

**Benefits and Burdens of Proposed Improvements to  
Delivering Financial Information – One Small Public  
Company Business Executive’s Perspective**

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*Note: The following comments represent solely the opinions of Gregory P. Hanson, and are not necessarily the views of Mr. Hanson's employer. Mr. Hanson's comments are focused solely on Chapter 4 of the Progress Report of the Advisory Committee on Improvements to Financial Reporting to the United States Securities and Exchange Commission, or SEC, dated February 14, 2008 (the "February 2008 Progress Report").*

## **“Benefits and Burdens of Proposed Improvements to Delivering Financial Information – One Small Public Company Business Executive’s Perspective”**

**Presented on March 14, 2008, at the University of California – San Francisco**

### **Introductory Comments**

First, I would like to thank the members of SEC Advisory Committee on Improvements to Financial Reporting (the “Committee”) for giving me the opportunity to speak before the Committee. Particularly encouraging is that several Committee members have expressed personal interest in seeking to understand the potential *benefits and burdens* on a small public company in implementing potentially useful proposals to enhance ongoing financial reporting; the objective of which is intended to enable investors to better understand the reporting of company financial information. I have seen continuing progress since I last spoke in December 2007 before Subcommittee #4 on Delivering Financial Information.

Before I go further, I ask that the Committee recognize that my comments today represent solely my own views and opinions, and should not be interpreted as those of my employer.

I am currently employed as the Senior Vice President and Chief Financial Officer of ADVENTRX Pharmaceuticals, a small public biopharmaceutical company located in San Diego, California that is focused on developing improvements to the performance of existing drugs for the treatment of cancer and other diseases. My background includes over 30 years of experience in financial management and reporting for both public and private companies in both large and small operations, including high-tech, biotech, automotive, heavy equipment, energy conservation, and finance. In addition to participating in various professional organizations, I am a member of the Financial Accounting Standards Board’s, or the FASB’s, Small Business Advisory Committee, which meets twice a year with the FASB to provide a cross-section of resources from a small business perspective, on the development of financial accounting and reporting standards. I also serve as a constituent of the U.S. National Chamber of Commerce in my small business advisory role with the FASB.

The company that I currently work for is a development stage company with a four-person accounting staff among the 32 employees. My company’s market capitalization is just over \$50 million, and based on its size may be typical of the many small public companies that contribute to growth in the United States. My company is an accelerated filer based on a market cap that exceeded \$75 million at June 30, 2007.

## **Purpose in speaking to the Committee today**

My purpose in speaking before the Committee is to help provide a voice for small public companies that will be impacted by:

1. Expected implementation of XBRL, or eXtensible Business Reporting Language, for filing financial information with the Securities and Exchange Commission, or SEC; and
2. Proposed improvements to corporate website use.

Other future improvements under consideration, as outlined in the progress report will not be addressed in this presentation, but I will be available for discussion and comments at the March 14, 2008 Committee meeting.

### **I. Expected implementation of XBRL**

In short, I believe that XBRL can be beneficial to users, auditors and preparers, and I support its implementation in the United States as a method of providing standardized, easy-to-access corporate financial information to the industry and the SEC. Additionally, I am very impressed with the work that has been completed to date by the Committee. I also appreciate the interest and concerns about the small business preparer that both the SEC and the FASB have regarding implementation of XBRL, in particular, as evidenced by the SEC's establishing a volunteer participant program for furnishing XBRL financial information.

In order to achieve successful implementation and to increase the benefits of XBRL to the small business preparer, we, too, must invest our time and resources to understand it, the benefits, time requirements, costs and risks of implementation, and must continue to generate ideas to assist in improving the effectiveness of its implementation. By small business preparer, I am referring to information found on the SEC's website indicating that there are approximately 5,000 microcap companies with market caps less than \$128 million, representing over 50% of the filers with the SEC. If you include the approximate 2,400 small cap companies with market caps from \$128 million to \$787 million, the aggregate of microcap and small cap companies make up close to 80% of the total number of filers, or 7,400 of approximately 9,400 current filers with the SEC.

I would like to prompt your thinking about small business preparers, by raising or addressing in brief fashion a number of questions, including:

1. Is XBRL being developed in a thoughtful manner to ease implementation by small public companies, and without incurring wasteful costs?
2. When will XBRL be required for small public company filers? Will the smaller filers have sufficient additional time for implementation to be able to benefit from "lessons learned" by the larger companies that have greater resources?

3. How will small public companies interpret and implement the new financial language with limited human resources – or perhaps more accurately stated, with no additional human resources – together with other new expected requirements? Such new requirements include accounting software upgrades to ultimately implement XBRL tagging within the accounting systems. Another expected new requirement will likely be to acquire the knowledge and adapt to International Financial Reporting Standards, or IFRS.
4. What will be the fully aggregated cost of implementing XBRL? Such costs should include evaluating and purchasing the software, negotiating installation and maintenance agreements, planning and scheduling training sessions, the cost of training itself, documenting both the software implementation and new requirements as part of the financial closing schedule, testing and verification of performance, remediation, re-testing, and preparing financial statements, including review of tagged financial statements, together with assurance services, use of outside service providers, and furnishing or filing with the SEC.
5. What about addressing future changes in XBRL to accommodate new or changed accounting pronouncements, changes in financial statement presentation formats being considered by the FASB, and convergence of generally accepted accounting principles, or GAAP, and IFRS?
6. What SEC regulations and filing requirements will be eased to offset the costs and labor of implementation and maintenance of XBRL? It should be noted that the preparers are already paying for programming our financial statements in EDGAR format. The issue is whether or not the preparers will receive any relief from the incremental burden in filing in both XBRL and EDGAR.
7. How do I explain to my company that it's worthwhile to pursue XBRL as a volunteer or on a test basis when accounting resources are already fully utilized with recent implementations of internal controls under the Sarbanes-Oxley Act of 2002, or SOX, and accounting for uncertain tax positions under FIN 48, and now looking forward to fair value accounting and potentially other far-reaching accounting pronouncements in the future? While at the same time, the company is focused on new product development and other operating activities.
8. What are the perceived benefits, and are they real for small public companies? Or will the costs incurred by small companies exceed the benefits, and only the large companies will reap such benefits?
9. What are some of the risks inherent in the process of implementation?
10. And finally, assuming that we wrestle through these issues and conclude that, long-run, XBRL benefits will outweigh the costs for small public companies, how do we create more champions that will participate in the process of early adoption and implementation?

This concludes my introductory comments. The rest of my presentation includes my comments and responses to the questions that I have raised. And I will be available to address these questions, as necessary, through open discussion at today's meeting. Additionally, I have provided my presentation materials in advance of this meeting in case there is insufficient time to address my own personal views.

## **Further Discussion of the Questions and Comments**

### **1. Thoughtful development**

I appreciate the SEC's voluntary program for implementation of XBRL. This approach should allow the early volunteers to gain experience to help develop the program and resolve the many implementation issues. However, before implementation is required of the preparers, we will need to ensure that there is development of:

1. Adequate details and descriptions of taxonomies – the assessment of this is currently underway, and finalization appears to be near at hand.

However, the status is more uncertain as to whether there is:

2. Sufficient supporting IT personnel and infrastructure that will help develop and maintain the state of readiness of the XBRL-tagging software while staying current with changing accounting standards;
3. Pre-tested software programs without extensive patches or fixes to achieve broader application and use;
4. Adequate numbers of SEC filing service providers, and their staff – currently among the most active in beginning to educate the preparers and/or have partnered with qualified XBRL programmers to support the needs of the preparers, are R.R. Donnelley & Sons Company and EDGAR® Online®, Bowne & Co., and Merrill Corporation – but are the providers adequately staffed to handle the work as more preparers file in XBRL?;
5. XBRL support and user groups to answer questions and suggest solutions to problems faced by the preparers and others; and
6. Experienced professionals to be able to train and teach others.

While the voluntary approach to implementation shows a friendlier style from the SEC, we all know that the requirement for implementation is forthcoming. Therefore, it is important that there be continuing and increasing publicity by the SEC. And providers of Continuing Professional Education, or CPE, courses will be very important to help ensure the small business preparers “get with the program” and are adequately prepared when the implementation standards and timelines are ultimately published by the SEC.

### **2. When will XBRL be required for small companies?**

Whatever the timing the SEC requires for implementation by large public companies, including presumably the accelerated filers, I believe the small public companies – those companies with under \$75 million in market capitalization, or even a higher minimum threshold – should be deferred indefinitely, or until the bugs encountered in implementation on a larger scale can be resolved, and benefits can be determined to outweigh the costs. At a minimum, small public companies should be given an additional year

for implementation so that we can learn from the experience of others who have the additional resources for implementation. Such market cap calculation should be done at the end of a company's second fiscal quarter each year to allow time for adoption in the following year if a company's market cap breaks a threshold for implementation.

**3. How will small companies implement the new financial language in XBRL with *no* additional resources?**

Based on my experience, the typical accounting staff size for a small public company is about four people, consisting of a controller, accounts payable/payroll person, a senior accountant, and possibly a second accountant or cost analyst. We fulfill our incremental needs with consultants, for example, which help perform management's testing of internal controls under SOX. I would certainly attest to the schedules in the accounting department being already packed, so from my perspective, it is difficult for anyone on the accounting staff to allocate sufficient time to work on, and adequately learn, XBRL as we would like to during this volunteer phase, with so many other required deadlines and priorities. Yet with all that we do, the small business preparers will need to take the time to learn and work on XBRL. Finding offsets to our workload is something the SEC, the software providers, the EDGAR filing service providers, and the preparers all need to work on, and make room for, in implementing XBRL.

**4. What will be the aggregate cost to the preparer, excluding external auditors' assurance services as these are still being developed?**

**First Scenario: In-house development assuming XBRL documents are to be filed with the SEC.** After having been through the experience of implementing several launches of new accounting software, stock option administration and expense accounting software, and SOX internal controls at several companies, my own personal estimate of the cost of implementation for in-house preparation of XBRL-ready documents using the "bolt-on" approach for software for filing as a small business preparer would be at least \$50,000 for the first year, and I assume could be cut to one-half that amount in the second year due to the learning curve and having the initial formats established, and one-half again the following year. Thereafter, I would expect to have to upgrade our accounting software to have embedded XBRL tagging features that can be used without material incremental costs to the preparer. There will be a cost to the software upgrade at that time, but probably necessary anyway to achieve growth or other reasons. Such costs for the first year would include education and training, developing a new internal control over financial reporting, documentation of the new internal controls process for SOX, licensing of software, installation and testing of the software, remediation, and re-testing, and quarterly preparation and review of the final documents in XBRL. Estimates for cost of external auditor review or audit is not included. The cost of external audit and assurance still needs to be evaluated by external auditors and the PCAOB.

If \$50,000 represents the small business preparer's first-year costs and typical learning curve for the next couple years thereafter, or until the XBRL tagging software is

embedded in accounting software, and if the 5,000 microcap public companies are similar to us and are required to implement XBRL-tagging separate from existing accounting software, that is, the “bolt-on” software, then the cost to the microcap public company preparers in the U.S. over the first three years of the implementation period would be over \$400 million; or over \$600 million for the 7,400 microcap and small cap companies combined with market caps up to \$787 million; and about \$800 million for the approximate 9,400 public filers if all filers used the “bolt-on” software for filing with the SEC.

**Second Scenario: External service providers.** As an alternative to developing XBRL tagging in house, we initiated a search for outside services that could perform XBRL tagging for us. Some training and implementation costs will still be necessary on our part to understand XBRL and to review and correct the documents even though the service provider is doing the conversions. Under this scenario, I expect the annual costs for our company to outsource the XBRL filing services would be at least \$30,000 a year, a lesser number than the first scenario because we can avoid purchasing the software license, and there would be less training, testing, and remediation for the in-house scenario. However, those external service provider costs, together with management testing and ongoing training, could remain relatively constant over future years excluding inflation or improvements in technology.

We would expect that the service providers would be able to provide SAS 70 Reports indicating that their internal controls over their processes were adequate for reliance on our part.

Despite the lower initial cost of using an outsider service provider for conversion of the financial statements to XBRL, in-house development should be a better longer term solution. Nonetheless, I expect that many of the small public companies will fall into the same category of using external services for XBRL conversion and filing services, similar to EDGAR filing services as we use today. While the implementation costs for using external service providers are less, due to the avoidance of some of the initial expenditures to develop SOX internal controls, on a longer term basis the small business preparer will always have the external cost of preparation unless and until the XBRL tagging is implemented into the majority of accounting software available today.

Assuming \$30,000 a year is the approximate cost to a small business preparer that is using an outside service provider for conversion to XBRL, then the cost would be about \$150 million per year for the microcap companies (\$220 million per year for the 7,400 microcap and small cap companies combined with market caps up to \$787 million).

5. **What about the impact on XBRL for changes to accounting standards, financial statement presentation formats being considered by the FASB, and convergence of GAAP with IFRS?**

These questions will all be ongoing issues to be managed. Certainly we will need to ensure that the industry infrastructure for the accounting professionals to train existing accountants for the expected convergence to IFRS.

6. **What changes at the SEC could occur on a prospective basis to offset the increasing workload placed on small public companies if XBRL becomes a requirement?**

This is a question for the SEC. I have proposed that some relief occur regarding EDGAR filing requirements, as some of the information in EDGAR and XBRL will become duplicative as both programs co-exist for the next several years. Additionally, I am hoping that the Committee and the SEC are also thinking about other requirements that could be reduced to offset the improvements in reporting that are being considered and the complexities of change that typically occur over time.

7-8 (Combined). **How do I explain to my company that XBRL is worthwhile to pursue on a test basis in the short-term during the volunteer phase? And are the benefits for small public companies real?**

I believe the answers come in the form of explaining the following benefits:

1. Better accuracy of financial information held by data providers and users.
2. Standardization of presentation of information across common industries.
3. Easier understanding of the information by end users of the financial information. The tags will be helpful to the users because they contain the description, the period of time or a time point, the currency, whether a financial number is a debit or credit, and whether the information is audited or unaudited.
4. Easier access to information, and easier analysis, by users who have access to XBRL.
5. More visibility to more companies, which may trickle down to the small public companies.
6. Increased analyst coverage is a potential benefit if analyst workload is reduced by the availability of XBRL data. However, I expect that XBRL data may only help improve the analysts' visibility for the larger companies. In my opinion, increased analyst coverage is not likely to occur for small public biotech companies such as ourselves, but should help other companies where financial comparisons carry more weight than many of the smaller technology companies. Analysts already have a full plate of companies that they follow. Having XBRL information available to analysts will reduce the financial analytical work for historical information. However, analysts still need to



develop financial models for future projections for the company. Having the historical information is only a benchmark for starting an analyst's evaluation of a company.

**9. What are some of the risks to a small business preparer for implementation of XBRL?**

1. Underestimating the time and cost of software implementation and testing and/or poor planning of implementation;
2. Failure to document, test, remediate, and retest the software, and failure to test the new processes could result in failure to find a problem;
3. Financial statement preparation and close now has a new schedule to be reviewed;
4. Audit and assurance are necessary, although the extent and scope is still being addressed by the industry, including the auditors and the PCAOB;
5. Adequate descriptions and numbers of taxonomies;
6. New and/or changes in accounting pronouncements, financial statement presentation formats, and convergence of GAAP and IFRS;
7. Historical information, in particular, for development stage companies, could be extensive and go beyond five years, increasing the time and cost of filing the information;
8. Training of new personnel and re-training of personnel whenever there is turnover;
9. Undetected errors in input, however, we hope that software programs will have error checks similar to tax preparation software and IRS/state tax authority screening mechanisms for errors before acceptance for electronic filing;
10. Accelerated filing requirements as companies increase in size; and
11. Liability for errors and omissions.

**10. How do we create more champions that will participate in the process of early adoption and implementation of XBRL?**

I believe we must continue to aggressively advertise and promote XBRL in as many forums as we can during this volunteer phase; and find more champions in the process to:

1. Continue and increase the promotion of XBRL by the SEC
2. Increase publicity from the professional organizations such as the AICPA and XBRL.ORG:
3. Establish regional continuing professional education, or CPE courses, such as from the SEC Institute and others;
4. Offer more local seminars, for example, sponsored by Financial Executives International, or FEI, the auditing firms, and the EDGAR filing service providers; and
5. Provide publications, for example in *CFO Magazine*, or the *Journal of Accountancy*.

## **II. Improving corporate website use.**

The Committee has recommended that the SEC should issue a new comprehensive interpretive release regarding the use of corporate websites for disclosures of corporate information.

I agree that a new interpretative release on company use of websites would be useful, as suggested by the Committee, to define such issues as liability for information presented in a summary format, treatment of hyperlinked information, treatment of non-GAAP disclosures and clarification of the public availability of information disclosed on a reporting company's website. My concern lies with many small public companies that must pay outside programmers to do updates on their websites. Disclosures on websites should be timely, accurate and not misleading; and any new SEC requirement that could trigger more frequent updating of a company's website could be a costly problem and liability for small public companies that have outsourced this function.

### **Summary**

In summary, I have addressed a few of the benefits and burdens on a small public company in staying current with potential changes intended to improve the delivery of financial information. Further, I compliment the Committee, its cross-section of members, and the SEC, for the recent and continuing progress that it has made to date in considering improvements to delivering financial information. I welcome the opportunity to continue to be a voice for small businesses as we move forward in implementing such improvements, including the implementation of XBRL and other considerations included in the February 2008 Progress Report; and I again thank the Committee for the invitation to speak at today's meeting.

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