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April 28, 2017

The Honorable Jeb Hensarling
United States House of Representatives
Washington, DC 20515

Dear Chairman Hensarling:

RE: Title IV, Subtitle C, Section 411 of the Financial CHOICE Act: *Exemption from XBRL requirements for emerging growth companies and other smaller companies.*

I am writing to you as President and CEO of XBRL US, a nonprofit standards consortium that focuses on improving the availability, comparability and usability of business information in the capital markets to all stakeholders. XBRL US develops and advocates for the XBRL financial data standard which is an open, freely available, nonproprietary data standard.

On behalf of the membership of XBRL US, which include accounting firms, software providers, data providers, researchers and data analysts, I respectfully submit our concerns regarding Title IV, Subtitle C, Section 411 of the Financial CHOICE Act, legislation that would exempt small public companies from filing their financial statements in XBRL format. In light of the hearing on Financial CHOICE that was held this week and the markup that is scheduled for the week of May 1, 2017, we strongly encourage you to remove Section 411 from the bill, and we respectfully ask that our comments be considered as part of the markup discussion.

XBRL US members share the goals of the authors of Title IV, which are to simplify disclosure requirements and reduce the burden on small companies. We disagree however, with Section 411 of Subtitle C, which exempts small companies from submitting their financials in computer-readable XBRL format.

Implementation of Section 411 will <u>not reduce costs for small companies in the short-term, will increase costs in the long-term, and will impede the ability of these entities to raise money in the capital markets.</u>

Equally important, a rollback in reporting requirements for small companies as specified by Section 411, <u>will have a detrimental impact on corporate shareholders, prospective investors, regulators and other data users that rely on computer-readable, XBRL-formatted data today.</u>

These users have had access to structured, XBRL data since the first companies began filing in XBRL in 2009. The definition of small companies as currently written in Section 411 is any company with revenue under $250 million - the number of companies under that threshold constitute approximately 60% of all public companies. Section 411 would mean that computer-readable data from these companies will likely no longer be available. If the legislation moves forward as written, it will be a significant disruption to the financial and regulatory markets that rely on corporate data to monitor and analyze public companies, and make investment decisions.

Below are the key reasons we believe that Section 411 will have negative repercussions for the financial markets:

Negative Impact on Small Companies

More difficult to attract investment funds. Exempting small companies from a mandatory XBRL requirement means that small company financial data will be more difficult to extract and less timely than large company data, 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 larger companies because of the added cost of analysis.

While the legislation gives small companies the ability to "opt in" to file using XBRL, it is unlikely that they will do so if given the choice. While management generally works in the best interest of the company, they may not fully recognize the importance of their financial disclosures to their shareholders and prospective investors. Financial information such as cash burn rate, options issuance, stock-based compensation and operating income are critical to understanding the health and future performance of a company, regardless of size. In fact, this data is even more important for small companies, and access to consistent, timely reporting is important to all shareholders. This topic is further explained by Morningstar, a global investment research and investment management firm, in this video interview: https://www.youtube.com/watch?v=TkuQguC1qNU

Minimal savings in the short-run. The cost of XBRL filing averages $10,000 per year for small companies as shown by a study[1] conducted by the AICPA and XBRL US which also found that 69% of small companies pay $10,000 or less per year to create the XBRL submission. Higher figures that have been suggested in previous hearings are usually found, on closer examination, to include all the costs of the filing, including creating the HTML version of the filing. Eliminating XBRL will not eliminate the HTML filing cost. In addition, the Securities and Exchange Commission (SEC) has proposed that companies file using a data standard called Inline XBRL to replace the current XBRL format. Inline XBRL, which produces computer-readable data just like conventional XBRL, will reduce preparation time and cost by combining the HTML and XBRL versions of the submission.

More costly in the long-run. Small companies will lose the filing expertise gained over the past six years and will have to climb the learning curve again in 3-5 years, the time at which the legislation indicates that small companies would be required to file in XBRL again.

[1] AICPA XBRL Costs Study, December 2014, https://www.aicpa.org/interestareas/frc/accountingfinancialreporting/xbrl/pages/xbrlcostsstudy.aspx

Negative Impact on Financial Markets

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 pass these costs on to American taxpayers.

Structured data is widely used today by investors, corporate shareholders and regulators. Section 411 will take that data away, disrupting current processes. Large and small commercial data providers rely on XBRL-formatted data to serve buy- and sell-side clients and individual investors because structured data is computer-readable and can be fed automatically into their databases. Real-world advantages of structured data over conventional data are explained in short case studies on the XBRL US site: 90% reduction in processing time by global data provider; 72 hours saved on S&P 500 analysis; student-run investment firm gains access to affordable data; audit firm performs better analysis. See infographic of case studies.

The CFA Institute, the global association of investment analysts, stated in a March 30, 2017 blog post "...by transforming regulatory reporting from document into data, we can make markets more efficient, empower investors, and improve regulatory oversight while also reducing compliance costs." [2]

In a separate study[3] also published by the CFA Institute in 2016, the advantages of structured (XBRL) data over conventional data for the investment community were named as:

- Improves financial statement accuracy
- Improves productivity
- Increases opportunity for higher returns
- Allows for better risk management
- Empowers the analyst

With Section 411, access to enhanced, more functional, small company data will be disrupted, harming the small companies themselves and the stakeholders that need their information.

An exemption will impede financial markets' ability to perform automated analysis. 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 technology 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.

[2] CFA Institute Market Integrity Insights blog, March 30, 2017: Automation of Financial Reporting: Greater Efficiencies, Lower Costs, https://blogs.cfainstitute.org/marketintegrity/2017/03/30/automation-of-financial-reporting-greater-efficiencies-lower-costs/

[3] CFA Institute, Data & Technology: Transforming the Financial Information Landscape, June 2016, http://www.cfapubs.org/doi/pdf/10.2469/ccb.v2016.n7.1

We appreciate the opportunity to bring these issues to light to the Chairman and to the House Financial Services Committee.

As a nonprofit standards organization, we know that free and open data standards can strengthen the efficient flow of information in the capital markets to the advantage of both Main Street and Wall Street. We strongly believe in the value of financial data standards to reduce costs, eliminate waste and improve the free flow of information in the capital markets. As such, we strongly encourage you to remove Section 411 of Title IV, Subtitle C, from the Financial CHOICE Act.

I would be happy to discuss these issues with you or your staff at any time.

Regards,

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CC: Members of the House Financial Services Committee