June 6, 2108

1211 Avenue of the Americas
19th Floor
New York, NY 10036
Phone: (202) 448-1985
Fax: (866) 516-6923

The Honorable David Kustoff
United States House of Representatives
Washington, DC 20515

Dear Congressman Kustoff:

RE: H.R. 5054, Small Company Disclosure Simplification Act of 2018

This letter provides new information, which we respectfully ask to be considered as the House Financial Services Committee (HFSC) prepares for the markup of H.R. 5054 on Thursday, June 7.

Preliminary statistics from a pricing survey being conducted this month by the AICPA and XBRL US shows that the cost of XBRL-formatting has declined 41% since 2014. The average cost of XBRL preparation for small reporting companies in 2017 averaged $5,850 per year.

I am the President and CEO of XBRL US, a national, nonprofit standards consortium. The mission of XBRL US is to encourage the use of public business information in a standardized format, to reduce unnecessary data processing costs, waste, and time delays; and to improve the efficiency of reporting between business, government, and the public. XBRL US is a member-driven organization, representing accounting firms, public companies, software companies, other nonprofits, data intermediaries, and service providers.

XBRL is an open, freely available, nonproprietary financial data standard which is widely used in both U.S. and non-U.S. markets. There are no licensing fees associated with the use of XBRL.

As a standards organization, we seek to improve efficiencies in the processing of data for the entire supply chain, from the creator of the data to the consumer of the data. As such, we are in agreement with the goals of the legislation to simplify disclosure requirements and reduce the burden on small companies. We disagree however, with the XBRL exemption in H.R. 5054, which, if passed, will have the opposite impact on both public companies and investors.

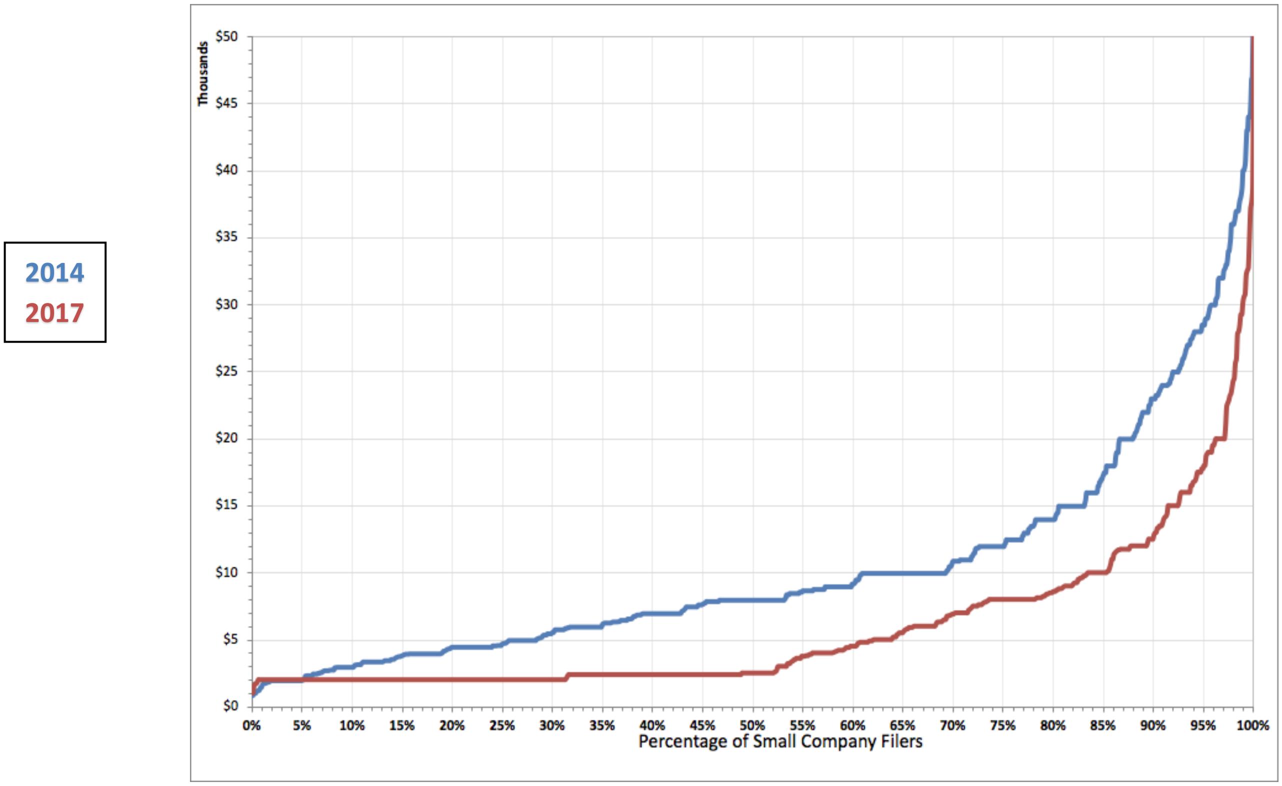
Much has changed since the bill was first introduced.

This bill was originally proposed in 2013. At that time, concerns were raised about how many investors actually used XBRL-formatted financial company data. There were also concerns and misperceptions about the cost to issuers, of preparing XBRL. Much has changed over the past five years, establishing even more compelling reasons to ***not*** move forward with H.R. 5054.

XBRL preparation for small issuers now averages $5,850 per year, a 42% decline from 2014.

In 2014, XBRL US and the AICPA[1], conducted a study to determine actual costs of XBRL preparation for SEC small reporting companies. At that time, costs averaged $10,000. That study captured data from 1,299 companies. This study is being conducted again in June 2018. Data has been collected from a sample of 924 companies so far. Preliminary results show that XBRL preparation costs have declined, so that today, the average cost of XBRL preparation was $5,850 in calendar 2017; median costs were $2,500. Companies that paid higher amounts, may have done so due to complexities in their financial statements, the need to complete more than the typical number of filings in a given year, and/or rush charges imposed given last minute changes to the filings.

The chart below shows the annual cost incurred by percent of small companies. The blue line represents 2014; the red line represents 2017, demonstrating the trend towards lower XBRL market pricing.



An argument can be made that any cost, regardless of amount, can be considered a burden. But we question whether $5,850 per year, is enough to make a small company choose not to go

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

public; or that this cost limits a company's ability to hire more staff, invest in more R&D, or introduce more new products.

More importantly, the benefits of XBRL in terms of providing computer-readable, consistent, timely data to regulators and investors, must be considered when weighed against a $5850 per year cost to small businesses.

Regulators, investors, media & more, rely on XBRL data.

Regulators. The Securities and Exchange Commission (SEC) uses XBRL-formatted data in their own analysis. While we have heard this anecdotally for some time, a recent rule proposal for *Auditor Independence With Respect to Certain Loans or Debtor-Creditor Relationships*[2] states in a footnote, "This estimate is based on staff analysis of XBRL data submitted with EDGAR filings of Forms 10-K, 20-F and 40-F and amendments filed during the calendar year of January 1, 2017 to December 31, 2017." This is just one example demonstrating that computer-readable public company data is used by regulators in analysis required to prepare rule proposals. Access to XBRL data enables faster, less expensive, more timely analysis for regulators, which brings down the cost of regulation.

Investors and the media. Most investors obtain most or all of their financial data from commercial providers such as Thomson Reuters, S&P Market Intelligence, CalcBench, idaciti, and Intrinio, among other large and small data providers. All of these organizations use XBRL data in their database offerings to investors. Data providers offer access to data through analytical tools, data downloads, or APIs[3] (application program interface). One provider offers XBRL data through APIs which are accessed today by 25,000 users. Here are two examples of how the media and investors use XBRL data through commercial data providers:

- Media: https://www.cnbc.com/2018/05/13/closer-ceo-pay-ratios-may-generate-higher-profit-per-worker.html
- Investment research: https://www.morganstanley.com/ideas/corporate-tax-savings

At the May 23, 2018 HFSC subcommittee hearing, a CFA Institute study[4] was cited which noted that only 11% of respondents to a survey, when asked how they obtain data, said "all data/information is extracted manually from source documents." The remaining 89% of CFA Institute members who responded to the survey, obtain their data through commercial data providers, as noted above. **The implication is not, as was suggested in the hearing, that only 11% of analysts are using XBRL data; the implication of this fact, is that 89% of analysts are most likely using XBRL data through data providers.** Analysts know that they are using data from a commercial data provider; they are unlikely to know if that provider is sourcing the data from the XBRL filing, the HTML filing, or the paper filing.

---

[2] https://www.sec.gov/rules/proposed/2018/33-10491.pdf

[3] An application program interface (**API**) is a set of routines, protocols, and tools for building software applications.

[4] CFA Institute blog, December 6, 2016: https://blogs.cfainstitute.org/marketintegrity/2016/12/05/do-you-know-what-xbrl-is-a-majority-of-survey-respondents-do-not-know/

In fact, investors want more, not less, automated data. The CFA Institute, which represents investment professionals (over 120,000 members in 140 countries), published a study in 2016 on *Data and Technology: Transforming the Information Landscape*[5]. In that paper, the CFA Institute states:

"... data from earnings releases remain unstructured, and XBRL versions are voluntary. We believe that requiring companies to tag their earnings releases … will be beneficial for investors...Some very rich data exist in the management's discussion and analysis (MD&A) section of filings. Unfortunately, the MD&A section falls outside the scope of the XBRL mandate. Requiring this section and other numeric data to be tagged would open up a trove of valuable data for all investors."

General public. XBRL-formatted, computer-readable data is accessed by the general public through online services and databases. The SEC makes XBRL-formatted financial data sets freely available to the general public on their web site. Google BigQuery[6] now carries full SEC public company datasets.

Inline XBRL eliminates dual filing and reduces company burden.

The SEC published a formal proposal in 2017 to switch to Inline XBRL, a technical specification which provides the same benefits of computer-readability and automation afforded by XBRL, in a filing that combines HTML and XBRL into a single document. Inline XBRL will facilitate ***a reduction in the preparation time and burden of filing on public companies***; and at the same time, it will ***improve the quality of reported data*** because there is no ambiguity between the two separate filings. We expect this proposal to go to final rule in the near future.

Foreign private issuers now have an XBRL requirement for U.S. SEC reporting.

In 2017, the SEC approved the IFRS Taxonomy, which triggered the requirement that all foreign private issuers that report to the SEC's EDGAR system must now do so in XBRL format.

Structured data is more widely used beyond SEC reporting.

Since 2013, XBRL usage has expanded far beyond SEC reporting. The U.S. Department of Energy, in partnership with industry, has developed a structured data program to reduce the soft costs of financing solar systems. This program spans broad use cases covering project finance, construction, operations, insurance, and feasibility; it has garnered broad industry support. The surety insurance industry has also embarked on a program to bring standards into the underwriting process.

Outside the U.S., the European Securities Markets Authority (ESMA) has mandated the use of Inline XBRL for public company reporting, a program that goes into effect in 2020.

---

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

[6] Google BigQuery: https://console.cloud.google.com/launcher/details/sec-public-data-bq/sec-public-dataset?utm_source=Master%20List&utm_campaign=0f1c0a7e7f-EMAIL_CAMPAIGN_2018_04_19&utm_medium=email&utm_term=0_da5920711b-0f1c0a7e7f-106277581

The bottom line impact of H.R. 5054

If H.R. 5054 were to pass, 60%[7] of the data that is relied upon today by regulators, investors, media, and the general public, would no longer be available in computer-readable form, and costs to access data for regulators, investors and other data consumers, would increase.

Most small companies would opt to <u>not</u> report in XBRL. Despite the option to continue reporting in XBRL, that the legislation allows for small companies, most small companies would opt out of XBRL. Corporations focus on meeting compliance requirements; if not required, the assumption would be that computer-readable data is not needed. Investors, not management, should determine if computer-readable data is needed by investors.

Small companies would be at a disadvantage to large companies in attracting investment dollars. Large companies would continue to report in a format that is easier to access, extract from, and database. Smaller companies would revert to reporting in paper-based formats (text or html) which is substantially more difficult and more expensive, to extract from, database, and analyze. Investors would demand a higher return from small companies because the cost of analyzing them is higher.

The costs would be higher for small companies in the long run. All companies today have an established process for XBRL preparation and reporting. H.R. 5054 would disrupt that process, and require small companies to re-establish that process in three to five years, incurring the costs of relearning how to prepare in XBRL, investigate software solutions, etc. The investment these companies have already made, would be lost.

American taxpayers would pay for the higher cost of regulation. First, data collection and analysis costs for regulators would increase as they would need to establish two different processes for different types of data. Second, data that is not computer-readable is substantially more expensive to process and analyze - the cost of analyzing small company data would increase significantly. Regulators would be required to perform the same job they do today, analyzing companies, but with fewer tools to perform that analysis in an efficient, cost-effective manner.

Investors would be limited in the research they can conduct on small companies. The lack of computer-readable data on small companies would increase the cost of analyzing these companies. It's important to note that small companies, particularly those that are considering an IPO, need historical data on small companies to determine how other startups have performed and to make informed decisions. If that data is more expensive, and more difficult to access, it hinders their ability to perform due diligence.

---

[7] We estimate that, at a cutoff of $250 million in revenue, 60% of public companies would no longer be required to file in XBRL format.

Conclusion

The cost of XBRL preparation is not stopping companies from going public. It is not curbing small companies from making the investment in R&D and staff to grow their business.

We urge the Committee to consider the investment that has already been made by public companies, and by regulators in adopting the XBRL standard for corporate reporting. The benefits of this program are here today, in terms of reduced processing and data collection costs for regulators, investors, and other data consumers, including private and public companies conducting peer analysis.

Standards have always proved out over time to be an effective long-term solution to improve efficiency, reduce costs and waste. Standards allow the smooth flow of information that makes U.S. capital markets efficient.

We appreciate the opportunity to provide our recommendations and are available to respond to any questions the Commission may have. I can be reached at campbell.pryde@xbrl.us or (917) 582-6159.

Sincerely,

Campbell Pryde,
President and CEO, XBRL US, Inc.

CC:

The Honorable Jeb Hensarling
Chair, House Financial Services Committee
United States House of Representatives

The Honorable Maxine Waters
Ranking Member, House Financial Services Committee
United States House of Representatives

Members of the House Financial Services Committee
United States House of Representatives