

## COMMENT LETTER

November 1, 2004

# ICI Comments on SEC-Proposed Filing Enhancements (pdf)

November 1, 2004 Mr. Jonathan G. Katz Secretary Securities and Exchange Commission 450 Fifth Street, N.W. Washington, D.C. 20549-0609 Re: XBRL Voluntary Financial Reporting Program on the EDGAR System (File No. S7-35-04) Dear Mr. Katz: The Investment Company Institute<sup>1</sup> appreciates the opportunity to comment on the Securities and Exchange Commission's proposal establishing a voluntary program enabling registrants to file tagged financial information using eXtensible Business Reporting Language as exhibits to specified EDGAR filings.<sup>2</sup> The voluntary program is intended to enable the Commission to evaluate the usefulness of data tagging in general, and XBRL in particular, to registrants, investors, the Commission and the marketplace generally.<sup>3</sup> According to the Proposing Release, the Commission's experience with the voluntary program may cause it to extend the voluntary program indefinitely or to propose rules requiring XBRL tagged data in Commission filings. We have several comments intended to make it easier for investment company registrants to participate in the voluntary program.

Voluntary Program 1 The Investment Company Institute is the national association of the American investment company industry. Its membership includes 8,727 open-end investment companies ("mutual funds"), 631 closed-end investment companies, 135 exchange-traded funds and 5 sponsors of unit investment trusts. Its mutual fund members manage assets of about \$7.377 trillion. These assets account for more than 95% of assets of all U.S. mutual funds. Individual owners represented by ICI member firms number 87.7 million as of mid 2004, representing 51.2 million households. 2 SEC Release Nos. 33-8496; 34-50453; IC-26622 (September 27, 2004) 69 FR 59093 (October 1, 2004) ("Proposing Release"). 3 XBRL is an open electronic standard that provides a format for tagging financial information. XBRL allows users to extract, exchange, analyze and display financial information. Proposed Rule 401 of Regulation S-T would allow filers, on a voluntary basis, to "furnish" specified financial information using XBRL. The XBRL-related information would be furnished as an exhibit to Form N-CSR or Form N-Q. Participants in the voluntary program would still be required to provide, in the body of the filing, an HTML or ASCII version of the financial information required by these forms. Participants in the voluntary program would be able to submit their XBRL exhibits regularly or from time to time and could stop or start as they choose. The voluntary program would permit investment company registrants to file XBRL versions of one or more of: 1) the complete set of financial statements; 2) financial highlights; or 3) the schedule of investments. Once received by EDGAR, the filing, including the attached XBRL-related documents would undergo normal receipt and acceptance processing. If the filing meets its validation criteria, but any XBRL-related documents fail their own validation criteria, the XBRL-related documents would be removed and the official filing would be accepted and disseminated without the XBRL-related documents. Accordingly, XBRL-related

problems would not cause a filing to be suspended or miss a filing deadline. To encourage registrants to participate in the voluntary program, proposed Rule 402 of Regulation S-T provides limited liability protection under the federal securities laws for XBRL-related documents. In addition, proposed paragraph (d) of Rule 30a-2 under the Investment Company Act of 1940 would exclude XBRL-related documents from being subject to the certification of disclosure requirements. Recommendations to Promote Investment Company Participation The Institute commends the Commission's decision to evaluate financial data tagging through a voluntary filer program. The voluntary nature of the program should enable registrants to gain experience with XBRL in a manner that does not interfere with time-sensitive periodic reporting deadlines. We do not believe investors are generally aware of XBRL or prepared to take advantage of its benefits at this time. Accordingly, we believe the Commission should not be overly concerned with the timeliness or completeness of XBRL-related financial information during this initial stage of the program. Instead, the program should be designed in a manner to provide maximum flexibility to registrants. Flexibility will encourage registrant participation, and enable filers to gain incremental experience and familiarity with XBRL over time. Our recommendations below are intended to encourage investment company participation in the program. Proposed Rule 401 would require the registrant to provide one or more XBRL versions of: 1) the complete set of financial statements; 2) the financial highlights; or 3) the schedule of investments. We are concerned that the requirement to provide a "complete set of financial statements" may discourage participation in the voluntary program. We recommend the Commission modify proposed Rule 401 to permit investment company participants to furnish XBRL versions of any of: 1) a statement of net assets; 2) a statement of changes in net assets; or 3) a statement of operations, rather than a complete set of financial statements.<sup>4</sup> A complete set of financial statements would presumably include financial statement footnotes (e.g., accounting policies, transactions with affiliates, etc). Further, the schedule of investments typically includes footnotes (e.g., non-income producing securities, restricted securities, etc.) as does the financial highlights (e.g., fee waivers). Moreover, many registrants provide certain schedule of investments-related information through footnotes or supplemental schedules that accompany the schedule of investments (e.g., securities sold short, option contracts written, investments other than securities, and investments in affiliates). We are concerned that the XBRL taxonomy for investment companies may not be sufficiently developed to support tagging these different types of footnotes and supplemental schedules.<sup>5</sup> If this is the case, registrants may need to develop a substantial set of taxonomy extensions, which, we believe would discourage participation. In order to encourage participation in the voluntary program, we recommend that the Commission permit investment company participants to omit footnotes and supplemental schedules from their XBRL-related financial information.<sup>6</sup> We are concerned that an investment company registrant may elect not to participate in the program in order to avoid missing a filing deadline for Form N-CSR or Form N-Q. If, for example, the investment company does not complete preparation of its Form N-CSR or Form N-Q filing until shortly before the filing deadline, it may not have enough time to prepare the XBRL version to be included as an exhibit in the official filing and still meet the filing deadline. We recommend that the Commission permit participants in the voluntary program to file XBRL-related information in a subsequent amendment to the original Form N-CSR or Form N-Q filing. Participants in the program should be permitted to file the subsequent amendment within a reasonable time after the original filing was made (e.g. 60 days). Ideally, this subsequent amendment would not need to be certified if the sole purpose is to add XBRL-related financial information. While the XBRL-related information itself is not subject to the certification of disclosure requirements (under proposed paragraph (d) of Rule 30a-2), we are concerned that the need to "re-certify" the body of the filing would discourage filing

XBRL-related information via a subsequent amendment. In this regard, we note that operating companies filing with the Division of Corporation Finance can use Form 8-K (which need not be certified) to add XBRL-related financial information to a previously filed Form 10-K or Form 10-Q. We encourage the Commission to consider enabling investment company 4 Under the Institute's recommendation, an investment company participant in the program could provide one or more of: 1) a statement of net assets; 2) a statement of changes in net assets; 3) a statement of operations; 4) financial highlights; or 5) the schedule of investments. 5 We note that the XBRL Consortium has not yet publicly released the investment company XBRL taxonomy. 6 Participants should be able to omit footnotes related to any of: 1) the financial statements; 2) the financial highlights table; or 3) the schedule of investments. participants to file XBRL-related information through a subsequent amendment to Form N-CSR or Form N-Q without the need to re-certify the filing. \* \* \* \* \*

The Institute appreciates the opportunity to provide these comments on the voluntary program proposal. If you have any questions on our comments or require additional information, please contact me at (202) 326-5851. Sincerely, Gregory M. Smith Director - Operations/ Compliance & Fund Accounting cc: Brian Bullard, Chief Accountant Toai Cheng, Assistant Chief Accountant Division of Investment Management

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