

**MEMO# 11708**

March 8, 2000

## **SEC PROPOSES RULE CHANGES TO FACILITATE EDGAR MODERNIZATION**

1 SEC Release No. IC-24319 (February 25, 2000). [11708] March 8, 2000 TO: SEC RULES COMMITTEE No. 35-00 TECHNOLOGY TASK FORCE RE: SEC PROPOSES RULE CHANGES TO FACILITATE EDGAR MODERNIZATION

The SEC has proposed rule amendments to facilitate further modernization of the Electronic Data Gathering, Analysis, and Retrieval system. The next stage of EDGAR modernization, to be implemented in late May of this year, will enable the following new features: inclusion of graphic and image files; expanded use of hyperlinks; and the addition of the Internet, and removal of diskettes, as a means of transmitting filings to the EDGAR system. In addition, the Commission has proposed to eliminate the requirement for filers to submit Financial Data Schedules. The attached release describes the modernization and proposed changes to certain rules and filing requirements to accommodate the system changes.<sup>1</sup> Comments on the proposed rule changes must be filed by April 3. If there are issues you would like the Institute to consider addressing in its comment letter, please call the undersigned (202/326-5851) or e-mail your comments to [smith@ici.org](mailto:smith@ici.org) by March 24.

HTML/PDF Environment Since its inception, the EDGAR system has accepted filings in ASCII format. In June of 1999, the SEC began allowing filers to submit documents to EDGAR in HyperText Markup Language (HTML) format and to accompany their required filings with optional unofficial copies in Portable Document Format (PDF). In the attached release, the SEC indicates that it plans to continue to move forward with the HTML/PDF environment. Unlike ASCII documents, HTML and PDF documents have the potential to include graphics, varied fonts, and other visual displays. The SEC is not currently proposing to eliminate ASCII format filings. However, the Commission may do so in the future, and they encourage filers to use the HTML format and gain experience with it. The attached release requests comment on how soon filers will be able to submit most or all of their filings in HTML format, and whether the SEC should exclude any specific category of documents (such as exhibits) from the HTML format requirement.

- 2 - Currently, filers must use a SEC specified set of HTML tags in their HTML filings. The SEC proposes to expand the set of permissible HTML tags to enable graphics and certain hypertext links. The permissible HTML tags will enable expanded formatting capability, while eliminating active content and certain classes of hypertext links. The expanded tag set is included in the attached release at Appendix A. The release indicates that EDGAR will continue to utilize HTML version 3.2, and that EDGAR will move to HTML 4.0 in a future system release. Graphic and Image Material Currently EDGAR does not accept graphic or image material in HTML documents. In the attached release, the SEC proposes to permit graphic and image material in HTML filings. The SEC plans to release a modernized version of EDGARLink and EDGAR Release 7.0 in order to

support graphic and image material in HTML documents. However, the SEC proposes to preclude filers from using graphic or image material to submit information such as text or tables, so that system users may search and/or download this information in spreadsheet form. Instead, filers will be required to submit such information as text in an ASCII document, or as text or an HTML table in an HTML document. In the attached release, the SEC expresses concern about the potential size of data files that contain graphic and image material. Graphic and image files may create data storage problems for the SEC, and may cause system users to encounter difficulty in downloading and viewing files. The SEC requests comment on the circumstances and manner in which it might limit file size and the type of graphic and image materials. The release indicates that the SEC considered three approaches to graphics: i) making their use strictly optional, ii) requiring graphics in HTML documents whenever SEC rules or forms require information to be in graphic form, or iii) requiring graphics in HTML documents wherever the documents distributed to security holders or potential investors contain graphics. The Commission is proposing the second alternative, and requests comment on whether graphics should be completely optional, or alternatively, whether graphics should be required whenever the document distributed to shareholders contains graphics.

**Limitation on Hypertext Links** Currently, the EDGAR system does not permit hypertext links from HTML documents to external web sites. Similarly, the system does not permit hypertext links from one HTML document to any other document (including exhibits), regardless of whether the document is part of the same filing. Hypertext links to different sections within a single HTML document are permitted. The SEC proposes to amend Rule 105 of Regulation S-T to allow hypertext links to other documents within the same filing (i.e., exhibits). Hypertext links to documents contained in other official filings in the EDGAR database would also be permitted. For example, filers could link from a particular document to other previously filed documents that are incorporated by reference. Links to documents outside the EDGAR database would be prohibited, including links to web sites.

**- 3 - Liability for Hypertext Links** Currently, the SEC's rules provide that, if a filer includes impermissible hyperlinks in a filing, the linked material will not become part of the filing for purposes of determining whether the disclosure requirements are satisfied. The linked material will, however, be subject to the civil liability and antifraud provisions of the federal securities laws. In the attached release, the SEC proposes to amend Rule 105 so that this position applies, whether or not the hyperlink is permitted by Commission rules. The release indicates that filers should not be able to use hyperlinks to satisfy the disclosure requirements of rules or forms because readers of the filing might not be able to understand the content of the filing without accessing multiple hyperlinks. Also, they would not be able to print the filing as an integrated whole. Further, the release indicates that it is appropriate for filers to assume liability for hyperlinked material as if it were part of the filing. In the context of an official filing, members of the public accessing the SEC's web site will reasonably understand the inclusion of a hyperlink to mean that the filer has adopted the linked material as its own. The use of hyperlinks would remain voluntary. The release asks commenters to address the proposed treatment of hyperlinks and whether there is any need to modify either the disclosure or liability provisions. The release also notes that the proposals address the status of hyperlinks in EDGAR filings only, and not in other contexts, such as hyperlinks in documents on filers' own web sites. The release indicates that the Commission is considering issuing separate guidance that may address some of these issues. The release also requests comment on whether the SEC should permit external hypertext links to other documents or web sites.

**Method of Electronic Transmission** Currently, most electronic filers submit documents through direct transmission using a dial-up modem process. Filers may also submit documents on magnetic tape or diskette. EDGAR Release 7.0 will enable internet based filing through an internet service provider. The SEC will provide security through Secure Socket Layer (i.e., encrypted transmissions)

and certificates. The Commission will not require, but will permit optional client side certificates. The Commission proposes to eliminate magnetic tape and diskette as transmission options and add magnetic cartridges. The release requests comment on whether filers support these changes in transmission options. Modernized EDGARLink As part of the planned modernization, the SEC will release a new version of EDGARLink. The new version of EDGARLink is specifically designed to work under Windows based operating system environments. Filers will be required to use the new EDGARLink if they wish to include graphics and hyperlinks in their HTML documents. - 4 - The release indicates that the existing DOS-based EDGARLink will run concurrently with the new Windows based version for approximately six months. The Commission requests comment on whether discontinuing support for the DOS-based version of EDGARLink after six months will be burdensome to filers. Financial Data Schedules The SEC proposes to eliminate the requirement to submit a financial data schedule as an exhibit to filings. However, the release notes that, with respect to investment companies, the data may be valuable in connection with information collected in Form N-SAR. The release requests comment on whether financial data schedules should be retained for Form N-SAR only, and ultimately, incorporated into the Form itself. Future EDGAR Enhancements The release notes that the Commission is considering requiring additional filing types to be filed electronically on EDGAR. For example, the release requests comment on whether investment companies should be required to file their exemptive applications electronically. Other enhancements under consideration would better enable users of the EDGAR system to identify information relating to a particular portfolio within an investment company when they access EDGAR through the SEC's web site. Filings by open-end investment companies frequently contain information relating to several funds or portfolios. The funds or portfolios may be organized as series of the investment company registrant. For example, a post-effective amendment to a registration statement may contain many separate prospectuses and statements of additional information, each relating to a separate fund or portfolio within the company. Currently, HTML submissions may contain only one HTML file. This limitation may make it difficult to manage or assemble filings that contain multiple prospectuses. Further, it may be difficult to locate information relating to a particular portfolio within a filing. In the attached release, the SEC requests comment on whether it should permit investment companies to include multiple HTML files in their filings. The SEC also requests comment on the use of extensible markup language (XML) tagging to identify individual portfolios or classes within an investment company filing. Specifically, should the Commission allow or require investment company filers to include multiple documents within a filing (each corresponding to a separate HTML file) and/or use XML tagging to identify individual portfolios or classes. Gregory M. Smith Director - Operations/ Compliance & Fund Accounting Attachment

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