

Senator Jack Reed
United States Congress

Senator Reed:

Greetings from an East Greenwich constituent. It's nice to know that there's a straight-shooter representing Rhode Island in Congress and, in particular, chairing of the Senate Banking Subcommittee on Securities, Insurance, and Investment. (Please, stay in Congress!)

RE: SEC PROPOSED RULE: "INTERACTIVE DATA TO IMPROVE FINANCIAL REPORTING"

I am writing about a matter that should be on your committee's (already cluttered) radar: the Securities & Exchange Commission's May 30th "Interactive Data to Improve Financial Reporting" Proposed Rule (No. S7-11-08), which contemplates fundamental changes to the SEC's Edgar corporate financial information system. A copy of this email will also serve as a formal "comment" to that proposed rule. Perhaps someone from your office or from the Senate Banking Committee staff can articulate your position.

CORPORATE FINANCIAL REPORTING TRANSPARENCY - A LEGITIMATE MANDATE

It is clear that improvements in corporate financial reporting transparency are desperately needed. More and more Americans are expected to guide the course of their invested retirement funds. And so-called "online discount brokers," such as Sharebuilder and E-Trade, have lowered the bar for entering the stock market. Here in Rhode Island, the Providence Journal provides, with its table of "Stocks of Local Interest" (sometimes referred to as the "RI Impact-50"), a prominent daily reminder that every Rhode Islander has a stake in (at least) these public companies.

Especially in this period of national economic and financial jitters (to put it mildly), those invested - figuratively, if not also literally - in corporate America should be raising their financial IQ, perhaps by relying less on variably capable and motivated financial advisors, pundits and media, but more on relatively straightforward evaluation approaches such as the Dupont Model and the Sustainable Growth Rate, which always return to relevance, if not recognition, when US companies are forced to de-leverage and scrounge for capital.

EDGAR USERS' NEEDS UNMET

The SEC's Edgar system has done a credible job of gathering corporate financial report data: Reports such as 10-Ks and 10-Qs were once paper-based. Filings then moved to being electronically submitted in "straight text" and, further, to "HTML" format. Now the SEC proposes to add a mind-numbingly complex format: filings will have to be "tagged" using XBRL (eXtensible Business Reporting Language). To micro-caps such as West Warwick's Astro-Med and the town of Lincoln's A.T. Cross, the proposed rule will only add to their already onerous SEC reporting burden. Indeed, most public companies will have to use an additional level of for-fee "financial publishers" and/or "data-integrators" to generate their XBRL-tagged filings.

Conversely, the SEC has never done a satisfactory job of providing Edgar data to investors or financial analysts. "Trying to take sips from a fire hose" perfectly describes attempts to retrieve data from the Edgar system. Here's a Rhode Island example:

Annually for about the last decade until this year, there has been a detailed analysis, published around Memorial Day by the Providence Journal, of the previous fiscal year's performance by the companies in its "RI Impact-50." Because there has never been a way to directly retrieve selected Edgar data for such a multi-company portfolio analysis, the University of RI College of Business Administration (URI-CBA) accounting professor, who with graduate students has been completing the RI Impact-50 analysis for the newspaper, has always had to face an intolerably tedious data-selecting task ... which may be the major reason why the resource-strapped Providence Journal and URI-CBA have now abandoned this valuable analysis.

Understandably, the SEC has re-branded the off-putting notion of "adding XBRL tags to Edgar filings" with the seductive "Interactive Data" label. In reality, there is nothing "interactive" about Interactive Data. For public companies, what is being proposed is just another one-way filing of data to the SEC.

For users of Edgar data, the SEC has rolled out "Interactive Data Viewers" - such as the "Interactive Data Dashboard" and the "Financial Explorer." The SEC's labeling of these offerings as "viewers" and "dashboards" is, ironically, quite proper: each is a strictly take-it-or-leave-it presentation of filed data; there is no true "interactivity." The "Financial Explorer" is downright weird: the incomprehensibly presented data looks like the image of a hydrocarbon molecule that appears in some Exxon print ads!

For evaluation of portfolios of public companies either using the Dupont or Sustainable Growth Rate models - with their mere 4-5 data element requirement - or using more data-hungry analyses such as that of the Providence Journal/URI-CBA, there is nothing in the proposed rule that eases the task. Trying to take sips from the Edgar fire hose would remain firmly in place.

That the "X" in XBRL stands for "eXtensible" points to another major issue: As has already been clearly demonstrated by "voluntary filers" of XBRL-tagged Edgar reports, there will be significant customization ("extensions") by individual companies to the "approved" tags used. Indeed, some companies will be filing Edgar reports using a completely unique "taxonomy" (the term for the discrete set of tags describing financial reports' chart-of-accounts, i.e. each report's labels). This could result in XBRL-formatted filings having a "tower of Babel" effect: directly matching/comparing individual financial data elements (e.g. Revenue, Net Income, Assets, Equity) across filing companies could become even more difficult.

A RECOMMENDATION: STANDARDIZATION AND SELECTIVITY OF EDGAR DATA

Whether or not this proposed rule is put into effect, there should be immediate and substantial effort to improve the standardization and provide selectivity of data in the Edgar system. Fortunately, there are three precedents that can, in combination, be called on to achieve these objectives:

- the XBRL-tagged "Call Report" filings of financial institutions;
- the SEC's former Financial Data Schedule (FDS);
- the SEC's newest Edgar "viewer" prototype: the Executive Compensation Disclosure.

It will be argued that all public companies cannot possibly adhere to one single, absolutely standardized taxonomy for all of their financial reports. But there has already been implemented a single, rigid XBRL filing taxonomy to which every FFIEC (Federal Financial Institutions Examination Council) Call Report submission, from Bank of America's to BankRI's, complies.

If tag standardization equivalent to the FFIEC's is deemed not possible for Edgar reports, there should at least be a sub-set of key financial measures filed in accordance with a universal, absolutely standard set of tags. Indeed, XBRL is not the first attempt by the SEC to tag Edgar data. Between 1994 and 2000, filers were required append an FDS to their 10-K and 10-Q filings, uniformly tagging a limited set of key financial data. Why that initiative was abandoned needs to be investigated thoroughly before implementing the present proposal.

If in every Edgar financial report filing there were such standard tags for perhaps no more than several dozen of the most important financial elements, the SEC's Executive Compensation Disclosure viewer demonstrates that the SEC has the means to apply its sort of interactive data selection functionality to the querying, extracting and downloading of Edgar 10-K/10-Q data into tools such as the Dupont and Sustainable Growth Rate models or the Providence Journal/URI-CBA RI Impact-50 annual analysis.

Here's the bottom line: It is absolutely imperative that Edgar data have the level of standardization and selectivity that permits its efficient and effective use by investors - or any corporate financial reporting stakeholder - without having to go through for-fee middlemen.

Pete Haynsworth
Independent Business Analyst
East Greenwich, RI
pete.haynsworth@gmail.com

Copies to:

- The SEC.gov web page for comments to SEC Proposed Rulings
- Wayne Allard, Senate Subcommittee on Securities, Insurance, and Investment
- Senate Committee on Banking, Housing, and Urban Affairs
- John Kostrzewa, Providence Journal
- Allan Graham, University of RI College of Business Administration