



July 21, 2016

Mr. Brent J. Fields, Secretary  
Securities and Exchange Commission  
100 F Street NE  
Washington DC 20549-1090

Re: File No. S7-06-16, Release Nos. 33- 10064, 34-77599  
Business and Financial Disclosure Required by Regulation S-K

Dear Mr. Fields:

The Data Coalition<sup>1</sup> (the “Coalition”) appreciates the opportunity to submit this comment to the Securities and Exchange Commission (the “Commission”) in response to the Concept Release on Business and Financial Disclosure Required by Regulation S-K (the “Concept Release”).<sup>2</sup> The Coalition is the nation’s only open data trade association. We representing nearly 40 leading technology and consulting firms and growing startups, including IBM, LexisNexis, Experian, CGI, PwC, Booz Allen Hamilton, RR Donnelley, PR Newswire, idaciti, Socrata, OpenGov, Esri, and MorganFranklin.<sup>3</sup>

We advocate the publication of government information as structured, machine-readable data. We believe the transformation of government information from disconnected documents into structured data (1) facilitates accountability to investors and the public, (2) enables data-driven government management, and (3) automates processes, reducing compliance costs.

### **The Necessity of Transforming Corporate Disclosure from Documents into Data**

Under the securities laws, the Commission has promulgated a corporate disclosure system that generally requires its registrants to file and submit disclosure documents. Disclosure documents are expressed as plain text, divided into numbered pages, and organized using tables of contents.

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<sup>1</sup> [www.datacoalition.org](http://www.datacoalition.org).

<sup>2</sup> File No. S7-06-16, Release Nos. 33-10064, 34-77599), April 13, 2016 (the “Concept Release”), available at [www.sec.gov/rules/concept/2016/33-10064.pdf](http://www.sec.gov/rules/concept/2016/33-10064.pdf).

<sup>3</sup> [www.datacoalition.org/about/members](http://www.datacoalition.org/about/members).

Disclosure documents were originally filed and submitted through physical delivery to the Commission, as printed paper. After creating the Electronic Data Gathering, Analysis and Retrieval (EDGAR) system in the mid-1980s, the Commission began requiring registrants to file and submit disclosure documents electronically, in the HTML format.<sup>4</sup> Since 1996, EDGAR has directly published these electronic disclosure documents online for free public access.

But today's electronic disclosure documents still mimic yesterday's paper ones.

Today's electronic disclosure documents provide disclosure information as plain text. They contain page breaks, as though the Commission intends investors to print them onto paper before reading them. Tables of contents - often now equipped with hyperlinks, but still referring to page numbers - still provide primary navigation.

Above all, disclosure documents provide no electronic means of isolating and selecting individual pieces of information. For example, the cover page of Form 10-K requires issuers to "indicate by check mark" whether they fall into certain regulatory categories.<sup>5</sup> These check marks are not associated with any searchable data field. Issuers simply place a "y" for "yes" in a particular physical area of the electronic page. To create a list of all well-known seasoned issuers, for instance, the Commission and investors must manually read every filing, employ imperfect text-scraping software, or outsource those tasks to a vendor by purchasing a commercially-available database. Similar text-only disclosures can be found throughout Regulation S-K.

For a second example, consider the frequent use of tabular presentation within the Commission's business and financial disclosure requirements. The Concept Release itself asks for comments on whether tabular presentation is appropriate for several types of disclosure requirements, including intellectual property disclosures,<sup>6</sup> period-to-period comparisons in the Management's Discussion and Analysis,<sup>7</sup> and contractual obligations.<sup>8</sup> Unless they are expressed as structured data, tables in disclosure documents are mere graphic design elements. There is no way to extract reliable information from such tables electronically. Manual review is the only way to use them.

As we commented last year, "[t]he Commission's continued use of plain-text documents to collect, manage, and disseminate disclosure information imposes an unnecessary burden on all users of that information, especially investors."<sup>9</sup> It requires investors, and

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<sup>4</sup> "[T]he vast majority of registrants [over 99 percent] now file in HTML." [Concept Release](#) at 304.

<sup>5</sup> Securities and Exchange Commission, Form 10-K, *available at* [www.sec.gov/about/forms/form10-k.pdf](http://www.sec.gov/about/forms/form10-k.pdf) (accessed July 21, 2016), at Item 5.

<sup>6</sup> [Concept Release](#) at question 44.

<sup>7</sup> [Concept Release](#) at question 111.

<sup>8</sup> [Concept Release](#) at question 132.

<sup>9</sup> Letter from Data Transparency Coalition to Keith Higgins regarding the Disclosure Effectiveness Initiative, October 29, 2015, *available at* [www.sec.gov/comments/disclosure-effectiveness/disclosureeffectiveness-55.pdf](http://www.sec.gov/comments/disclosure-effectiveness/disclosureeffectiveness-55.pdf) ("Data Coalition Disclosure Effectiveness Comment"), see also Data Transparency Coalition, "Fixing the SEC's Disclosure System," Blog Post, November 4, 2015, [www.datacoalition.org/fixing-the-secs-disclosure-system/](http://www.datacoalition.org/fixing-the-secs-disclosure-system/) (summarizing the Data Coalition Disclosure Effectiveness Comment).

other users, to search through text for the piece of information they need, or purchase data from a third-party intermediary who performed that same work. Moving to comprehensive structured data would allow the automatic retrieval of a selected piece of information - any piece.

The Commission has taken incremental steps toward modernization by adopting structured data formats for some disclosures.<sup>10</sup> But most corporate disclosure information remains trapped in documents.

## **Our Advocacy for the Transformation of Corporate Disclosure from Documents into Data**

In October 2015, we submitted a comment on the Commission's Disclosure Effectiveness Initiative<sup>11</sup> that conveyed a single, overriding recommendation: the Commission must transform its entire corporate disclosure system from one that is based on documents to one that is based on structured data. In other words, the Commission should specify "standardized electronic fields, or tags, for *each piece of information filed or submitted* under the securities laws by U.S. public companies, together with standardized electronic formats that express how these fields relate to one another."<sup>12</sup>

The Coalition has worked to pass structured data reforms such as the Digital Accountability and Transparency Act of 2014 (DATA Act),<sup>13</sup> which requires the federal executive branch to express all spending information as structured data.<sup>14</sup> We currently are advocating for Congressional consideration and passage of the Financial Transparency Act, which will require the Commission, and all other major U.S. financial regulatory agencies, to adopt standardized fields and formats for all information they collect under the securities, commodities, and banking laws.<sup>15</sup>

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<sup>10</sup> See [Data Coalition Disclosure Effectiveness Comment](#) at part IV (recounting history, through October 2015, of incremental adoption of structured data fields and formats for certain Commission disclosures). Since the filing of the Data Coalition Disclosure Effectiveness Comment, the Commission has made one major further incremental advance: on June 13, 2016, the Commission issued an order permitting corporate issuers to voluntarily file financial statements in the inline XBRL structured data format, which is both human-readable and machine-readable (with embedded structured data tags). Securities and Exchange Commission, Order Granting Limited and Conditional Exemption Under Section 36(a) of the Securities Exchange Act of 1934 from Compliance with Interactive Data File Exhibit Requirement in Forms 6-K, 8-K, 10-Q, 10-K, 20-F and 40-F to Facilitate Inline Filing of Tagged Financial Data, June 13, 2016 ("Inline XBRL Order"), available at [www.sec.gov/rules/exorders/2016/34-78041.pdf](http://www.sec.gov/rules/exorders/2016/34-78041.pdf); see also Securities and Exchange Commission, "SEC to Permit Voluntary Filing Using Inline XBRL," Press Release, June 13, 2016, available at [www.sec.gov/news/pressrelease/2016-117.html](http://www.sec.gov/news/pressrelease/2016-117.html).

<sup>11</sup> [Data Coalition Disclosure Effectiveness Comment](#).

<sup>12</sup> [Data Coalition Disclosure Effectiveness Comment](#) at 1 (emphasis added).

<sup>13</sup> Digital Accountability and Transparency Act of 2014, Public Law No. 113-101, May 9, 2014 ("DATA Act"), [www.gpo.gov/fdsys/pkg/PLAW-113publ101/html/PLAW-113publ101.htm](http://www.gpo.gov/fdsys/pkg/PLAW-113publ101/html/PLAW-113publ101.htm).

<sup>14</sup> See Data Foundation and MorganFranklin Consulting, *The DATA Act: Vision & Value*, Report, July 2016, [www.datafoundation.org/data-act-vision-and-value-report/](http://www.datafoundation.org/data-act-vision-and-value-report/).

<sup>15</sup> Financial Transparency Act (H.R. 2477), introduced May 15, 2015, available at [www.govtrack.us/congress/bills/114/hr2477](http://www.govtrack.us/congress/bills/114/hr2477); see also Data Coalition, "Financial Transparency Act," [www.datacoalition.org/issues/financial-transparency-act/](http://www.datacoalition.org/issues/financial-transparency-act/) (accessed July 21, 2016).

In our October 2015 comment on the Disclosure Effectiveness Initiative, we argued that a comprehensive replacement of *all* of the Commission’s disclosure documents with structured data will deliver instantly-useful and customizable disclosure information for investors; reduce compliance costs for issuers; and allow Commission staff to more efficiently pursue the agency’s mission.<sup>16</sup> We recommended five initial steps toward this comprehensive transformation.<sup>17</sup>

In the months since, support for a comprehensive transformation of the Commission’s disclosure system from documents into data has grown. In March 2016, over 300 supporters of structured data, including Commission staff, gathered at the Coalition’s Financial Data Summit, where government and industry speakers argued that structured-data reporting should be made universal.<sup>18</sup> In June 2016, the CFA Institute published *Data and Technology: Transforming the Financial Information Landscape*, a report arguing that structured data should be used “across *all* [financial] reports in their entirety.”<sup>19</sup> By the summer Congressional recess, the Financial Transparency Act - which will make this comprehensive transformation mandatory - had 35 cosponsors in the House of Representatives.<sup>20</sup>

We are pleased to note that the Concept Release contemplates the adoption of structured data fields and formats for *some* of the corporate and financial disclosure requirements contained in Regulation S-K. The Concept Release asks worthwhile questions about the value of the Legal Entity Identifier (LEI), a would-be universal electronic field to identify regulated entities across multiple regulatory regimes. The Concept Release also asks for views on the improvement and expansion of current structured data reporting requirements. We respond to those questions below.

But we first must point out that Concept Release assumes - wrongly, we believe! - that documents, and not structured data, should continue to be the primary securities disclosure medium in the United States. This assumption underlies many of the Concept Release’s discussions and questions.

Unless this assumption is addressed, it will prevent the Commission from fully exploring the potential modernization of its disclosure requirements.

### **The Concept Release’s Assumption that Disclosure Should Continue to be Based on Documents**

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<sup>16</sup> See [Data Coalition Disclosure Effectiveness Comment](#) at part III.

<sup>17</sup> See [Data Coalition Disclosure Effectiveness Comment](#) at part VI.

<sup>18</sup> See Data Coalition, “Financial Data Summit,” [www.datacoalition.org/events/financial-data-summit-2016/](http://www.datacoalition.org/events/financial-data-summit-2016/) (accessed July 21, 2016).

<sup>19</sup> Mohini Singh and Sandara Peters, *Data and Technology: Transforming the Financial Information Landscape*, CFA Institute Report, June 20, 2016, at 5 (“[Structuring needs to apply not only to all forms of reporting but also to all companies]”) (emphasis added).

<sup>20</sup> [www.congress.gov/bill/114th-congress/house-bill/2477/cosponsors](http://www.congress.gov/bill/114th-congress/house-bill/2477/cosponsors) (accessed July 21, 2016).

Over the decades since the securities laws were enacted, the Commission has invested a great deal of effort in considering, whether, and how, to make sure its disclosure documents are readable by less-sophisticated investors.<sup>21</sup> For example, the 1969 Wheat Report suggested that “disclosure requirements should strike a ‘pragmatic balance...between the needs of unsophisticated investors and those of the knowledgeable student of finance.’”<sup>22</sup> The Concept Release continues in this legacy, particularly in its discussion of the “Audience for Disclosure,” where it concludes:

[T]he audience for disclosure is an important consideration in determining the means for disclosure, and specifically, in which filings or locations certain information should be directly provided and where cross-references, hyperlinks or incorporating by reference to information elsewhere is appropriate.<sup>23</sup>

In other words, the Concept Release assumes it is still necessary to prevent disclosure documents from getting too long, or too technical, lest they confuse investors.

But structured data technologies can now render these considerations moot. If all disclosure information were expressed as structured data, instead of documents, third-party intermediaries could easily provide whatever degree of detail investors might demand, at every level of sophistication and price, including free. Even today’s limited publication of corporate financial statements (but not most other disclosures) as structured data has allowed intermediaries to develop many data products that provide financial information to investors in a far more user-friendly form than Forms 10-K and 10-Q.<sup>24</sup>

Even without comprehensive structured data disclosure, today’s investors get most of their investment information from third-party intermediaries. Most investors do not read Commission disclosure documents. Nor should they be expected to. Yet the Concept Release assumes they will.

First, the Concept Release invests lengthy discussions and many questions on the proper use of cross-referencing,<sup>25</sup> incorporation by reference,<sup>26</sup> and hyperlinks<sup>27</sup> in

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<sup>21</sup> [Concept Release](#) at 45-57.

<sup>22</sup> *Disclosure to Investors – A Reappraisal of Federal Administrative Policies under the '33 and '34 Acts*, Policy Study, March 27, 1969, available at [http://www.sechistorical.org/museum/galleries/tbi/gogo\\_d.php](http://www.sechistorical.org/museum/galleries/tbi/gogo_d.php) (“Wheat Report”), at 10.

<sup>23</sup> [Concept Release](#) at 49-50.

<sup>24</sup> Since the Commission began requiring registrants to file financial statements in the XBRL structured data format, startup companies like idaciti ([www.idaciti.com](http://www.idaciti.com)) and Calcbench ([www.calcbench.com](http://www.calcbench.com)) have begun offering searchable, user-friendly data products to investors using this data set. Perhaps most impressively, a former SEC employee single-handedly built Rank and Filed ([www.rankandfiled.com](http://www.rankandfiled.com)), an interactive website that aggregates XBRL and other data sets, in only a few months. See E Pluribus Unum, Blog Post, “RankandFiled.com is like the SEC’s EDGAR database, but for humans,” February 19, 2014, [www.e-pluribusunum.com/2014/02/19/rankandfiled-com-is-like-the-secs-edgar-database-but-for-humans](http://www.e-pluribusunum.com/2014/02/19/rankandfiled-com-is-like-the-secs-edgar-database-but-for-humans).

<sup>25</sup> [Concept Release](#) at questions 286-295.

<sup>26</sup> [Concept Release](#) at questions 296-302.

<sup>27</sup> [Concept Release](#) at questions 303-06.

disclosure documents. These techniques would be unnecessary if all disclosure information were expressed as structured data. If the Commission simply provided for each piece of information to be electronically accessible as structured data, intermediaries would create data products appealing to every class of investor, summarizing and aggregating accordingly. The Commission would have no need to simplify disclosure documents through such techniques as cross-referencing, nor would there be a reason to require registrants to provide summaries of any kind.

Second, the Concept Release seems to assume that structured data is useful only to more sophisticated investors:

Similarly, as different investors and third parties use disclosure in different ways and seek varying degrees of information, the audience for disclosure is also an important consideration in determining what information is disclosed. Institutional investors, their financial advisors and some third parties often use, and have supported requiring complex information and interactive data. These types of investors are likely to use disclosures of large numbers of registrants and therefore, may be relatively more interested in standardized disclosure formats well-suited for large-scale processing and analysis, including machine-readable formats.<sup>28</sup>

To the contrary, comprehensive structured data will be equally valuable to all consumers of disclosure information because it will allow third parties to cost-effectively create data products serving every sophistication level.

Third, the Concept Release's entire discussion of the visual layout of disclosure documents in Section V.E. assumes investors have no choice but manual review.<sup>29</sup> (This discussion uses the word "standardize" to mean prescribing the graphic design of a disclosure document, not adopting structured data fields or formats.)

The Concept Release observes:

A [visually] standard layout, format, or style requirement may enhance the comparability of disclosures across periods and across issuers and registrants. Such comparability and consistency may reduce the costs of acquiring information, increase valuation accuracy, and enhance investment efficiency. A [visually] standardized presentation may also reduce the ability of registrants to choose presentation formats that could highlight more favorable disclosures and obscure less favorable ones. However, flexibility in the presentation of disclosure may enhance the ability of registrants to tailor disclosure to their individual circumstances and investor bases.<sup>30</sup>

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<sup>28</sup> [Concept Release](#) at 50.

<sup>29</sup> [Concept Release](#) at 318, *et seq.*

<sup>30</sup> [Concept Release](#) at 321, *see also* questions 319-28.

Structured data will – and should – relieve the Commission of making graphic design decisions. If all disclosure information is made available as structured data, third-party intermediaries will determine the visual presentations that provide the most value to investors. At the same time, registrants will remain free to present the same information directly to investors outside the constraints of the Commission’s disclosure system, using whatever graphic design they choose.

The Concept Release’s discussion assumes that the goals of better comparability, reduced information cost, increased accuracy, enhanced investment efficiency, and impartiality all must be balanced against “the ability of registrants to tailor disclosure to their individual circumstances and investor bases.”<sup>31</sup> This unfortunate trade-off only applies to a document-based disclosure system. A disclosure system based on structured data will realize the Concept Release’s stated goals without abridging registrants’ freedom to develop their best possible investor relations documents.

In fairness, we note that the Concept Release’s assumption did not originate with the Commission. The Commission is acting on Congressional mandates that likewise assume document-based disclosure is the wave of the future.

For example, the FAST Act requires the Commission to “issue regulations permitting registrants to submit a summary page in their Form 10-K only if each item on the summary page includes a cross-reference (by electronic link or otherwise) from each item in the summary to the related material in the Form 10-K.”<sup>32</sup> Commission-sanctioned summary pages will be unnecessary in a disclosure system based structured data. Instead, third parties will provide investors with endlessly customized summaries, responding to market demand.

Under the securities laws, the Commission’s overriding concern should be to provide investors with the disclosure information they need, using a method of delivery that makes the information as easy as possible to absorb and use. Structured data is that method. Document-based disclosure, no matter how carefully planned, requires investors to “wade through all of the information in an Exchange Act filing in order to find the information that is most relevant to them.”<sup>33</sup>

The Concept Release at times recognizes the theoretical value of structured data:

When registrants provide disclosure items in a standardized data format, investors can more easily search and obtain specific information about registrants, compare common disclosures across registrants, and observe how registrant-specific information changes across reporting periods as the same registrant continues to file in a structured data format.<sup>34</sup>

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<sup>31</sup> [Concept Release](#) at 321.

<sup>32</sup> [Concept Release](#) at 287, *citing* Pub. L. No. 114-94, Sec. 72001, 129 Stat. 1312 (2015).

<sup>33</sup> Letter from Wachtell, Lipton, Rosen & Katz to Brent Fields in response to the Concept Release, May 16, 2016, *available at* [www.sec.gov/comments/s7-06-16/s70616-9.pdf](http://www.sec.gov/comments/s7-06-16/s70616-9.pdf).

<sup>34</sup> [Concept Release](#) at 334.

But this is not only true of the few disclosure items which the Commission currently requires registrants to report as structured data.<sup>35</sup> It is true of all disclosure items.

The remainder of this comment will respond to the Concept Release's specific questions on structured data disclosure.

### **Embracing the Legal Entity Identifier to Make Corporate Disclosure Interoperable with Other Reporting Regimes**

The Concept Release seeks comment on whether, and how, it should expand its use of the Legal Entity Identifier (LEI), particularly for securities issuers and their subsidiaries.<sup>36</sup> The Coalition enthusiastically supports the universal adoption of the LEI by financial regulators, including the Commission. Entity identity is one of the most important concepts of any regulatory system.

We agree that “[t]he extent that LEIs become more widely used by regulators and the financial industry, they could potentially facilitate investor and Commission use of registrant data by showing networks of control, ownership, liability and risks.”<sup>37</sup> Indeed, if the LEI achieves the “universal” use sought by the Treasury Department’s Office of Financial Research,<sup>38</sup> regulators, investors, and the public will be able to aggregate a particular company or firm’s disclosures across all government reporting regimes, both financial and non-financial. Consistent entity identification will benefit registrants as well, particularly those with complex structures and those that must report large volumes of transactional information associated with other entities.<sup>39</sup>

By creating interoperability in entity identification across multiple reporting regimes, the LEI will improve the effectiveness of each. Without such interoperability, opportunities for cross-regime insights are lost. For instance, after the 2011 bankruptcy of Solyndra, a Commission-registered fuel cell manufacturer that had received a federal loan guarantee from the Department of Energy, a Data Coalition member determined that Solyndra’s public Commission filings revealed financial metrics worse than any other Commission-registered company participating in the loan guarantee program.<sup>40</sup> But because Solyndra was identified with a DUNS Number in its Department of Energy filings and a Central Index Key in its Commission filings, it was not possible to

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<sup>35</sup> See [Concept Release](#) at 329 (list), 330 (discussion).

<sup>36</sup> [Concept Release](#) at 249 *et seq.*

<sup>37</sup> [Concept Release](#) at 257.

<sup>38</sup> See Testimony of Office of Financial Research (OFR) Director Richard Berner before the Senate Banking Subcommittee on Economic Policy on “Monitoring Systemic Risk: The Annual Report and Oversight of the OFR, January 29, 2014, *available at* [www.treasury.gov/press-center/press-releases/Pages/jl2270.aspx](http://www.treasury.gov/press-center/press-releases/Pages/jl2270.aspx) (arguing that “the case for universal adoption of the LEI system is strong”).

<sup>39</sup> See Data Coalition, “Financial Data Summit,” [www.datacoalition.org/events/financial-data-summit-2016/](http://www.datacoalition.org/events/financial-data-summit-2016/) (accessed July 21, 2016), Financial Industry Panel video (with presentations on how banks are using the LEI within internal data management systems to track counterparties to transactions).

<sup>40</sup> See Hudson Hollister, Keynote Presentation at Information Builders Summit 2015, June 21, 2015, *available at* [www.youtube.com/watch?v=KaaHe0tDi48](http://www.youtube.com/watch?v=KaaHe0tDi48), at 12:00 (describing Solyndra observations).



electronically compare the two sets of disclosures, and the political risks of Solyndra's bankruptcy were not realized by Energy and administration leadership.<sup>41</sup>

**Question 261.** *Should we require registrants to disclose their LEI and the LEIs of their subsidiaries (if available) in the list of subsidiaries filed under Item 601(b)(21)? How would this information benefit investors? Should the industry in which the company operates or the extent to which the company engages in financial market transactions affect whether disclosure of LEIs is required? What would be the costs of requiring disclosure of this information?*

The Commission should plan to ultimately adopt the LEI for all entity identification, across all of its disclosure requirements. A requirement for registrants to disclose LEIs, or their subsidiaries', "if available" – that is, if already obtained as part of another regulatory requirement – is a worthwhile interim step because it does not require registrants or subsidiaries to obtain new LEIs. However, the Commission should make clear that the ultimate goal of such an interim step is universal, mandatory LEI identification.

The list of subsidiaries filed under Item 601(b)(21) is a particularly attractive venue for an LEI requirement because interoperable subsidiary identification will allow third-party intermediaries to automatically discern networks of ownership, providing valuable information to investors and Commission staff. Under current Item 601(b)(21), registrants disclose only a plain-text list of subsidiaries. Variations in spelling and limitations of parsing software make it very difficult for data aggregation tools to use these plain-text lists to generate meaningful information.

An interim requirement to disclose LEIs "if available" will impose no additional costs aside from minimal internal look-ups and data management tasks. A requirement for registrants and/or subsidiaries to obtain new LEIs will require them to pay one-time obtaining and ongoing maintenance fees to an entity issuing LEIs. These fees are minimal. We believe they will be offset many times over by the reduced cost of capital stemming from interoperable registrant identification.

**Question 262.** *Should our rules encourage registrants to obtain an LEI? If so, how could we structure our rules, consistent with our authority under the Securities Act and the Exchange Act, to achieve this purpose? For example, should we make obtaining and maintaining an LEI a condition to any of our existing disclosure accommodations or alternatives? Why or why not? If so, should such a condition be limited to certain types of registrants, such as those operating in financial services? For registrants that have not obtained an LEI, will these registrants seek to obtain an LEI in the future absent any regulatory incentive to do so? In addition to the fees for obtaining and maintaining an LEI, would there be other costs associated with obtaining LEIs?*

The Commission should plan to ultimately adopt the LEI for all entity identification, across all of its disclosure requirements, on a mandatory basis. To provide registrants,

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<sup>41</sup> *Id.*

markets, and its staff sufficient time to prepare, the Commission might choose to phase in this requirement for different disclosures or different registrant types. However, the Commission should announce, at the outset, its intention to ultimately mandate the use of the LEI throughout all of its disclosure requirements, in order to provide certainty.

The Commission should take note of the fact that registrants in certain industries, including financial services<sup>42</sup> and energy,<sup>43</sup> may be required to obtain LEIs by their industry-specific regulators. If the Commission chooses to adopt a requirement for registrants to disclose their LEIs “if available,” it is likely that initial reporting will be concentrated in such industries.

We believe that there are no significant costs associated with obtaining LEIs in addition to the fees paid to an entity issuing LEIs. We believe the benefits to registrants – particularly the reduced cost of capital stemming from interoperable registrant identification – will outweigh all costs.

**Question 263.** *Some registrants may have hundreds or thousands of subsidiaries or affiliates operating globally while other registrants have simple corporate structures. If we required registrants to disclose LEIs (if available) in the list of significant subsidiaries, should we limit the requirement to larger registrants or larger subsidiaries, independent of the industry in which the registrant operates? For example, should we limit the requirement to large accelerated filers or well-known seasoned issuers (WKSIs)?*

Today’s disclosure of a subsidiary’s name as text, rather than as a structured data field, provides little value to investors. First, due to variations in naming, spelling, pagination, and other document-related issues, subsidiary lists are difficult to parse using software, which means investors who do not manually read subsidiary lists do not use them.<sup>44</sup> Second, registrants frequently change their internal interpretations of the Commission’s subsidiary disclosure rules, and file inconsistent subsidiary lists from period to period.<sup>45</sup>

## **Expanding Structured Data to All Corporate Disclosures**

The Commission has adopted structured data fields and formats for several corporate disclosure requirements. However, it has not sufficiently enforced the quality of the structured data it collects, leading to real and perceived quality problems. In addition, the Commission’s partial use of structured data – applying to some, but not all, corporate disclosures – has prevented further progress. Without a clear commitment by

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<sup>42</sup> See LEI Regulatory Oversight Committee, Progress Report, November 5, 2015, *available at* [www.lei-oc.org/publications/gls/lou\\_20151105-1.pdf](http://www.lei-oc.org/publications/gls/lou_20151105-1.pdf), at Annex I (listing regulatory reporting regimes where the LEI has either been adopted or proposed, including financial regulatory agencies and Federal Energy Regulatory Commission).

<sup>43</sup> *Id.*

<sup>44</sup> See OpenCorporates, Blog Post, “Understanding corporate networks. Part 3: where’s the data?,” November 19, 2013, [blog.opencorporates.com/2013/11/19/understanding-corporate-networks-part-3-where-are-subsidiaries-listed/](http://blog.opencorporates.com/2013/11/19/understanding-corporate-networks-part-3-where-are-subsidiaries-listed/).

<sup>45</sup> *Id.*

the Commission to adopting structured data across all disclosure requirements, registrants and Commission staff continue to view document-based disclosures as the primary sources of information and the technology industry has little incentive to develop the necessary tools.

The Commission took a significant step toward better quality and predictability in June 2016, when it issued an order permitting registrants to voluntarily file their financial statements in the inline XBRL format.<sup>46</sup>

***Question 330. How can the quality of structured disclosures be enhanced?***

The primary driver of data quality in the Commission’s existing corporate structured data disclosures is action by the Division of Corporation Finance (the “Division”). Aside from a 2014 letter to chief financial officers and occasional informal contacts with individual registrants,<sup>47</sup> the Division has not attempted to address registrants’ frequent failure to file financial data of acceptable quality. The Division should address structured data errors through formal comment letters and other means with the same frequency as it addresses all other errors. In addition, a requirement for public companies to subject their XBRL data to an independent auditor’s opinion will enhance its quality, usability and desirability.

The XBRL US Data Quality Committee, an industry group founded in 2015 by filing agents and other companies interested in improving the quality of structured data disclosures, has published guidance and validation rules for registrants’ structured data financial statements. Registrants’ use of the Data Quality Committee’s validation rules has resulted in a significant decrease in quality errors.<sup>48</sup> The Division should work with the Data Quality Committee to incorporate rules developed by the Committee into the Division’s own review procedures.

***Question 331. Are there changes to the EDGAR system that the Commission should make to render the structured disclosure filed by registrants more useful?***

Today’s EDGAR is a document-based system, built to receive and publish the electronic versions of document-based disclosures. In the short term, the Commission should modernize EDGAR to add a capability to validate structured data disclosures – perhaps by incorporating validation rules developed by the XBRL US Data Quality Committee. In the longer term, the Commission should replace EDGAR with a system built for structured data.

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<sup>46</sup> [Inline XBRL Order](#).

<sup>47</sup> See Data Transparency Coalition, “The SEC took a small – but significant! – step toward better corporate financial data. Here’s why, and here’s what it means,” Blog Post, July 14, 2014, [www.datacoalition.org/the-sec-took-a-small-but-significant-step-toward-better-corporate-financial-data-heres-why-and-what-it-means/](http://www.datacoalition.org/the-sec-took-a-small-but-significant-step-toward-better-corporate-financial-data-heres-why-and-what-it-means/) (describing Corporation Finance division actions to enforce XBRL data quality).

<sup>48</sup> See [xbrl.us/data-quality/dqc-results/](http://xbrl.us/data-quality/dqc-results/) (accessed July 21, 2016).

**Question 332.** *Are company-specific custom extensions, such as element or axis extensions, useful to investors or other users of structured disclosures? If so, how might these custom extensions be made more useful for enhancing automated analysis? If not, are there better ways to express disclosures that are unique to a company (e.g., business segment, product line)?*

Company-specific custom extensions are sometimes necessary to convey material information. But in the Commission's current structured data financial statement regime, registrants use custom extensions much more than necessary. The overuse of custom extensions hurts the comparability of structured data financial statements and their usefulness to investors and markets. The Commission, and particularly the Division of Corporation Finance, should consult with the XBRL US Data Quality Committee on measures to discourage the overuse of custom extensions.

**Question 333.** *Should we require registrants to provide additional disclosures in a structured format? If so, which disclosures? For example, are there categories of information in Parts I and II of Form 10-K or in Form 10-Q that investors would want to receive as structured data?*

As the Coalition argued in its October 2015 comment on the Disclosure Effectiveness Initiative, the Commission should transform its whole corporate disclosure system from one based on documents to one based on structured data.<sup>49</sup> As both the Coalition's Disclosure Effectiveness comment and the Commission's Investor Advisory Committee have recommended, the Commission should set a long-term goal of transforming all disclosures into structured data and should prioritize certain high-value disclosures for this transformation in the short term.<sup>50</sup>

The Commission's new inline XBRL reporting option for filings that contain financial statements<sup>51</sup> should enable the Commission to transform selected parts of these filings from documents to structured data without requiring registrants to file new exhibits or use an unfamiliar data structure. Inline XBRL allows registrants to file a single HTML file with embedded structured-data tags, rather than a plain-text HTML file accompanied by structured data exhibits. Inline XBRL will allow the Commission to gradually expand the use of structured data tags in response to investors' needs and intermediaries' capabilities.

The cover pages of Commission filings are a compelling candidate for early transformation from documents into structured data, as suggested above.

In general, we believe that disclosures currently expressed numerically or as plain-text tables should be prioritized for transformation from documents into structured data. For

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<sup>49</sup> [Data Coalition Disclosure Effectiveness Comment](#).

<sup>50</sup> [Data Coalition Disclosure Effectiveness Comment](#); Securities and Exchange Commission Investor Advisory Committee, "Recommendations of the Investor as Owner Subcommittee Regarding the SEC and the Need for the Cost Effective Retrieval of Information by Investors," July 25, 2013, *available at* [www.sec.gov/spotlight/investor-advisory-committee-2012/iac-recommendation-data-tagging.pdf](http://www.sec.gov/spotlight/investor-advisory-committee-2012/iac-recommendation-data-tagging.pdf).

<sup>51</sup> [Inline XBRL Order](#).

example, in Item 5 of Part I of Form 10-K, the Commission requires registrants to furnish specified information related to their equity securities, market performance, and any buybacks.<sup>52</sup> This information is often expressed in plain-text tables which convey a basic, pre-existing conceptual structure (time periods, stock prices for each time period, numbers of shares purchased in buybacks in each time period, etc.). The Commission could make this information far more accessible to investors, intermediaries, and markets by adopting a structured data tag for each cell of each table.

Even if its approach is gradual as suggested here, the Commission should make clear that its ultimate goal is to transform all corporate disclosures into structured data. This clarity of purpose will incentivize intermediaries and business software vendors to invest in investor-facing and registrant-facing solutions early. The early development of technology solutions will ensure that new structured disclosures are exploited by the markets as soon as they are available and facilitate an easier transition for registrants.

**Question 334.** *To the extent that we consider additional structured data requirements for disclosure in periodic reports, what level of structured data requirements would be appropriate? For example, should we require registrants to identify sections, sub-sections or topics with “block text” labels, or should we require registrants to structure numeric elements and tables individually? What would be the challenges and costs of such an approach? What would be the benefit?*

As described above, we believe that the Commission should adopt structured-data tags for disclosures that are currently expressed as numeric elements and disclosures that are currently expressed as plain-text tables.

For disclosures that are currently expressed as free-form narratives, we believe the Commission should, at first, adopt structured-data block tags identifying each section. Block tags will allow intermediaries’ software to automatically identify narrative sections and use text analysis to match particular narratives to corresponding information in financial statements or tabular disclosures.<sup>53</sup> At the same time, block tags for narrative disclosures will not interfere with registrants’ freedom of expression within narratives, nor will it force them to change the processes they use to create, review, and finalize narratives. In other words, block tagging will change the format of narrative disclosures without changing the substance, minimizing any disruption of transforming the Commission’s corporate disclosure system from documents into data.

**Question 335.** *How does the availability of structured data in registrants’ periodic reports affect the timeliness, efficiency, or depth of investors’ review of disclosures? How do the effects of structured disclosure requirements vary across investor types?*

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<sup>52</sup> Securities and Exchange Commission, Form 10-K, available at [www.sec.gov/about/forms/form10-k.pdf](http://www.sec.gov/about/forms/form10-k.pdf) (accessed July 21, 2016), at Item 5.

<sup>53</sup> Data Coalition, “What if Open Data is Structured and Unstructured? Use a Double-Barrelled Solution,” Blog Post, October 8, 2015, [www.datacoalition.org/what-if-open-data-is-structured-and-unstructured-use-a-double-barreled-solution/](http://www.datacoalition.org/what-if-open-data-is-structured-and-unstructured-use-a-double-barreled-solution/) (describing software that matches particular passages in narrative disclosures to corresponding information in financial statements).

*Are there other methods of structuring disclosures that would make disclosures more accessible or useful?*

The Commission's current requirement for registrants to report a version of each financial statement as structured data has allowed investor-facing third-party intermediaries to deliver insights that could not have been derived from the document versions. In addition, because the Commission's current structured data reporting requirement covers all U.S. registrants, rather than just the larger ones, it has allowed intermediaries to deliver comprehensive databases more cheaply than before.

We believe that structured data is the only method of "structuring disclosure" that would make disclosures significantly more useful to investors. Rearranging the order or visual presentation of disclosure information within documents may improve usefulness marginally. But no document-centric restructuring can allow investors and intermediaries to instantly, electronically, access each piece of disclosure information, nor can any document be rearranged or summarized based on needs.

**Question 336.** *To what extent is the information currently provided in structured disclosures readily available through other sources, such as third-party data aggregators? What are the costs and benefits to investors of obtaining this data from such third parties rather than through the use of structured disclosures filed by registrants?*

Most third-party intermediaries are using the Commission's structured-data disclosures to feed the databases that produce the information that they provide to investors. The availability of structured data has reduced third-party intermediaries' data gathering costs, compared to the costs of parsing and editing disclosure documents; these savings are passed on to investors.

Therefore, to the extent that the Commission collects and publishes structured data, it would be incorrect to suggest that third-party aggregations are an alternate source for the same information. If the Commission stopped collecting and publishing structured data from registrants, third-party intermediaries would have to use parsing software and manual reviews to extract the same information from disclosure documents.

**Question 337.** *To what extent do investors, analysts, third-party data aggregators, or other market participants rely on structured data provided by registrants in their periodic reports? What specific content in structured disclosures is useful to each of these groups?*

Most third-party intermediaries are using the Commission's structured-data financial statement disclosures; since most investors and analysts rely on third-party intermediaries for this information, this means most of the market is making use of structured data. We believe that data quality problems have led some large intermediaries to continue extracting the same information from disclosure documents in order to serve as a quality check. In other words, these intermediaries have used both

structured-data disclosures and disclosure documents to feed the same databases. As the quality of structured-data disclosure improves, we believe intermediaries will be able to discontinue their less-efficient extraction of the same information from disclosure documents.

**Question 338.** *Are there other ways in which our requirements can improve the accuracy of tagged data? What would be the challenges to registrants posed by such alternatives?*

Aside from improved data quality enforcement by the Division of Corporation Finance, as discussed above, the Commission's recent order permitting registrants to file inline XBRL financial statements<sup>54</sup> promises to improve accuracy indirectly, if a large number of registrants take advantage. Because inline XBRL allows a registrant to file financial information once – rather than once as a document and again as structured data – it reduces the danger that the registrant will file a correct number in a document but misplace a decimal point or flip a negative sign in the corresponding structured data.

**Question 339.** *Are there certain categories of registrant for which we should provide an exemption from some or all structured disclosure requirements, require more limited information to be tagged, or require a different presentation of this information? Why or why not? If so, to which registrants or structured disclosure requirements should such exemptions apply?*

The Commission's goal should be the universal use of structured data for all its disclosure requirements. As the Commission transforms new disclosures into structured data, it may consider phasing in structured data reporting requirements, just as it did for its 2009 structured data requirement for corporate financial statements.

For structured data to be most effective for regulators and investors, it is important to have a complete data set for all reporting entities. Any "holes" in the data sets will severely limit the usefulness of the data sets. For example, an exemption for registrants with revenues less than \$250 million would exempt about 60% of all registrants. Many start-up companies that access capital via the securities markets may have no revenue for several years. Any data query would be skewed toward only the largest companies.

We believe that the Commission should consider structured-data reporting costs together with general reporting costs. Because the Commission already generally requires less substantive detail from smaller registrants, if it transforms all disclosure requirements from documents into structured data, smaller registrants' data reporting costs will be correspondingly lower.

**Question 340.** *In requiring structured data, the Commission has sought to make disclosure easier for investors to access, analyze and compare across reporting periods, registrants, and industries. Are there other technologies that could make*

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<sup>54</sup> [Inline XBRL Order](#).

*disclosure easier for investors to access, analyze and compare? If so, how should we incorporate these technologies into our disclosure requirements?*

Structured data is the foundation for the future modernization of corporate disclosure. Structured data makes many other technological solutions possible, including new visualization platforms, better analytical tools, and automated or consolidated reporting solutions. The Commission should encourage the development of such solutions by the technology industry – but they are part of the structured-data transformation, not separate from it.

## **Conclusion**

The Coalition recognizes that a transformation of the Commission’s corporate disclosure system from the documents it has always relied on to the new medium of structured data will bring major change and challenge. We believe the Commission will embrace change and rise to the challenge. We are committed to supporting the work. We are grateful for the Commission’s careful consideration of the issues raised in this and previous Coalition comments.

Sincerely,

/s/ Hudson Hollister

Hudson Hollister, Executive Director  
Data Coalition