available in a format that investors and other users that wish to perform data analyses can easily download and process using software applications or web services. In order to analyze financial information, these users generally must either copy data from financial documents into spreadsheets or rely upon data that has been extracted by third party sources. In addition, narrative information contained in MD&A, MD&P or financial statement footnotes often requires manual search techniques. The Concept Release indicates that the Commission is considering the potential for the use of tagged data in registrants' EDGAR filings to improve the timeliness and accuracy of financial information included in those filings and to facilitate the analysis of such information. Further, the Commission is considering XBRL as an appropriate tagging technology. 4 Impact on Disclosure The Concept Release indicates the Commission is considering whether and how tagged data would affect registrants' disclosure and the way investors use that disclosure. Tagged data may enable registrants, investors and regulators, to more easily examine the component parts of financial statement line items and view elements of the line items that are found in the notes to the financial statements. Tagged data may also improve the ability to search for and locate particular data items by simply calling up specified tags. While tagged data has the potential to improve transparency and enhance analysis, the use of tagged data could result in investors' receiving less detailed disclosure. Any use of tagged data, no matter how detailed, might have the effect of causing registrants and users to focus on tagged data and miss information that is not tagged or fail to take into account the aggregate or cumulative effect of the tagged information. Registrants could limit their disclosure to the classifications under the standard tags, failing to disclose more detailed information that may otherwise have been presented. However, XBRL is capable of being "extended" to provide more detailed information. • What effect would tagged data have on the ability to use and analyze registrants' disclosure? Is the provision of tagged data in Commission filings preferable to the present system? • Would tagged data have an effect on the quality of disclosure in Commission filings? • Can the usefulness of disclosure be improved in ways other than the application of tagging technologies? XBRL and XBRL Tagged Data XBRL is an XML-based standard for use in business and financial reporting. The Concept Release indicates that XBRL data tagging initiatives are currently underway in various regulatory contexts in the United States and other nations. XBRL specification 2.1 was released in December, 2003 and is the foundation upon which the consortium and third parties are currently developing software and taxonomies. • Is XBRL specification 2.1 sufficiently developed to support the tagging of financial information? Is it an effective and efficient means for tagging data in SEC filings? An XBRL taxonomy is a standard description and classification system for business reporting and financial data. Tags consist of specific financial data (such as line items presented in a financial statement) and words or labels (such as headers in the notes to financial statements). Any item that can be tagged can be retrieved and analyzed across multiple registrants and time periods by using software. The XBRL consortium recently released three comprehensive industry-level taxonomies for public comment.<sup>6</sup> Neither the SEC, the PCAOB nor the FASB participated in development of these taxonomies. 6 These industries are: 1) commercial and industrial companies; 2) banking and savings institutions; and 3) insurance companies. See [www.xbrl.org](http://www.xbrl.org). 5 • What should the Commission's role be in taxonomy development? How should the taxonomies be assessed to determine whether they include the disclosures required by GAAP and

Commission rules? • Are the taxonomies sufficient for registrants to submit data tagged using XBRL without extensions? If not, should standard taxonomies be expanded to make extensions unnecessary? If standard taxonomies were expanded, would they still be manageable, efficient and useful? • What would be the advantages and disadvantages of permitting registrants (either individually or through an industry group) to develop, use, and submit their own extensions? Is there potential for investor confusion associated with registrant- developed extensions? Attestation/Validation of Tagged Data Under a tagged reporting system, it is important that filers properly tag items included in the standard and extension taxonomies. If items are not tagged properly, financial information generated from the tagged filing could be misleading or inaccurate and the ability to perform analysis on the tagged data could be impaired. • If the Commission accepts or requires tagged data in registrant filings, should independent accountants attest to the accuracy and completeness of the tagged data? Information Appropriate for Data Tagging The Concept Release indicates that it is possible for any type of information contained in a Commission filing to be tagged. While current taxonomies focus on financial statement information, tags could also be developed for relevant data from the body of a filed document (e.g., executive compensation, fund performance information, legal proceedings, etc.). • What other elements of Commission filings are most appropriate for tagging? Should MD&A or MDFP be tagged? • Should the Commission require tagging investment company information other than financial statements, such as the prospectus fee table or the table of sales loads and breakpoints? Should the Commission consider tagging registrant or depositor financial statements for insurance company separate accounts issuing variable insurance products? Impact on Various Parties The Concept Release requests comment on how various parties may be affected by a decision to pursue data tagging in Commission filings, including the impact on investors, registrants, accountants and others. • What are the likely impacts of data tagging on financial analysts, institutional investors, and individual investors? • Would the provision of tagged data by registrants result in time and cost savings to investors, such as through reduced data entry and formatting? • What additional costs would registrants incur to tag their financial reporting data? 6 • What would be the advantages and disadvantages of requiring investment companies to tag data in their Commission filings? • Are there types of investment companies that should be exempt from any data tagging initiatives? Should certain types of investment companies be given more time than other investment companies to transition to the use of tagged data?

Gregory M. Smith Director - Operations/Compliance & Fund Accounting