

Hon. Jeb Hensarling
Chairman, House Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

Hon. Maxine Waters
Ranking Member, House Committee on Financial Services
B301C Rayburn House Office Building
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May 28, 2014

Dear Chairman Hensarling and Ranking Member Waters:

We appreciate the Financial Services Committee's oversight of the Securities and Exchange Commission's obligation to collect and disseminate corporate issuers' financial disclosure data in an accessible format. As users and would-be users of financial statements filed in the eXtensible Business Reporting Language (XBRL),¹ we find that the SEC's failure to apply basic quality control to such data deprives the investors and markets we serve.

We are pleased that the Small Company Disclosure Simplification Act (H.R. 4164), as approved by the Committee on March 14, 2014, calls on the SEC to explain this failure to Congress.² However, its exemption of the majority of U.S. corporate issuers from XBRL filing³ will likely impede efforts to address this problem.

Before cutting off the flow of comprehensive structured data for issuers below \$250 million in revenue, we believe Congress should direct the SEC to correct the widespread material errors, of which many are simple and should be easily fixed.⁴ If the quality of the data improved, investors and markets could use it without extensive correction and small issuers would benefit from expanded analyst coverage. We hope the Committee will consider such an approach before H.R. 4164 is considered on the floor of the House.

¹ In 2009 the SEC adopted XBRL for corporate financial statements and notes. Interactive Data to Improve Financial Reporting, Release No. 33-9002 (Jan. 30, 2009). After a multi-year phase-in, all U.S. issuers now file these disclosures as XBRL.

² H.R. 4164 §4.

³ H.R. 4164 §2. An analysis of XBRL data filed with the SEC shows that sixty-one percent of U.S. corporate issuers reported annual revenue below \$250 million for 2012, the most recent year for which full figures are available.

⁴ See also Suzanne Morsfield, *An Evaluation of the Current State and Future of Interactive Data and XBRL for Investors' and Analysts' Needs*, INTERACTIVE BUSINESS REPORTING, Vol. 3 no. 2 (2013), available at <http://ibr-mag.com/an-evaluation-of-the-current-state-and-future-of-interactive-data-and-xbrl-for-investors-and-analysts-needs/> (recommending that the SEC “[i]mmediately address all errors and any other issues that users tell you affect their willingness to use your data”).

Throughout the world, governments are adopting structured data formats such as XBRL⁵ to allow disclosure information to flow automatically into analysis systems, without needing to be expensively re-keyed or optically recognized.⁶ Investors and markets are demanding information as structured, open data rather than disconnected documents.⁷ Last month Congress unanimously passed the Digital Accountability and Transparency Act, or DATA Act, into law, requiring the federal government to adopt structured data formats for its own financial information. President Obama signed into law on May 9th.

To be useful to investors and markets, however, structured data must be accurate. The SEC adopted XBRL for financial statements in 2009, but still has not begun requiring filers to address material errors in these filings. Inadvertent yet damaging errors, such as flipped positive and negative signs and misplaced decimal points, are common throughout the SEC's XBRL data set.⁸ The data set requires extensive correction before it is useful. Thus, the chief advantages of structured data over document-based disclosure—automated usability and large-scale investment analysis of large and small companies—have not been realized in the United States.

⁵ XBRL has been adopted on a mandatory basis for issuers regulated by the securities regulators of Japan, Israel, and Spain, and listed on exchanges in Mumbai, Frankfurt, Shanghai, Shenzhen, and Tokyo. See XBRL International, XBRL Projects, available at http://www.xbrl.org/knowledge_centre/projects/list (last accessed April 19, 2014). In 2013, the European Parliament voted to make XBRL mandatory for all companies with securities listed on European Union exchanges by 2020. The Federal Financial Institutions Examination Council (FFIEC) adopted XBRL in 2006 for banks' call reports filed with the Federal Deposit Insurance Corporation, Federal Reserve, and Office of the Comptroller of the Currency.

⁶ Where accurate structured financial data is not available, at least 10 percent of analysts' time is spent on manual data entry. The availability of accurate structured data eliminates this cost. See Comments of R. Harold "Hal" Schroeder, Member, Financial Accounting Standards Board, at FASB XBRL Webinar, "IN FOCUS: Board Member Perspective on Structured Data and U.S. Securities and Exchange Commission (SEC) and Staff U.S. GAAP Taxonomy Updates," April 3, 2014.

⁷ "The core finding is that there is clear demand for timely, structured, machine-readable data including information in financial reports, and that this need can be met via XBRL as long as the XBRL-tagged data can reduce the total processing costs of acquiring and proofing the data, and [] the data are easily integrated (mapped) into current processes." Columbia Business School Center for Excellence in Accounting and Security Analysis, *An Evaluation of the Current State and Future of XBRL and Interactive Data for Investors and Analysts* (Dec. 5, 2012), available at http://www4.gsb.columbia.edu/filemgr?&file_id=7313146, at 20 (emphasis original). See also Securities and Exchange Commission Investor Advisory Committee, *Recommendations of the Investor as Owner Subcommittee Regarding the SEC and the Need for the Cost Effective Retrieval of Information by Investors* (July 25, 2013) ("Advisory Committee Recommendations"), available at <http://www.sec.gov/spotlight/investor-advisory-committee-2012/iac-recommendation-data-tagging.pdf> (recommending that the SEC transition its whole corporate disclosure system from documents to data).

⁸ See, e.g., David Trainer, *XBRL Would Be Wonderful If It Always Worked*, FORBES (Nov. 7, 2013), available at <http://www.forbes.com/sites/greatspeculations/2013/11/07/xbrl-would-be-wonderful-if-it-always-worked/> (reporting that many filers' XBRL-formatted submissions include errors in basic information, such as the number of shares outstanding; conflict with the simultaneously-filed plain-text versions; and fail to include required data elements—without the SEC's seeming knowledge).

There is evidence that automating the process for preparing Forms 10-K and 10-Q—originally motivated by the requirement to file structured data financial statements—has resulted in efficiencies and cost savings compared to the effort and costs incurred prior to such automation.⁹ For smaller public companies that have not yet automated the close process, the Financial Executives Research Foundation reports median XBRL reporting costs of around \$8,000 per year.¹⁰ We believe it is possible to address these costs¹¹ without sacrificing the completeness of the XBRL data set.¹²

We are eager to further discuss the need for the SEC to modernize its disclosure system and appreciate your attention to this important issue.

Sincerely,

Data Transparency Coalition

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EDGAR Online*
Enigma*
Estimize
FindTheBest*
TagniFi*
Thinknum

*Data Transparency Coalition members

⁹ Companies using software to automate the process for preparing both plain-text and XBRL financial statements are finding that the process is cheaper and faster than preparing plain-text alone, before automation. *See, e.g.,* WebFilings, *Ebay Improves Process and Saves Days with Wdesk*, <http://www.wdesk.com/content/ebay-improves-process-and-saves-days-wdesk> (last accessed April 24, 2014).

¹⁰ Financial Executives Research Foundation, *SEC Reporting and the Impact of XBRL: 2013 Study*, available at <https://www.secprofessionals.org/sites/default/files/2013%20FERF%20Final%20Report.pdf>, at 19 (showing smaller reporting companies' median cost for the most recent annual filing at \$2,000). Some vendors charge much less.

¹¹ All U.S. public companies have already incurred any startup costs of filing financial statements in XBRL. To ease the transition to the public markets for new issuers, the SEC could, for instance, offer a basic XBRL filing solution as part of its EDGAR system.

¹² The XBRL data set today covers all public companies. Under H.R. 4164, the data set would reliably cover only the top 40% of public companies. If small and medium-sized companies are no longer comprehensively included, investors and analysts seeking to invest in such companies will not use the data set, and exempt companies voluntarily choosing to file XBRL financial statements will see no benefit. Meanwhile, our own services to investors, particularly our ability to deliver timely, complete information on smaller companies, will be negatively affected wherever structured data is no longer available.

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