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October 22, 2013

The Honorable Robert Hurt
Unites States House of Representatives
Washington, DC 20515

Dear Mr. Hurt:

XBRL US is a nonprofit consortium, with a mission of improving the transparency of business information reporting through the use of eXtensible Business Reporting Language (XBRL). Our members include accounting firms, software companies, public company issuers, XBRL service providers, data aggregators and nonprofit organizations with an interest in XBRL.

We are writing in response to draft legislation that may be considered for introduction and that is among the subjects of today's legislative hearing in the Capital Markets Subcommittee of the House Financial Services Committee. We believe that the bill, as currently drafted, calling to exempt companies with revenues under $1 billion from XBRL filing, would be detrimental to the US capital markets in the longer term. Entities affected by this bill comprise 79% of all US public companies. A move away from requiring structured data would put these companies and the US capital markets in a less competitive position versus non-US companies and would not result in significant savings for the reporting companies. Most importantly, eliminating structured data reporting for smaller companies would have a negative impact on investors, large and small.

This letter outlines our concerns about the legislation as proposed and suggests some alternative methods to reach the same goal of reducing costs to small filers and improving the efficiency of the US capital markets.

Background - State of XBRL Filing Today

We agree with the overall goals of the committee to foster a functioning after-market for securities of small issuers - a market with robust liquidity, that can be accessed at minimal cost and that investors trust. We believe an essential component of reaching these goals is the free flow of information between companies and investors and vice versa. This information must be of the highest quality and the lowest cost. XBRL is a structured data standard designed for this purpose. Structured data like XBRL allows filers to move from manually-prepared paper documents to electronic data formats. Because XBRL is a standard, this process can be automated with computer systems and open source software that significantly lowers the cost of preparing and distributing information to investors. On the consumption side, the cost of consuming and analyzing this data by investors can also be significantly reduced for the same reasons.

Today many small issuers have failed to realize these cost savings for the following reasons:

1. Current SEC requirements mean that companies are required to produce both the paper-based filing and the XBRL filing, thereby duplicating the reporting effort.
2. Many companies still create their XBRL filing based on their paper-based filing. This means the data comes from internal computer systems into a word processing document and then is transformed back into a computer-based format by manually tagging the word processing document.
3. Tools and processes are still at an early stage and the benefits of standardization have yet to be fully realized.

These issues are clearly surmountable and even now are resolving themselves through naturally occurring market changes. While the proposed legislation appears to be prompted in part by some of these concerns, the marketplace is recognizing very positive trends and the legislation proposed would rollback those changes and result in a negative impact on the capital markets.

Concerns and Alternative Recommendations

We would like to point out some significant issues with the legislation as proposed and recommend alternative programs that would be more effective at reaching these goals

<u>Moves corporate reporting backwards to paper-based filing.</u>
A change from electronic filing formats back to paper-based filing formats will put the United States behind foreign markets which are moving towards a more technologically-advanced approach to regulatory reporting and disseminating financial information to investors. In the longer term this will be more expensive for smaller companies and will make the US uncompetitive with competing markets that are automating the reporting of financial data. In the UK alone, every reporting entity, both public and private, is required to report tax information in XBRL format. Public companies in the UK, China, Japan, Israel, and other countries, are all required to report their financial data to regulators in XBRL format. In our increasingly global capital marketplace, funds will gravitate towards investments that demonstrate more transparency.

Does not recognize the cost reductions achievable through standardization.
The legislation does not recognize the longer term cost reductions that are possible with standardized data reporting. And while some may believe that *any* cost is too much for companies to bear, an analysis conducted showed that the current cost for small companies to outsource the XBRL filing process can vary from $2,500[1] per year to $25,000 per year depending on the complexity of the filing. Most companies today are either outsourcing the XBRL portion of their filing or creating their XBRL filing based on a paper-based document. This method is an inefficient way to file, and as we have seen in international markets, once structured data production is integrated into company accounting systems, the cost declines significantly. In the UK, for example, the cost of filing in XBRL to Her Majesty's Revenue & Customs (HMRC) per company can be as low as £100 per financial statement filing.

Does not recognize the ability to reuse standardized data.
Once data is available in a structured format, it can be re-used for a multitude of other purposes by other government agencies. Today companies not only have to file financial statement data with the Securities and Exchange Commission (SEC) but with many different federal, state and regulatory bodies. Significant amounts of the data reported to the SEC, at a minimum, are also reported to the Internal Revenue Service (IRS), the Department of Labor (DOL) and the Bureau of Economic Analysis (BEA). All of these agencies ask for this data independently of each other which adds significant burden to all filers, especially smaller entities.[2] Standardized data provides a path to allow the sharing of information across government agencies without the need to reproduce the same information for different groups. In fact, a number of countries are exploiting standardized data for this purpose, such as Australia and the Netherlands which both have Standardized Business Reporting (SBR[3]) programs in place.

Federal agencies currently have a predisposition to collect data in a manual way, with very little consideration for how data can be shared between agencies. This legislation should be addressing government agencies siloed approach to regulatory reporting from companies rather than eliminating the availability of data that is an essential component of the financial markets.

[1] Only three filings, submitted to the SEC between 2011 and 2012, out of over 80,000 submitted to the SEC, reported the cost of reporting in XBRL. Of these 3 the costs were $2,500, $4,000 and $6,000 per year.
[2] See report "Better Reporting for Better Decisions: Standards to Improve Corporate Government Reporting, Source: XBRL US for United Technologies, 2011, http://xbrl.us/learn/documents/betterreporting.pdf)
[3] http://www.oecd.org/tax/administration/43384923.pdf

Although US government agencies have not yet shared data with one another, the availability of structured data makes this a viable option to further reduce regulatory burden and to cut costs for the government agencies collecting this data. Moving away from structured data for small issuers would make this more difficult and more expensive in the future.

Limits the Scope of Services Available

The legislation as proposed will exempt the majority of issuers – 79% of US issuers – from the XBRL requirement unless they opt in to provide this information. With only the largest accelerated filers likely to submit financials in XBRL format, any automated analysis performed will only be possible for larger issuers reporting in XBRL. Investment searches on companies meeting certain investment characteristics will effectively exclude smaller filers. Additionally, those smaller companies that file in XBRL will then have limited options among service providers, as providers that currently cater to smaller issuers with lower cost solutions will no longer be a viable business.

The electronic nature of XBRL has already had a significant impact on streamlining the disclosure management systems within the US, which has increased productivity and reduced costs for public companies, both large and small. For example, within the past year, at least three new disclosure management tools that incorporate XBRL have been introduced by existing XBRL service providers, one by the largest filing agent in the market. These new tools have been introduced by service providers that are now rapidly converting their “full service” XBRL clients into “do-it-yourself” clients who are taking advantage of the more streamlined, less expensive approach available through disclosure management. These offerings provide functionality far beyond XBRL, including document creation, management and distribution for disclosure of corporate information to regulators, investors and other stakeholders.

The Aggregate Cost to the Capital Markets Would Increase

Companies report financial statement information to the capital markets to communicate the performance and current state of the entity to the owners of the company, prospective owners of the company and other interested stakeholders. The purpose of the filing is to provide transparency to the owners of the company. Financial statement reporting has long been accepted as a minimum requirement for an efficient capital market. Data provided by the company has traditionally been identified or “tagged” by downstream users, be it a cell in a spreadsheet or a data point provided by a data aggregator. Either the company itself or downstream users must do the tagging. From an aggregate market perspective, the most efficient location to tag structured data is at the point of data creation. Some will argue that investors should pay as they are getting the benefit. Ironically, when the company pays, ultimately the investor pays, in the form of lower returns. The company, however, can do the tagging far less expensively and more effectively than an investor ever can. The company only has to do it once whereas a paper-based document delivered to multiple investors requires that every investor performs his or her own tagging. In addition, regulators collecting and analyzing corporate data would be required to build and maintain two separate collection mechanisms, the cost of which would invariably be passed back to filers, investors and taxpayers.

Investment Costs in XBRL have already been incurred
All small company filers have already reported in an XBRL format and many have already invested heavily in building reporting systems to support the mandate. Those companies that have not upgraded their internal reporting systems have already performed the initial mapping process that occurs the first time companies report in XBRL. The most expensive part of formatting in XBRL is for the initial filings that require issuers to tag their financial statements for the first time. This investment occurs over a 2-year time frame as companies set up the mapping required to tag 10-K and 10-Q filings, both for the face financial statements and the detailed footnotes. Subsequently, costs drop significantly as the reporting templates have been established and can then be re-used every year with updated data. Most companies are now in a maintenance mode. Removing the XBRL requirement would not result in substantial cost savings versus their current XBRL process. In fact, the existing investment would be wasted if companies discontinued XBRL filing.

In addition to public company issuers, a number of companies have also invested in technology infrastructures to consume XBRL data. This includes data aggregators who download the data from the SEC and make it available as part of their existing data sets, or as a check on the data they are collecting manually. There are also a number of start-up companies who are using this data to create new data sets or enrich existing data sets with financial data. The usefulness of XBRL data set is diminished if it does not include all public companies. Investors want to perform searches over all available investment options to find those companies that meet their criteria. The value of any data set is determined by the scope of the companies included and the depth of the detailed data available for those companies. By limiting the scope of the companies in the data set, data consumers are forced to either extract this information manually, purchase it from a data aggregator or not include the data in their data set. This either increases costs to investors or results in a lack of data covering smaller companies.

Using Structured Data for Other Purposes
Typically XBRL data is considered as only being useful to investors. But this data can play a very large role in setting government policy and understanding how the markets work. Already XBRL data is used by the Financial Accounting Standards Board (FASB) to determine the impact of proposed accounting changes and to validate the impact of those accounting changes on filers.

In addition XBRL US has already provided information on unremitted foreign tax earnings and pension returns to journalists and academics. The change in aggregate revenue numbers can be used as a proxy for GDP growth in real time. Because this data is available within seconds of company submission to the SEC, is computer-readable and is delivered direct from the public company, it has significantly greater timeliness, accuracy and usability. For example, the data can be used to identify real-time shifts in research and development throughout the US economy, by industry and by company..

If this committee is looking for ways to improve the capital markets, the information provided in XBRL is invaluable to identify problem areas and issues that need to be addressed.

Proposals

These issues, as noted above, provide evidence that the current draft legislation will not be effective in meeting the goals as stated. We believe that there are alternative approaches to reducing the costs to small filers and to improving the efficiency of the capital markets.

<u>Ease the burden associated with an IPO.</u>

In order to report in an XBRL format an issuer needs to update their reporting processes to file in XBRL. Unfortunately, many companies going through an initial public offering find out about the XBRL filing requirement late in the IPO process and cannot address the requirement in a cost-effective manner. For this reason we believe that the legislation should grant emerging growth companies that are in the process of going public the same phase-in period that was permitted for all public companies adopting XBRL over the last 3 years. This will allow small companies to negotiate better rates and control the incorporation of XBRL reporting into their reporting process more efficiently.

<u>Extend safe harbor on legal liability for small companies.</u>

A number of smaller companies are exposed to the legal risks associated with reporting a number in a structured data format and separately, in a paper-based format to the SEC. We have seen in a number of cases where the values reported in the two separate filings differ. We believe the legal safe harbor for emerging growth companies should be extended until such time that the XBRL reporting mandate is consolidated into one financial report that contains both the traditional paper-based report and the XBRL format embedded in these documents. This would minimize the legal risk for these companies, which in many cases is a far larger concern than the additional cost of XBRL filing.

We believe that these recommendations would more effectively reach the goals of the committee and we welcome the opportunity to discuss the effectiveness of XBRL initiatives in place in the U.S. and internationally. Should you require further information, and to assist in your efforts in any way, I can be reached at 917-582-6159, Campbell.Pryde@xbrl.us.

Sincerely,

Campbell Pryde
President and CEO, XBRL US, Inc.

cc: Members of the Subcommittee on Capital Markets and Government Sponsored Enterprises