

SEC Rule Change Proposal – Impact on Stakeholders and Readiness of the Market

Executive Summary

On May 14, 2008, the Securities and Exchange Commission (SEC) approved the issuing of a rule proposal that, if enacted in its current form, will require domestic and foreign issuers that use US GAAP, and eventually those that use IFRS, to submit their primary financial statements and footnotes in XBRL format.

Requirements for XBRL filing would follow a phased approach starting with the largest domestic and foreign accelerated filers (defined as those with a worldwide public float of \$5 billion or higher, which equates to approximately 500 companies) submitting XBRL versions of financial reports and registration statements. If the rule is adopted this Fall, the initial group would be subject to XBRL reporting beginning with fiscal periods ending on or after 12/15/08, with submission to the EDGAR database and on the company's own corporate web site, if they maintain one. In year two, all other domestic and foreign accelerated filers would begin filing in XBRL format and in year three, all remaining companies would follow suit.

In the initial year of a company's required XBRL submission, it would be required to provide single identifiers (tags) for each footnote, but starting in the second year of that's company's filing in XBRL, the company would be required to provide more detailed identifiers for elements within the footnotes themselves. XBRL documents would be submitted in addition to the official ASCII Text or HTML filing, with submission required at the same time as the traditional filing. The only exception to this rule is that the first time that a company submits in XBRL format and the first time that they provide detailed tagging of their footnotes, the company would be allowed a 30 day grace period *after* the traditional filing during which they could submit their XBRL documents. After that initial filing, all subsequent XBRL submissions would need to be coincident with the traditional filing.

Although the proposal follows a phased approach, the SEC recommended that companies begin submitting XBRL data as soon as possible. The SEC proposal will be out for a 60 day comment period.

XBRL US supports this approach as it will 1) give public companies sufficient time to familiarize themselves with the software tools and the taxonomies, 2) it will initiate the development of content to provide investors with the XBRL-formatted data they need, and 3) it will provide the impetus for more software providers, including the large ERP/financial management services, to build out their XBRL-enabled tools.

XBRL US believes that the market is ready for wider adoption of XBRL. Current software providers stand ready to meet higher demand and preparers anticipate minimal added costs, although it should be noted that there are few real immediate benefits to preparers and the cost is all incremental. While the benefits to end-users will also not be immediately recognized, further out the gains in the form of greater accuracy, integrity and immediacy of data will be substantial. This paper was developed by drawing on the expertise of XBRL US members who represent different links on the public company reporting supply chain. Highlights include:

- Preparers
 - For preparers, today and in the short-term, a rule change will result in incremental cost and effort beyond what companies currently expend on their financial reporting process.
 - Longer-term, companies will be able to recognize benefits through the integration of XBRL into their financial management systems, including improved consistency, reliability, accuracy and speed of reporting.
 - A phased-in approach, where XBRL data is a supplement to the traditional filing, will allow companies to familiarize themselves with XBRL software tools and the US GAAP taxonomies.
 - Small companies will not be overburdened with XBRL implementation as the cost is minimal and the process for small companies likely less complex than for large.
- Investors
 - Investors will see minimal benefit short-term but substantial gains in the long-term from the plan to mandate XBRL under the current SEC proposal. The proposal, as it stands, does not require companies to tag past years financials. Multiple years of history in XBRL-format are necessary to recognize the full benefits of XBRL. Detailed tagging of elements within the footnotes will provide richer, significantly more valuable content. While in year one, companies will only have to provide single “tags” or identifiers for their footnotes, the requirement for detailed tagging starting in year two holds the promise of much richer, more valuable data for investors relatively soon.
 - The gain to investors will come in the form of improved accuracy, integrity and immediacy of data.
 - Curiosity among some investors is high but most will not commit until more content is available. But as with the phase-in of EDGAR, once the change takes place (and the data is available and being used), investors will not want to give it up.
 - Financial data intermediaries have an opportunity to transition from offering low-end data collection to higher-end analytics that provide significantly more value to their customers.
- Software providers

- Higher demand for tagging solutions driven by the new SEC rule proposal can be accommodated by the current tool and service provider market. Product and service providers have anticipated the announcement and scaled up to meet the expected needs of the marketplace.
- Today, filers are almost evenly split between those that use service providers and those that do the work themselves. All filers however, review the tags (identifiers) selected by service providers to ensure they are accurate and match their financial line items.
- The impact of a rule change will be to open up markets not only for XBRL-creation tools but for ancillary services that provide business intelligence, analytics and reporting.

Impact on Preparers

The immediate impact of a rule requiring public companies to submit their financial statements in XBRL format adds a minimal amount of incremental work and cost to current financial reporting processes, once they get past the initial learning curve. Most companies today, and in the near-term, will either outsource the creation of their XBRL-formatted financials to a service provider, which could be a consultant, financial printer, wire service or other intermediary, or they will purchase a software tool and do it in-house. Either method is not expensive; the “do-it-yourself” method is particularly inexpensive, with the cost of some software tools running less than \$1,000. Either way, XBRL formatting will be performed as an “add on” at the end of the financial reporting process, and will therefore result in added cost to a company. As an immediate benefit, companies will know that their financial data - when provided in XBRL - is delivered in a manner that best ensures consistency, accuracy and comparability for the users of that financial data.

Longer-term, preparers can expect to see significant benefits through the integration of XBRL tags into their ERP/financial management systems. When data within an organization is first created in XBRL format, it can improve the efficiency of internal reporting as well as external. Establishing a single source system eliminates manual entry and improves consistency, reliability, accuracy and speed of reporting. Data that is created once within an entity can be retrieved for multiple reporting situations – for internal reporting to management, for the creation of reports to the SEC, as well as the creation of reports to other regulatory agencies such as the Bureau of Economic Analysis (BEA) and the Federal Deposit Insurance Corporation (FDIC).

Today, when a request for information is made by upper management or even an external organization or agency, financial executives must often funnel the request to multiple departments and subsidiaries. The reporting units submit their reports, which then must be compiled and consolidated. Inconsistency of the source data, inaccuracies in the compilation process and substantial processing time and work are



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the result. Establishing a single source of information through XBRL will go a long way towards resolving these issues.

Specifics of the Rule

The SEC's proposed rule would require a phased-in approach where companies submit XBRL-formatted financials in addition to their traditional filing. This approach will give preparers time to get comfortable with the process while providing a legal safe harbor. For those companies that opt to tag the financial statements themselves rather than outsource to a service provider, they will quickly discover that the effort is not overly time-consuming or resource-intensive, especially given the availability and user-friendly nature of the tagging tools that are currently available on the market.

Some concerns have been expressed about the impact on small public companies. We do not believe that this will be problematic. While small companies may not have the resources of a larger company, most have less complex financials, few have large, complicated ERP systems to adapt and the ultimate cost of creating XBRL financials can be as low as \$1,000 for the software tool. Over time, integration will free up resources within organizations. Further and perhaps more important, as analysts (end users) of XBRL data are able to analyze more companies more easily and faster, small companies may gain greater exposure and experience reduced cost of capital.

To facilitate the initial adoption and efforts required by companies, only the face of the financial statements and a block-tagging of the footnotes (providing a single identifier for an entire footnote) will be required in the early phases. Only in year two of a company's XBRL submission will they be required to provide identifiers or "tags" for content within the footnotes themselves. In addition, the 30-day grace period for initial submissions will provide companies more time to feel comfortable with the process. This will substantially minimize the effort required while also expediting the learning curve.

Impact on Investors and Analysts

The proposed rule will have minor impact on investors in the near-term but significant advantages over the current process in the long-term. The biggest benefits of XBRL will come to analysts 1) in the ability to accurately and easily compare multiple companies over an historical timeframe and 2) when detailed tagging of footnotes makes data more granular and more extractable. While tagged content from the primary financial statements makes it easier through "machine-to-machine" extraction than the current process, the end game for analysts and investors is a higher level of granularity and an easier way to analyze multiple companies. The ability to draw out information from the footnotes drastically improves the ability to value corporations; the ability to quickly and accurately analyze multiple companies within an industry improves efficiency dramatically. Improved accuracy, integrity and immediacy of data are the key drivers for investors and this is where XBRL will help the most.



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Under the current proposal, it could take up to three years before multiple years of content are available for the first wave of companies. And as the rule is currently written, companies are able to block tag footnotes in the first year of their XBRL-formatted submissions but will be required to provide detailed tagging of elements within their footnotes in their second year of XBRL submission. This serves the purpose of giving public companies some time to get up the learning curve but means that down the road investors will be guaranteed easier access to rich, valuable information on companies that today is often buried in the footnotes.

While all investors, both buy- and sell-side, large and small, will ultimately benefit, some will gain faster than others. Large investment firms have the resources and funds to purchase databases and hire staff to database content directly from public company filings. Intermediate-sized investment houses do not have the same resources and would immediately benefit from the ready access of reliable, accurate as-reported data.

Large investment firms stand to reduce costs when they can enable machine-to-machine extraction of information without the need for translation or manual checking. By going direct to the source of the data, rather than through an intermediary, they can save time and money. But the most significant gain for large firms will come through greater granularity, which is further down the road.

Individual investors will benefit when online data providers serve up information in XBRL format that can be easily rendered and used in Excel format with the click of a button.

Where are analysts today on XBRL and what's ahead?

Interest in XBRL among the investor community is mixed. While for some there is a high level of curiosity about what this can do, there is limited ability today to use XBRL given the dearth of data, and even if they are using it through one of the XBRL-enabled analytical tools available, many do not even realize they're accessing XBRL-created data. For the most part, analysts will embrace XBRL when it's widely available and they can actively recognize the benefits. As with the EDGAR database, analysts may not have actively advocated for it, but once they used it, they were loathe to give it up. XBRL can be seen as the next evolution of the SEC EDGAR database, helping analysts to perform their jobs better and gain more insights into corporate valuation.

XBRL will gain traction among the investment community when more content is available and XBRL is transparent within the tools analysts already use. Data intermediaries have an opportunity to ignite demand for better information by embracing XBRL. Intermediaries, like the big financial data aggregators have a prime opportunity (and with a transition into XBRL, it becomes an imperative) to move out of the simple, labor-intensive and low-value-add business of data collection and into the truly beneficial service of higher-order analytics. Aggregators today provide their own proprietary tagging of footnotes as a value to customers; in a world with XBRL, they could add even more granularity.



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The opportunities for analytical software providers are significant in offering richer, broader analytics. Ultimately, what is today just a snowflake can quickly turn into a snowball gathering speed, changing the way analysts work and opening up new markets for analytical tools.

Impact on Software Providers

Today's providers of XBRL-creation solutions have readied themselves to accommodate the significantly higher demand anticipated with the new rule proposal, in terms of customer support, quality of tools and user training. Among the current voluntary filers, there is a split between those that create their XBRL-formatted financials themselves and those that outsource it to a service provider. Service providers are typically consultants, financial printers and other intermediaries that "tag" or assign identifiers to the line items themselves, then send them back to the company for review and revision. They are about evenly split between service providers and those that create the XBRL-formatted version themselves. New filers will be able to rely on the XBRL US GAAP Preparers Guide that was developed as part of the taxonomy project and will use it in conjunction with the software and service providers own documentation.

The use of service providers will likely be a permanent part of the XBRL creation landscape. Given that the current proposal requires companies to initially submit XBRL data in addition to their traditional filing, there may be limited incentive for companies to perform the tagging themselves. When XBRL becomes the primary format for filing to the SEC, companies are more likely to get more involved in the process. There are a number of factors however, that could move companies to get involved in the tagging themselves today, which we expect to see in the near-term: 1) the development of "automated tagging tools", that make it substantially easier to build XBRL-formatted data, and 2) ERP/financial management companies that will develop their own tools to build XBRL financials, starting in the general ledger which then funnels through to external reporting.

How will the market for tools change?

The rule proposal will make the market more attractive to software providers and we can expect to see a broadening of ancillary markets for products like benchmarking tools, business intelligence products, etc. with an XBRL-enabled component. ERP/financial management system software providers are all investing in XBRL but have been waiting for demand to kick in. The rule proposal may be the impetus they have been awaiting.

Conclusion

XBRL US believes that the market is ready for XBRL adoption on a wider scale. Our members stand ready with tools and services. We applaud the efforts of the SEC to improve the efficiency of the markets with corporate information that is faster to market and higher in accuracy and integrity.