

SEC Rule Implementation Case Studies

June 27, 2023

Prepared by XBRL US Regulatory Modernization Working Group

This report includes case studies addressing the implementation of seven SEC final rules over the past three years. It was prepared by the XBRL US Regulatory Modernization Working Group (RMWG) which represents the majority of providers assisting SEC filers with EDGAR submission. The mission of the RMWG is to establish a dialogue with regulators to ensure the efficient implementation of structured data standards programs.

We believe that the creation of the RMWG, which has resulted in a stronger dialogue and exchange of information between the SEC and the vendor community, has improved the efficiency of program rollouts. The FAST Act Modernization program for example, which occurred prior to the establishment of the RMWG, had significant problems with lack of specificity in the rule, as well as communication and timing issues. While improvements are still needed, the programs that took place after the RMWG was stood up had fewer problems. The SEC has been broadly supportive of the RMWG, agreeing to hold meetings, listening, and actively responding to issues raised. We appreciate in particular, the receptiveness of the EDGAR Business Desk and the Office of Structured Disclosure in collaborating with us to benefit issuers, the SEC, and vendors alike.

For the preparation of these case studies, we reviewed programs with structured data requirements. Each program was evaluated to identify difficulties encountered as well as approaches that have helped to improve efficiencies in implementations. Lessons learned can help to establish best practices for future program rollouts.

Problems identified broadly fell into the categories of rule interpretation, technical issues, and communication. This paper provides a summary of findings, detailed case studies and recommendations.

Key Findings

The final rule language needs to more explicitly detail reporting scenarios that may arise. Beta testing is important.

With most mandates, the final rule did not provide sufficient clarity to address many specific reporting scenarios. Greater collaboration between the SEC division preparing the rule and the SEC Office of Structured Disclosure is needed to assess and address the impact of XBRL

requirements and the many different use cases that are likely to arise. Completeness in addressing all form types in the rule and different reporting scenarios would significantly streamline the execution of each program. Adopting beta testing for all new rules would also address this issue as it will help to identify the various scenarios that are likely to arise in a real-world reporting situation. We recognize that establishing long lead-time betas is not always possible, but the longer the testing period, the greater the chance to detect possible issues and understand the use cases that are likely to arise.

Accurate understanding of compliance timing based on form type and reporting entity continues to be a challenge. More explicit information included in the final rule text on different use cases and form types, along with language explaining if timing is based on a fiscal report period or filing after date, is needed.

FAQs are important and need to be timelier and officially posted.

The availability of FAQs has improved, especially for those rules where significant clarification is needed. SEC responses pointing back to language in the rule are generally not useful; most issuers and vendors conduct detailed reading of the rule, the EFM and any provided Taxonomy Guide or other guidance before posing a question. While “unofficial” FAQs, like those provided to XBRL US, are extremely helpful, the official posting of FAQs is critical and continues to occur near or even after compliance dates. A shorter period of time between “unofficial” and “official” FAQ posting would be welcomed. Filers need answers to questions with sufficient lead time to comply effectively.

Response time from individual outreach varies. Using the RMWG working group forum appears to have improved the efficiency of the Q&A process. Collaborating on developing a single set of questions may be more helpful to the Commission, and we note that a recently submitted set of group questions was answered on the next day. Quick response time like this is extremely helpful to preparers and vendors alike. The SEC online portal and submission form should be more consistently monitored or discontinued altogether.

XBRL newcomers need more time to prepare.

When individuals that do not already have XBRL tagging experience are called upon to comply, they should be given longer lead time, and the availability of an official SEC FAQ is even more important in these cases. This situation has improved since 2019 when Form 8-K filers were given one month to prepare (from availability of the draft EFM to compliance timing), versus three months to prepare for the Pay vs Performance ruling in 2022. Both rulings required newcomers to the world of structured data to adapt to the new requirements.

Supporting materials must be in alignment.

With new mandates, supporting materials like taxonomy guides and the taxonomy support page are not always in alignment which can cause confusion among issuers and vendors. Sample instance documents representing all possible scenarios are critical to help filers understand how best to report. Synchronizing validation timing to compliance timing is also critical to avoid filer

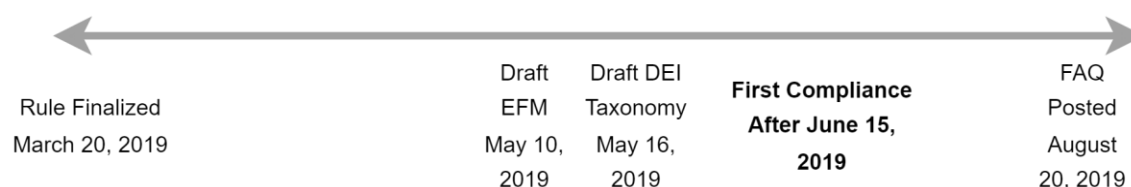
confusion. Exceptions should be clarified in supporting materials or in the validation messages themselves.

Detailed Case Studies

Case Study: FAST Act Modernization

On March 20, 2019, the SEC rule, [FAST Act Simplification and Modernization of Regulation S-K](#) was finalized. This rule aimed to modernize and simplify certain disclosure requirements in Reg S-K and related rules and forms, with a goal to reduce the burden on registrants while continuing to support investor demand for material information. The rule requires registrants to tag all cover page data in Inline XBRL. The ruling was significant because it was the first time that the cover pages of Form 8-Ks were required to be tagged in XBRL. The FAST Act had an effective date of May 2, 2019, with initial compliance dates for reporting periods after June 15, 2019.

The SEC published a draft EDGAR Filer Manual (EFM) on May 10, 2019, and a draft DEI Taxonomy on May 16, 2019. An explanatory FAQ was posted by the SEC on August 20, 2019, two months after the first compliance dates.



The most significant challenges for preparers:

- Rule interpretation. A new “Exhibit 104” was referenced but it was unclear whether it was what EDGAR traditionally refers to as an exhibit, or whether it should appear in the index. Language in the rule was also not certain if the 8-K was required to be submitted before or after the 10-Q filing.
- Communication. Delayed responses to submitted questions were problematic in some cases. For example, one provider submitted questions about exhibits and timing to the SEC on May 21. Answers were not received until June 7 which was 3 days prior to the EDGAR update effective date (June 10, 2019) when filers would first begin to see validation rules triggered, and a week away from the first compliance date of June 15. Given the program phase-in, with large, accelerated filers in phase 1, the timing and communication issue had a bigger impact on large companies and the vendors that support them.
- Timing and technical issues. EFM and Taxonomy drafts were posted within weeks of the first compliance date, thus there was limited time to review, interpret and incorporate changes into vendor applications and issuer process. The EDGAR System update (and associated validation rules) went live on June 10, but the cover page compliance start date for large, accelerated filers was June 15. This meant that filings submitted between June 10 and June 15 triggered validation rules related to tagging even if that filer was not

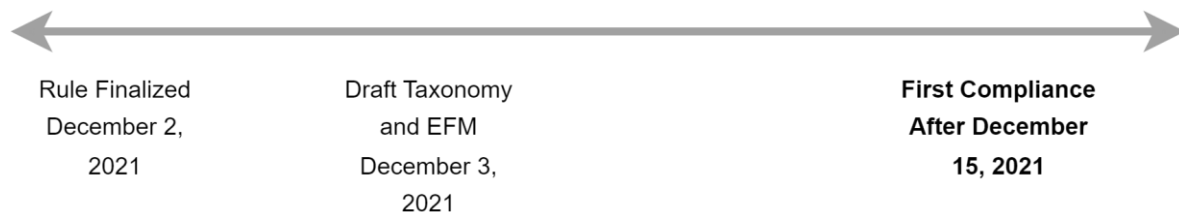
yet required to use Inline XBRL in the Form 8-K. The rule was triggered for all filers, causing confusion among large, accelerated filers who thought they had a few days before compliance, and even more confusion among filers in the second and third phase of the rollout, who thought they had at least a year before they had to comply.

XBRL US posted an FAQ for vendors and issuers as a workaround until the SEC FAQ was published.

Case Study: Auditor Tags

The SEC finalized the rule, [Holding Foreign Companies Accountable Act Disclosure](#) on December 2, 2021. Disclosure requirements in the rule sought to identify those companies that file an annual report with an audit report issued by a public accounting firm located in a foreign authority, and to confirm that the registrant is not owned or controlled by a foreign government entity. The rule requires the Inline XBRL formatting of the auditor's name, branch office, and PCAOB jurisdiction.

The SEC published a draft EFM and draft taxonomy on December 3, 2021. The EFM update became effective on December 20, 2021. Compliance was required for annual reports published after December 15, 2021. No explanatory FAQ was provided.



Challenges for implementation:

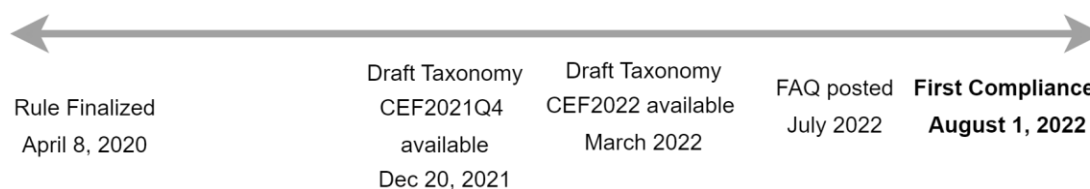
- Rule interpretation.
 - Naming and language in the rule were confusing as it appears to reference foreign companies although it applies to many domestic issuers.
 - There was no guidance on placement of auditor facts in the filing.
 - Auditor concepts were available in the taxonomy, but the draft EFM had no guidance on their use.
- Timing. Migration to a specially created, “off-cycle” 2021 Q4 DEI Taxonomy, which contained the auditor concepts, occurred after the compliance start date. While companies had at least 60 days to file after the compliance start date, companies needed to migrate to the new taxonomy because of the off-cycle DEI update and some companies chose to file early.

Vendors worked around the issues by referencing guidance information created and posted by the XBRL US Data Quality Committee for issuers.

Case Study: Closed-End Funds

The rule [Securities Offering Reform for Closed-End Investment Companies](#) was finalized by the SEC on April 8, 2020, with an effective date of August 1, 2020. The rule amended the registration, communication and offering process for business development companies (BDC) and other closed-end investment companies and adopted structured data requirements for these entities.

The first draft Taxonomy for 2021 Q4 was made available on December 20, 2021; a second Taxonomy for 2022 was provided in March 2022. First compliance dates began August 1, 2022. An official FAQ was posted immediately before the first compliance date.



Implementation challenges:

- Rule interpretation. The final rule was not clear on BDC timing to tag prospectus disclosures in 10-Ks and 10-Qs, and on the location of tags. Further clarification was also needed on whether the compliance dates referred to filings submitted after August 1, or to filings submitted for reporting periods ending after August 1.
- Technical.
 - The CEF Taxonomy should only allow extensions for six elements where the labels are allowed to be edited. Bugs in the taxonomy however, prohibited label editing on these six elements which complicated preparation and increased preparer burden. Eventually, on March 14, the Commission notified the market that the bug had been fixed in the 2023 CEF Taxonomy. Prior to that, there was no indication as to when this problem would be fixed.
 - The Taxonomy support page did not list the appropriate CEF page to import with GAAP; this was eventually corrected.
 - The 2023 CEF Taxonomy was incomplete. US GAAP Taxonomies axes were included in the CEF taxonomy but there were no corresponding members. This required an additional import of the GAAP taxonomy.
- Communication. There was a high volume of questions submitted. The Commission's response provided limited feedback on taxonomy bugs on labels.

Despite the challenges noted above, the early availability of draft taxonomies was welcomed; it helped issuers and vendors prepare in advance.

Case Study: Pay versus Performance

[Pay versus Performance](#) was finalized on August 25, 2022, with an effective date of October 11, 2022. The goal of this rule was to require registrants to provide disclosures related to pay versus performance in proxy information in which executive compensation is required. The rule calls for

these disclosures to be provided in Inline XBRL with individual values tagged as well as the full disclosure block-text tagged.

Compliance dates began for those filings submitted for periods after December 16, 2022. The draft Taxonomy and EFM were provided by the SEC on September 26, 2022. Questions were submitted to the SEC and responses distributed unofficially to XBRL US members but not officially posted to the SEC FAQ until mid-February.



Challenges encountered with implementation of this rule include:

- Rule interpretation. The preliminary proxy was not listed on the affected form list, but it was noted in the Q&A that the Pre 14A should also be tagged. No guidance was provided for those entities with dual filer status.
- Communication. Responses provided about requirements to tag items using the DEI Taxonomy were not clear. For example, the SEC was asked “If cover page tagging is required, should issuers use elements that already exist in the DEI, or will new elements be added?” The response was “There is no cover page tagging requirement for PVP.” The SEC statement appeared to mean that the Cover page rule (FAST Act) did not apply to Pay vs Performance; however, some DEI tagging *is* required on the cover page for Pay vs Performance. The ambiguity of the SEC statement caused confusion among issuers and vendors.
- Timing. The SEC FAQ was not officially posted until mid-February which made it difficult for those filers that had to submit to EDGAR in March. Questions submitted through the SEC online form to Corp Fin were not answered.
- Technical. Technical documentation provided did not explain that the ECD 2023 Taxonomy and IFRS 2022 Taxonomy could be imported together which caused some confusion; this was later corrected.

Case Study: Updating EDGAR Filing Requirements and Form 144 Filings

The final rule, [Updating EDGAR Filing Requirements and Form 144 Filings](#) was published on June 2, 2022, with an effective date of July 11, 2022.

There are two structured data requirements in this rule with compliance dates that are two years apart. First, reporting entities are required to switch from filing Form 144 in paper or emailed PDF, to custom XML schema. Second, the Form 11-K is required to be prepared in Inline XBRL, although the compliance date for this portion of the requirement is not until July 2025. This case

study will focus solely on the Form 144 requirement because this portion of the implementation has already occurred.

Final rules on Form 144 were published in October 2022; the technical XML schema was provided a few weeks later. There was a six-month phase-in for the official electronic submissions on Form 144 with an effective date of April 2023. Initial compliance dates began April 13, 2023.



While the second structured data requirement for Form 11-K will not occur until 2025, the first part of this program was efficiently implemented which was appreciated by the vendor and issuer community. The market was given sufficient lead time to get EDGAR Access codes and to register.

Case Study: Listing Standards for Recovery of Erroneously Awarded Compensation

[Listing Standards for Recovery of Erroneously Awarded Compensation](#) was finalized on October 26, 2022, with an effective date of January 27, 2023. This rule aims to ensure that issuers develop and implement a policy for the recovery of incentive-based compensation where compensation is based on erroneously reported financial information. The compensation recovery disclosure policy related to this rule must be prepared in Inline XBRL. The draft Taxonomy was made available on October 31, 2022. Compliance start dates for this rule vary as they are based on the timing of the establishment of the recovery policy within a transition period.



Challenges encountered with this rule include:

- Rule interpretation. Clarification is needed on timing for cover page changes and compliance timing. Questions submitted by one vendor are still awaiting response on proper tagging of checkboxes, and on validation warning.
- Technical.
 - It was incorrectly stated in the EFM that all filers would need to mark “Correction Flag” as true; the SEC indicated this would be fixed.

- The SEC published DEIQ42022 although initially it was not listed on the SEC Taxonomy support page. Later this was corrected. While advance information (like the early availability of this taxonomy) is generally welcome, the timing of the rule was such that the DEIQ42022 would never be used, and the availability of the taxonomy when it could not be used caused some confusion.
- When the DEIQ2023 Taxonomy was initially published, it did not include the needed elements from DEIQ42022. Again, this problem was later corrected. Validations related to this rule became active with the 2023 Taxonomy although compliance with this rule was not yet required.

Case Study: Insider Trading and Related Disclosures

This [rule](#), finalized on December 14, 2022, requires new disclosures regarding insider trading policies and procedures with disclosures prepared in Inline XBRL format. The effective date of the rule was February 27, 2023, with compliance dates beginning for reporting periods after April 1, 2023. The draft taxonomy was provided on December 19, 2022.



Challenges with this program:

- Rule interpretation. There remain outstanding questions on this rule related to timing of annual filings on 10-K and 20-F.
- Communication. Although the rule applies to foreign private issuers filing on 20-F, the taxonomy page does not contain any reference to using the ECD Taxonomy with the IFRS Taxonomy.

Summary of Recommendations

These suggestions are based on the combined experience of the working group:

- Conduct beta test periods prior to every rule implementation. Ideally, the RMWG recommends a 12- to 18-month beta period initiated with availability of a draft taxonomy.
- Include detailed scenarios in the final rule to cover multiple use cases that address different form types and reporting entities, where applicable.
- Provide multiple example instances, covering all possible scenarios.
- Ensure that warning messages triggered by validation rules are clear and unambiguous. Align the timing of the validation effective date with the rule compliance date to guard against confusion.
- List the allowable imports to a taxonomy on the taxonomy support page. Consider mapping the allowable imports and forms, which would be even more helpful.

- Check alignment between all materials provided including the taxonomy, taxonomy guide, and any other supporting documentation.
- Post official FAQs as timely as possible.
- Provide more consistent monitoring of the SEC online portal and submission form with more timely responses.