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XBRL US Statement on Standards and Title IV of H.R. 1675

Helping small companies to grow their business requires: 1) improving access to funds, and 2) reducing regulatory costs, where possible. XBRL (eXtensible Business Reporting Language) is a market-based open data standard. It is not software or a product. After XBRL was developed by industry participants in the financial reporting supply chain, the Securities and Exchange Commission (SEC) adopted the standard for public company reporting because XBRL-formatted financial data is less expensive, more timely and easier for investors and regulators to use because it makes financial data computer-readable.

Today, XBRL is required for financial statement reporting to the SEC but the legislation as currently written, would exempt companies with revenue under \$250 million from XBRL submission for a three to five year period. A cutoff of \$250 million effectively removes 60% of all public companies from electronic filing. Rolling back to the filing process of six years ago where all companies submitted financials in Text or HTML, means corporate data for 60% of public companies cannot be consumed or analyzed by investors or regulators until it has been manually rekeyed and validated. The proposed legislation would result in hundreds of small companies that have already been filing in XBRL for years reverting back to this earlier process.

Contrary to the stated goal, ***an XBRL exemption for small companies will reduce their access to capital, will provide virtually no savings in regulatory costs and will eliminate the benefits that data standards bring to both the issuers and consumers of public company data.***

Title IV, as currently written, will result in the following consequences:

1. 60% of companies will lose the filing expertise gained over the past six years and have to climb the learning curve again in 3-5 years.

Companies will have to “re-learn” how to file in XBRL again once the three to five year period ends.

2. Small companies will be at a disadvantage to large companies in terms of attracting investment funds.

Removing the XBRL requirement means that small company financial data will be more difficult to extract and less timely, making small companies more expensive to analyze than large companies. This will impede their ability to attract funds to grow and expand their business. Investors will require a higher return on smaller companies than large because of the added cost of analysis.

3. The cost of financial analysis for regulators and investors will increase.

Smaller companies will file in HTML alone; large company data will continue to be available in the enhanced (XBRL) format. Regulators and investors will be required to process financial data in two separate formats, resulting in unnecessary costs. Regulators will likely pass these costs on to American taxpayers.

4. XBRL data in use today will no longer be available.

Investors, analysts, and the SEC themselves are users of XBRL-formatted financial data, benefitting from the greater timeliness and usability of computer-readable data that XBRL provides. Because XBRL is a data standard, it is typically “invisible” to end users. It is unlikely that a sell- or buy-side analyst or portfolio manager would be aware that they are using XBRL data because investment firms often obtain their data through third party providers, many of which use the XBRL version of public company data. Users of public company financials that use XBRL data today include:

- Regulators - The SEC has invested in XBRL-enabled tools so that they can efficiently extract data from historical filings as well as newly published filings as they are submitted. The Commission makes XBRL data available to any user through an RSS feed and has developed bulk datasets that can be extracted as well. The FASB (Financial Accounting Standards Board) uses XBRL data as part of its research to inform accounting standards deliberations.
- Commercial data providers - Organizations such as Thomson Reuters use XBRL formatted financial data for its investment clients. Many providers also consume XBRL data from public companies in non-US countries including Japan, Korea, China, Israel and Brazil. Companies such as Calcbench have launched because the computer-readability and greater functionality of XBRL data has lowered barriers to entry and increased competition in the data market.
- Academics, the media, anti-fraud organizations and watchdog groups - Universities and organizations that monitor corporate activities use vast amounts of public company data which is less expensive and more timely when in structured data format.

XBRL US recently posted a set of spreadsheet templates and APIs that extract public company data in XBRL format. These tools are free for all users and since they were first introduced in mid-October 2015, there have been 90,000 data requests with users from public companies, accounting firms, academics, tool and data providers.

5. An XBRL exemption would result in minimal savings to smaller companies.

The cost of XBRL formatting today averages \$10,000 per year (median cost \$8,000) for small companies which will do little to reduce the burden of being a public company. These statistics are from a comprehensive study conducted by the AICPA and XBRL US that also found that 70% of small companies paid \$10,000 or even less.

6. Public companies would fail to benefit from the streamlining and cost reduction that standards bring.

Implementing standards and recognizing the full benefits of those standards can take time because of the many stakeholders and the need to change out existing infrastructure and process. Public companies today have not yet realized the streamlining and cost cutting gains afforded by standards. Now is the time to begin leveraging the power of standards to reduce disclosure burden. Below are recommendations made by XBRL US in a letter to the SEC on November 30, 2015 that can be implemented to dramatically reduce the workload of public companies, large and small:

Eliminate duplication of facts reported by public companies

Every year, public companies report a single 10-K and three 10-Qs; each of these reports contain facts that are duplicates of facts reported in previous filings. XBRL US analyzed filings¹ for the S&P 500 companies representing the market to determine the extent of duplicative data. The analysis shows that the latest 10-Ks reported for the sample of companies included 1.244 million numeric fact values. Of the values reported in these submissions, only 574,622 facts were reported for the first time. The remaining 669,016 numeric facts (54%) had already been reported in previous filings submitted to the Commission.

Further analysis demonstrates that fact values are often reported multiple times throughout a company's historical filings. Of the recurring 669,016 fact values reported, these same facts appeared 2.124 million times across all filings submitted since the start of the XBRL SEC program. On average, each numerical fact value was reported 3.18 times. Company workload can be significantly reduced if preparers are only required to report numeric values that are *new* when a new filing is created. Financial reporting in XBRL creates data, not documents. Once that data has been reported, it is permanently available and can be rendered into comparative reports. Reporting entities should not be required to submit the same data over and over when comparative data can be represented in an automated manner.

Stop Requiring Public Companies to Report the Same Information to Multiple Government Agencies

Public companies report not only to the SEC but to many other federal and state government agencies. There is often significant overlap in the data required by multiple agencies. For example, certain facts collected by the SEC on Forms 10-Q and 10-K are also collected by the Department of Commerce, the Federal Deposit Insurance Corporation, the Federal Energy Regulatory Commission, the Department of Labor (DOL), the Internal Revenue Service and the Federal Reserve. Agencies often have differing reporting methodologies, formatting and timing requirements. In many companies, reports specific to a particular functional area are typically managed and submitted by the department responsible for that function. For example, Human Resources may prepare and submit information to the DOL, whereas the Controller and Legal departments are responsible for SEC reporting.

To better understand this, in 2011 XBRL US conducted a review of government reporting at United Technologies (UTC). Given the decentralized nature of corporate reporting, it was difficult to identify all regulatory reporting within UTC, therefore the study focused solely on reporting to six agencies - Bureau of Economic Analysis (BEA), Census, EEOC, DOL, Federal Reserve and the SEC. In actuality, UTC reports to many more government agencies. The review concluded that the six agencies together require UTC to submit 21 separate reports, some annually, some quarterly, some every 3-5 years, comprising an estimated 376 pages of content. Some of these reports require only a single submission at a consolidated level, while others require multiple submissions at various defined entity levels. Thus, the 21 reports ultimately become several hundred, as reports from separate UTC entities are consolidated to create a total company report before submission. UTC estimated that this subset of reporting required 12,000 man-hours per year to complete - the equivalent of hiring 6.8 full-time equivalents (FTE).

¹ Detailed findings and the analysis behind the figure can be found here: <https://xbrl.us/home/news/case-studies-white-papers/fact-value-analysis/>

This current process of business to government reporting today is problematic:

- For the company: significant duplication in reporting is labor-intensive, costly and can result in inconsistent information reported to different agencies.
- For the government agency: receipt of multiple non-electronic formats from reporting entities requires translating and rekeying information before analysis can begin, which is costly and can result in delays. There can be a lack of consistency in information reported to multiple agencies. Time delays and potential inaccuracies can impact government decision-making.
- For the public: potential for data errors and time delays can affect decision-making based on the data reported.

Consistent standards used by government agencies could eliminate duplicative reporting by companies. These steps would significantly streamline the entire reporting process, reducing the burden and cost for companies, increasing the accuracy and timeliness of data reported for all stakeholders, and cutting costs for government agencies that no longer need to rekey data from forms and documents submitted.

7. An exemption will impede financial markets' ability to perform automated analysis in an increasingly automated world.

Computer-readable public company data is necessary to build an infrastructure for automation which is becoming more and more important to today's more technology-focused data consumer. Financial market participants need this infrastructure to conduct automated analysis and portfolio selection; and to support automated financial products such as smart contracts that offer dramatic reductions in cost and improved timeliness. Automation is needed to enable financial participants to obtain required data on-demand without reading through voluminous documents.

It's important to note that the seven issues raised above are unintended consequences that will have a critical impact on smaller reporting companies, on investor and regulators ability to work and ultimately on the American public.

The authors of the legislation have suggested that making the exemption voluntary eliminates these issues. We strongly disagree with that assumption. The SEC requires XBRL reporting for all companies because of its stated mission to "protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation." Management of public companies is acutely aware of the costs associated with a given regulation and may not recognize the immediate benefits of regulation, because they have a different perspective than shareholders. Historical and current financial information gives investors critical data on cash flow, profitability and other measures that provide investors a baseline on the health of a public company. Many factors must be considered when evaluating a potential investment, including product pipeline, partnerships, patent issues, etc., but there should be a consistent set of financial data for every public company, large and small. The company's shareholders, not management, should be the arbiters of what data is needed and of how that data is conveyed, e.g., in HTML, text or electronic (XBRL) format.

Conclusion

The goals of Title IV of H.R. 1675, are to reduce regulatory burden for small companies and to promote job creation. These are important goals but we ask members of Congress to consider the unintended consequences of rolling back a requirement that has already been in place for many years for large and small companies alike. Removing access to computer-readable corporate data for small companies would be a major step backward for the U.S. capital markets, would present significant problems for small companies seeking to expand and grow, and would reduce the ability of corporate America to gain from the streamlining and cost reduction that standards bring.

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