DATA TRANSPARENCY COALITION

Hon. Tim Johnson, Chairman
Hon. Mike Crapo, Ranking Member
Senate Banking Committee
534 Dirksen Senate Office Building
Washington DC 20510

October 28, 2014

Dear Chairman Johnson and Ranking Member Crapo:

The Data Transparency Coalition[1] is the nation's only open data trade association.
Representing 27 leading tech and consulting firms and growing startups, we advocate the
publication of government information as standardized, machine-readable data.

We believe open data facilitates public accountability, enables data-driven government
management, and automates compliance. Open data also enables many of our members to
pursue new business models and create high-tech jobs. For all these reasons, we believe
the federal government should transform the information it collects and generates from
disconnected documents into open data.

We are writing to explain our opposition to the Small Company Disclosure Simplification
Act.[2] The Small Company Disclosure Simplification Act has been included as one of
eleven titles of H.R. 5405, the Promoting Job Creation and Reducing Small Business
Burdens Act,[3] which the House passed on September 16, 2014, and which has been
referred to the Senate Banking Committee.

The Small Company Disclosure Simplification Act expresses the House's justified
frustration with the Securities and Exchange Commission's (SEC) slow progress in
transforming its disclosure system. But by forbidding the SEC from requiring financial
statements to be filed in the eXtensible Business Reporting Language (XBRL) data
format, the proposal would impede future progress. Market disclosure should not be
forced backward from open data to disconnected documents.

As described below, the Small Company Disclosure Simplification Act would reduce
investors' information options, impede the SEC's enforcement efforts, and prevent open

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[1] datacoalition.org.

[2] H.R. 4164, 113th Cong. (2014).

[3] H.R. 5405, 113th Cong. (2014) Title VII.

data disclosure from reducing small companies' capital formation costs. Moreover, the Small Company Disclosure Simplification Act would erect a permanent statutory barrier to the much-needed broader transformation of U.S. financial regulatory reporting from disconnected documents into open data.

Transforming Financial Regulatory Reporting from Documents into Data

The Data Transparency Coalition represents companies that seek to use open data to deliver better information to investors and markets,[4] support analytics to help uncover potential fraud,[5] and help filers automate compliance tasks.[6]

Our Coalition supports similar transformations outside financial regulation. In May 2014, we celebrated the unanimous passage of the Digital Accountability and Transparency Act (DATA Act),[7] which requires the federal government to transform its own financial information from documents into open data. We are grateful for your support for the DATA Act.

Unfortunately, U.S. financial regulators, especially the Securities and Exchange Commission, lag behind much of the developed world in replacing document-based reports with open data. The SEC collects hundreds of different types of submissions from public companies, investment companies, investment advisers, exchanges, and other market participants. With some exemptions, the agency collects most of these disclosures as documents, not as standardized data.

If the SEC followed longstanding staff[8] and investor recommendations[9] that it replace all of its existing document-based forms with structured data reports, investors would enjoy more immediate access to information needed to make investment decisions. The SEC

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[4] Coalition members using, or seeking to use, SEC data to serve investors and markets include Calcbench (calcbench.com), FindtheBest (findthebest.com), RR Donnelley / EDGAR Online (edgar-online.com), Socrata (socrata.com), TagniFi (tagnifi.com), and Enigma (enigma.io).

[5] Coalition members developing analytic tools to uncover insights from SEC data include Teradata (teradata.com), IPHIX (iphix.net), uReveal (ureveal.com), BrightScope (brightscope.com), and EZ-XBRL (ez-xbrl.com).

[6] Coalition members whose products assist SEC registrants in automating compliance tasks include Workiva (workiva.com/wdesk-platform), RDG Filings (rdgfilings.com/), RR Donnelley (activedisclosure.com/), DataTracks (datatracks.com), IRIS (irisindia.net), PR Newswire (prnewswire.com), CompSci Resources (compsciresources.com), and Federal Filings (federalfilings.com).

[7] Digital Accountability and Transparency Act of 2014, Pub. L. No. 113-101, gpo.gov/fdsys/pkg/PLAW-113publ101/pdf/PLAW-113publ101.pdf.

[8] Securities and Exchange Commission 21st Century Disclosure Initiative, *Toward Greater Transparency: Modernizing the Securities and Exchange Commission's Disclosure System* (January 2009), sec.gov/spotlight/disclosureinitiative/report.pdf.

[9] 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) ("Advisory Committee Recommendations"), sec.gov/spotlight/investor-advisory-committee-2012/iac-recommendation-data-tagging.pdf.

could deploy data analytics to find indicators of potential fraud and better police the capital markets. Corporate filers could use software to automate compliance tasks, replacing manual labor with automatic processes.

The SEC's Slow Progress Toward Transformation

The SEC took a major step toward this transformation in 2009 when it began requiring public companies to submit financial statements in the eXtensible Business Reporting Language (XBRL) data format.[10] The XBRL format assigns a unique electronic tag to each line item of a financial statement, which makes the information machine-readable. When it is expressed as open data in the XBRL format, corporate financial information can be automatically searched and analyzed by software, without the manual rekeying that was once necessary.

Unfortunately, the SEC's progress toward opening up corporate financial information has been slow. First, the agency did not begin to require filers to address material errors in their XBRL-formatted financial statements until July 2014, five and a half years after it first announced the reporting requirement.[11] Inadvertent yet damaging errors, such as flipped positive and negative signs and misplaced decimal points, are common throughout the SEC's XBRL data set.[12] The data set requires extensive correction before it is useful. As a result, the chief advantages of machine-readable data over document-based disclosure—namely, automated usability and large-scale investment analysis of large and small companies—have not yet been realized in the United States.

Second, since 2009 the agency has continued to require public companies to report the same financial information twice: once in the old-fashioned document form and again as XBRL data. This redundancy adds costs for filers, further dissuades quality enforcement by SEC staff, and causes investors to doubt the veracity of XBRL data.

Third, the SEC has announced no comprehensive plan to complete the transformation. Several disclosure forms,[13] and the financial statements contained within quarterly and annual reports, are now expressed as machine-readable data. But many of the agency's hundreds of submissions still are documents, not data. Investors, markets, and filers do not yet know whether the agency intends to fully modernize the whole corpus of its

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[10] Interactive Data to Improve Financial Reporting, Release No. 33-9002 (Jan. 30, 2009) sec.gov/rules/final/2009/33-9002.pdf.

[11] *See* Data Transparency Coalition, *The SEC took a small – but significant! – step toward better corporate financial data. Here's why, and what it means* (July 14, 2014), datacoalition.blogspot.com/2014/07/the-sec-took-small-but-significant-step.html.

[12] *See. e.g.*, David Trainer, *XBRL Would Be Wonderful If It Always Worked*, FORBES (Nov. 7, 2013), *available at* forbes.com/sites/greatspeculations/2013/11/07/xbrl-would-be-wonderful-if-it-always-worked/ (reporting that many filers' XBRL-formatted submissions include errors in basic information, such as the number of shares outstanding; conflict with the simultaneously-filed plain-text versions; and fail to include required data elements—without the SEC's seeming knowledge).

[13] *See* Securities and Exchange Commission, Information for Filers, sec.gov/info/edgar.shtml (XML specifications for Form D, Form N-MFP, ownership filings, Form 13F, and form ABS).

disclosure system. The SEC has not yet publicly responded to recommendations from staff,[14] Congress,[15] investors,[16] and the tech industry[17] calling for the agency to explicitly embark on a broader transformation.

The Small Company Disclosure Simplification Act: Immediate Harm to Investors, Markets, and Enforcement

The Small Company Disclosure Simplification Act, as approved by the House on September 16, 2014, reflects the House's justified frustration with the SEC's failure to enforce its existing open data requirements, continued insistence on two versions of the same information, and failure to explain a broader plan for modernization.[18] But the proposal's requirement that the SEC exempt most public companies from the XBRL requirement[19] is a step in the wrong direction.

The Small Company Disclosure Simplification Act directs the agency to exempt companies under $250 million in annual revenue from the obligation to file their financial statements in the XBRL format. This exemption covers approximately 61% of U.S. public companies, judging from 2013 filings.[20]

The Small Company Disclosure Simplification Act would immediately harm investors, markets, and enforcement in the following ways:

- Investors would be deprived of comprehensive disclosure information in a machine-readable format. If the Small Company Disclosure Simplification Act becomes law, our Coalition members will no longer be able to cheaply deliver useful information on up to 61% of public companies.[21]

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[14] Securities and Exchange Commission 21st Century Disclosure Initiative, *Toward Greater Transparency: Modernizing the Securities and Exchange Commission's Disclosure System* (January 2009), sec.gov/spotlight/disclosureinitiative/report.pdf.

[15] *See, e.g.,* Rep. Darrell Issa to Chair Mary Jo White (Sept. 10, 2013), scribd.com/doc/168830597/Issa-to-White-re-SEC-open-data.

[16] 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) ("Advisory Committee Recommendations"), sec.gov/spotlight/investor-advisory-committee-2012/iac-recommendation-data-tagging.pdf.

[17] *See* Data Transparency Coalition, *The SEC Needs a Coherent Data Strategy* (March 12, 2014), datacoalition.blogspot.com/2014/03/sec-needs-coherent-data-strategy.html.

[18] H.R. 5405, 113th Cong. (2014) §§702, 703 (requiring SEC study, and report to Congress, on effectiveness of data reporting).

[19] H.R. 5405, 113th Cong. (2014) §701.

[20] *See, e.g.*, Calcbench, *H.R. 5405 would ...* (Oct. 2014), blog.calcbench.com/post/99588733638/h-r-5405-would (using 2013 XBRL data to calculate scope of H.R. 5405 exemption).

[21] *See* Letter from Data Transparency Coalition to Hon. Jeb Hensarling and Hon. Maxine Waters, May 28, 2014, datacoalition.com/content/files/4164.pdf; *see also* Data Transparency Coalition, *Let's Fix the SEC's Open Corporate Data—Not Eliminate Most of It* (May 28, 2014), datacoalition.blogspot.com/2014/05/lets-fix-secs-open-corporate-financial.html.

- One of the SEC's original goals in starting the move from documents to open data was to improve smaller public companies' access to capital. Readily-available open data can reduce analysts' costs to cover smaller public companies, allow broader coverage, and connect investors to these opportunities more quickly. If the XBRL data set were rendered incomplete by the Small Company Disclosure Simplification Act, investors and analysts would not use it as a source for information on smaller companies. As a result, small companies would lose out on coverage and investment—even if they voluntarily continue to submit XBRL-formatted financial statements.
- The SEC has begun to deploy analytics across its XBRL data set to find, and stop, corporate accounting fraud.[22] Removing up to 61% of public companies from this data set can only hurt these efforts.

The supporters of the Small Company Disclosure Simplification Act claim that small public companies find it too expensive to translate financial statements from documents into the XBRL format.[23] As a threshold matter, the exemption in the Small Company Disclosure Modernization Act, excluding a majority of public companies, is much too broad to address this concern.

Beyond the overbreadth of the exemption, there is evidence that automating the process for preparing Forms 10-K and 10-Q—originally motivated by the requirement to file open data financial statements—has resulted in efficiencies and cost savings compared to the effort and costs incurred prior to such automation.[24] Even for companies that have not yet automated the close process, the costs of filing financial statements in the XBRL format are very small. The Financial Executives Research Foundation reports median XBRL reporting costs of around $8,000 per year.[25] We believe it should be possible to address these small costs[26] without sacrificing the completeness of the XBRL data set.[27]

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[22] *See, e.g.,* Craig Lewis (SEC chief economist), Keynote Address, XBRL International, June 5, 2013, *video at* https://www.youtube.com/watch?v=EdfEEmXcYXU.

[23] *See, e.g.*, Rep. Robert Hurt, "Robert Hurt Introduces Legislation to Help Small Companies Access Capital," March 6, 2014, http://hurt.house.gov/index.cfm/press-releases?ID=95F58162-2114-4E61-A58E-4227BBBC0106.

[24] Companies using software to automate the process for preparing both plain-text and XBRL financial statements are finding that the process is cheaper and faster than preparing plain-text alone, before automation. *See, e.g.,* WebFilings, *Ebay Improves Process and Saves Days with Wdesk*, http://www.wdesk.com/content/ebay-improves-process-and-saves-days-wdesk (last accessed April 24, 2014).

[25] Financial Executives Research Foundation, *SEC Reporting and the Impact of XBRL: 2013 Study*, secprofessionals.org/sites/default/files/2013%20FERF%20Final%20Report.pdf, at 19 (showing smaller reporting companies' median cost for the most recent annual filing at $2,000). Some vendors charge much less.

[26] All U.S. public companies have already incurred any startup costs of filing financial statements in XBRL. To ease the transition to the public markets for new issuers, the SEC could, for instance, offer a basic XBRL filing solution as part of its EDGAR system.

[27] The XBRL data set today covers all public companies. Under H.R. 4164, the data set would reliably cover only the top 40% of public companies. If small and medium-sized companies are no longer

The Small Company Disclosure Simplification Act: A Statutory Barrier to Progress

Beyond its immediate harms to investors, markets, and enforcement, the Small Company Disclosure Simplification Act would prevent the SEC from fixing the poor quality and redundancy of its existing XBRL reporting requirement. Further, the bill would erect a statutory barrier to the broader transformation that Commission staff, investors, Congress, and the tech industry have been seeking for years.

First, the SEC's first steps toward quality enforcement in July 2014 have not yet had an opportunity to make an impact for investors. The next few filing seasons will show whether the data quality of XBRL-formatted financial statements has improved to the point where investors are comfortable using the data. Cutting off the flow of XBRL data for over half of public companies, as the Small Company Disclosure Simplification Act would do, would prevent these steps from having their desired impact.[28]

Second, on September 30, at our Coalition's annual policy conference, SEC chief economist Mark Flannery announced that the agency is pursuing options to eliminate the current redundancy of documents-plus-data reporting.[29] The inline XBRL, or iXBRL, format, which allows companies to submit a human-readable document with XBRL data tags embedded within it. This step would address the burden of filing two versions of the same information. But under the Small Company Disclosure Simplification Act, the SEC would not be able to take this step.

Finally, the Small Company Disclosure Simplification Act would prevent the SEC from resolving the markets' and investors' uncertainty over whether it truly intends to pursue the broader transformation from disconnected documents to open data. With a law banning open data collection from the majority of public companies, the SEC might be forced to adopt bifurcated disclosure requirements, transforming large companies' disclosures from documents to data but not the disclosures of medium-sized or smaller ones. More likely, if Congress expressed disapproval of open data in financial regulatory reporting by passing the Small Company Disclosure Simplification Act, the SEC would be dissuaded from pursuing the transformation at all.

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comprehensively included, investors and analysts seeking to invest in such companies will not use the data set, and exempt companies voluntarily choosing to file XBRL financial statements will see no benefit. Meanwhile, our own services to investors, particularly our ability to deliver timely, complete information on smaller companies, will be negatively affected wherever structured data is no longer available.
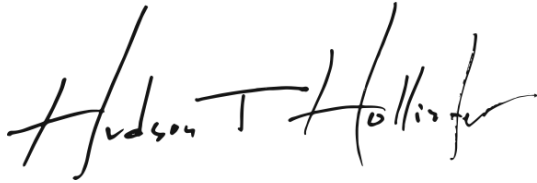
[28] Mark Flannery, "The Commission's Production and Use of Structured Data," Data Transparency 2014, Sept. 30, 2014, sec.gov/News/Speech/Detail/Speech/1370543071869#.VEkKNYWH1g1 (reporting "consistent and gradual decline in the use of custom tag rates among large and midsized companies" but that "smaller companies continue to have high custom-tag rates").

[29] *Id.* ("[Division of Economic and Risk Analysis] staff is working with outside contractors on 'Inline-XBRL.' Consistent with its name, this new technology would allow companies to integrate (or embed) the XBRL tagging of the financial statements directly into their standard HTML formatted 10-K and 10Q filings").

We are hopeful that the Senate Banking Committee will reject the Small Company Disclosure Simplification Act. Instead, we hope the Committee will support better data quality and the elimination of redundant reporting over the short term and broad transformation of the SEC's whole disclosure system over the long term.

We appreciate your attention to this important issue. For further discussion, I am eager for your staff's contact at hudson.hollister@datacoalition.org or (312) 493-7533.

Sincerely,

Hudson Hollister, executive director
Data Transparency Coalition

CC: Senate Banking Committee

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