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31 July 2008

Interactive Data to Improve Financial Reporting
(Release Nos. 33-8924; 34-57896)
Commission File No. S7-11-08

Ernst & Young LLP is pleased to respond to the Securities and Exchange Commission's (the Commission or the SEC) request for comment regarding its proposal, *Interactive Data to Improve Financial Reporting* (the Proposed Rule). Following some general commentary, included below are our comments and recommendations on several elements of the Proposed Rule.

Overall, we support the Proposed Rule, which in many respects is consistent with the recommendations we made in our March 2008 comment letter to the SEC regarding the Progress Report of the SEC's Advisory Committee on Improvements to Financial Reporting (CIFiR) (File No. 265-24). Ernst & Young supports the objectives of enhanced electronic financial reporting to provide better, faster, cheaper and more consistent financial information in order to support more informed business and investing decisions. To facilitate collection and sharing of financial information in a transparent and reliable manner, data tagging appears to be a logical enhancement to financial reporting.

Given the evolution of EDGAR as the freely accessible repository of all public company financial reports, we have encouraged the Commission's interest in XBRL as a means to enhance the public accessibility, communication and analysis of financial and other filed information. Providing XBRL-tagged financial statements through EDGAR should allow investors, analysts and other financial market participants to more efficiently and reliably perform quantitative and qualitative analyses of information reported by public registrants.

Auditor assurance

While we fundamentally believe that independent assurance would add value by increasing reliability and enhancing public confidence in XBRL documents, we also acknowledge that some, including CIFiR, are concerned that the cost and time incurred to obtain such assurance might outweigh the benefits to preparers and users. Therefore, we concur with the Proposed Rule in that the Commission should not mandate auditor attestation during the proposed phase-in of mandatory XBRL data tagging. Instead, issuers should be able to choose whether or how to engage auditors to assist with, and enhance the quality of, their XBRL submissions. In this manner, the Commission would promote, and

be able to evaluate, the market demand for, and the related costs and benefits of, auditor involvement with XBRL-tagged information during the proposed phase-in periods. In addition, we believe that the SEC and the Public Company Accounting Oversight Board (PCAOB) should seek input from companies, investors and other market participants as to the type, timing and extent of assurance, if any, that should be provided after the initial phase-in periods. The SEC also should monitor quality and accuracy during the initial phase-in periods in order to assess the reliability of XBRL submissions without auditor involvement. For example, the SEC could monitor, among other things, the rate at which submissions are rejected by its validation software, the incidence of companies correcting initial submissions of XBRL data, and the inappropriate use of extensions for items already included within the US GAAP taxonomy.

However, we expect that a number of issuers will voluntarily seek some involvement from auditors in connection with their XBRL submissions, and we stand ready with others in the profession to meet that demand. We believe that auditor assurance with respect to data tagging could be provided at a reasonable cost. However, we expect that the costs of such assurance in the current state, particularly assurance that would provide any meaningful value, will not be trivial or insignificant for all issuers (particularly for smaller companies) and will be a function of various factors including the nature, frequency and extent of the auditor's involvement. In addition, it will be important to define how to apply the concept of materiality in providing assurance on tagged financial statements. At this early stage in XBRL's development and use, the term "assurance" is often used as if auditor assurance would be absolute and undifferentiated. In fact, auditor involvement could take a number of forms (e.g., positive assurance consistent with an audit or examination, the performance of an agreed-upon procedures engagement). There are a wide variety of assertions on which an auditor might be able to provide assurance or perform agreed-upon procedures, including but not limited to: whether the data in the XBRL instance document are the same as, or not inconsistent with, the data in the underlying financial statements; whether tags were appropriately applied to elements of the financial statements; whether tags were applied consistently with prior XBRL submissions; and whether all extensions used are necessary. Generally, it should not be necessary for the auditor to evaluate compliance with XBRL technical specifications because validation software (including the expected SEC submission software) can assist with this assessment.

In addition, we are concerned about a possible "expectation gap" regarding the extent of any assurance provided by the auditor with respect to XBRL-tagged information. Currently, the auditor expresses an opinion on the financial statements "taken as a whole," and not the fair presentation of any individual elements of those financial statements to which tags will be applied. We are concerned that providing assurance for XBRL-tagged information could be misinterpreted by investors or the courts as providing assurance not only as to the proper selection and application of the tags, but also as to the accuracy and completeness of each tagged item. Accordingly, it will be important for the SEC and PCAOB to support efforts to educate investors as to the nature and limitations of any auditor assurance with respect to XBRL-tagged information and to prevent any inappropriate liability arising from such assurance.

During the initial phase-in, we encourage the SEC to be sensitive to the need to clearly address issues surrounding auditor association with tagged data. Users of tagged data need to clearly understand that no assurance regarding the propriety of data tagging is being provided by (1) the audit or review report on the issuer's financial statements, (2) the audit reports on internal control over financial

reporting, and (3) any attestation report regarding tagged data. We recommend that disclosures in submissions of tagged data clearly set forth the issuer's responsibility for the accuracy of the data tagging and the extent of any auditor assurance thereon (or lack thereof).

We also believe the Proposed Rule is unclear as to whether the audit opinions or interim review reports included with the annual or quarterly financial statements in the traditional filing will be required, or permitted, to be tagged. If a company were to present an audit or interim review report in its XBRL exhibit, we would be concerned that users might misinterpret such a report of the registered public accounting firm as providing assurance as to the propriety of the tagging in the XBRL exhibit. In our view, an audit opinion or interim review report only should accompany financial statements that are included in the traditional filing. Consequently, we believe that the SEC's Final Rule should explicitly prohibit the inclusion of audit opinions and interim review reports in XBRL exhibits.

In addition, the Proposed Rule states that the auditor would not be required to apply SAS 8 (AU Section 550), paragraph 18(f) of SAS 100 (AU Section 722), or SAS 37 (AU Section 711) to the XBRL exhibit provided in a company's reports or registration statements, or to the viewable interactive data. Not only do we agree that these procedures should not be required, we do not believe SAS 8 is applicable because an auditor cannot assess if tags are consistent with filed financial statements simply by reading the rendered XBRL document. However, while this text in the SEC's proposing release is helpful in diminishing the possible "expectation gap" discussed above, this statement is not repeated in the proposed text of the amendments and would seem to require some action by the PCAOB before being relied upon by auditors. We recommend that the PCAOB publicly communicate, or amend its literature to state, that SAS 8, 37 and 100 do not apply to the XBRL exhibit or to the viewable interactive data.

In situations where issuers voluntarily engage auditors to provide services with respect to XBRL-tagged information, issuers might wish to include the auditor's report in the XBRL exhibit or make reference to the auditor's services. We believe the SEC should provide guidance and the appropriate protocol for the submission of the auditor's XBRL attestation report when a company chooses to obtain examination-level assurance. In addition, absent an engagement that results in the issuance of a such a general use report, we believe the SEC should specifically prohibit inclusion of, or reference to, other forms of reports that are not intended for general use and that might be issued as a result of an issuer voluntarily obtaining services from an independent auditor with respect to the XBRL exhibit (e.g., agreed-upon procedures engagements conducted in accordance with AT 201 or permitted general advisory services).

Phase-in under the Proposed Rule

Overall, we agree that data tagging by all SEC registrants should be a long-term goal of the SEC. We also support the Commission's approach to begin the phase-in of mandatory data tagging with approximately the 500 largest public companies that have the significant resources needed to undertake such a mandate and the breadth of investor interest to optimize the benefits of tagged data. However, as a new technology, there will be various challenges associated with implementing and using XBRL for financial reporting. Accordingly, the initial implementation and use of XBRL for financial reporting might not be as effective and efficient as it could become in the future. For example, non-accelerated filers have seen their mandatory transition dates for Section 404 of the Sarbanes-Oxley Act of 2002 serially delayed. Learning from this experience, we believe it would prudent for the SEC to

build in a "pause" to the XBRL phase-in. If the SEC's Final Rule on mandatory XBRL tagging only established dates certain for large accelerated filers using US GAAP (the first two phase-in groups as proposed), 90-95% of the total US market capitalization would be captured. This critical mass would appropriately incentivize the market to develop the software products and services that would reduce the cost and increase the ease of providing interactive data by all companies, while simultaneously allowing the SEC to monitor the usefulness of interactive data to investors in relation to its costs.

The current Voluntary Financial Reporting Program (VFRP), as well as the experiences in Japan cited in the proposing release, provide a limited basis for cost estimates, and we believe the SEC's cost estimates of submitting XBRL-formatted financial statements and other information may prove to be somewhat optimistic. At this time, there are limited data points and experience on which to draw. For example, detailed tagging, especially using the recently-released US GAAP Taxonomy, is largely untested in practice. By only setting dates certain for large accelerated filers using US GAAP and providing a "roadmap" for the eventual integration of all SEC filings, decisions regarding the large number of smaller issuers could be deferred until the software market matures and company best practices can be developed. In addition, we suggest that the SEC monitor and update its cost estimates as additional information and data points become available.

As an alternative to the roadmap approach discussed above, the SEC could consider expanding the phase-in to four groups, rather than three as proposed. We are concerned a third phase-in of over 10,000 companies (i.e., all accelerated and non-accelerated US GAAP filers, as well as all foreign private issuers using International Financial Reporting Standards (IFRS)), might be too large to be integrated successfully at one time. These companies, especially the smaller US GAAP filers, will likely be the most in need of outside help in preparing their XBRL exhibits. Such a large phase-in group could put unnecessary strain on third parties capable of providing these services. Therefore, we suggest that the third phase-in group might only include (1) accelerated filers using US GAAP and (2) IFRS large accelerated and accelerated filers. The final phase-in group could include the remaining filers (i.e., all non-accelerated filers using either US GAAP or IFRS). This approach would effectively divide the 10,000 companies now in the proposed third phase-in into two groups, with 99% of the total US market capitalization accounted for once all accelerated filers are phased in as part of the third group.

In addition, we are concerned that the effective dates in the Proposed Rule (e.g., fiscal periods ending on or after 15 December 2008 for the first phase-in) would require the annual report filed on Form 10-K to be the first SEC filing tagged by a calendar year-end company. We believe it would be an easier transition for a company's first tagged SEC filing to be a quarterly report filed on Form 10-Q, especially in the second year when detailed tagging of the notes would be required. This also would put all issuers on a level playing field regardless of their fiscal year-end. Therefore, we recommend the Proposed Rule's effective dates for the first phase-in group be amended to apply to the first Form 10-Q within a fiscal year beginning after 15 December 2008. A similar change should be made to the effective dates of the succeeding phase-in groups as well.

We concur that a grace period for the filing of a company's first XBRL exhibit, as well as for the first exhibit with detailed footnote tagging, seems appropriate. However, as discussed above, a company's first XBRL exhibit could relate to a quarterly report filed on Form 10-Q. We believe the SEC also should provide a grace period for the filing of a company's first XBRL exhibit related to an annual report filed on Form 10-K in both year one (block tagging) and year two (detailed footnote and schedule tagging).

In our view, the Proposed Rule has appropriately limited block tagging of financial statement notes to the initial year of compliance for each issuer, as we had suggested in our response to CIFiR's Progress Report. As we stated then, a two-year phase-in of detailed tagging of financial statement notes would spread the implementation costs over two years, while still providing market participants more useful information in a relatively short time.

Finally, we also generally agree with the following aspects of the proposed phase-in:

- Tagging of Management's Discussion and Analysis (MD&A) and executive compensation disclosures should not be mandated as part of the proposed phase-in. However, to the extent a comprehensive taxonomy exists for such disclosures, a registrant should be allowed to tag this information at its option.

- Traditional ASCII or HTML-format SEC filings should not yet be eliminated. Interactive data still represents a relatively new technology for both companies and investors, and the traditional filing format should be maintained for now.

- Transition reports for a change in fiscal year-end should include an XBRL exhibit, subject to the phase-in provisions.

IFRS considerations

Under the Proposed Rule, foreign private issuers that prepare their financial statements using IFRS as published by the International Accounting Standards Board (IASB) would not be required to comply with mandatory XBRL tagging until fiscal periods ending on or after 15 December 2010, regardless of their size. While we would otherwise prefer to see US GAAP and IFRS filers of similar size transition at the same time in order to maintain a level playing field among issuers, we acknowledge that the maturity of the IFRS taxonomy may not be on par with that of the US GAAP taxonomy at this time. Therefore, the delay in the transition of IFRS filers seems appropriate.

As proposed, foreign private issuers who use neither US GAAP nor IFRS as published by the IASB (e.g., a foreign private issuer that uses local GAAP or a jurisdictional version of IFRS and must reconcile its statements to US GAAP) would not be subject to interactive data requirements. As raised by the SEC in the proposing release, we too are concerned this exclusion could create a disincentive for foreign private issuers to adopt either US GAAP or IFRS as published by the IASB. At the same time, some of these foreign private issuers might want to submit tagged financial information (e.g., if its competitors provide XBRL-formatted information, the foreign private issuer might feel compelled to do so as well), and they should be accommodated, but the Proposed Rule prohibits them from doing so.

Lastly, the SEC also should coordinate and align the proposed adoption of XBRL with any initiative to allow or require the use of IFRS by domestic issuers. If a domestic issuer had an impending adoption of IFRS, undertaking the XBRL-tagging effort of its US GAAP financial statements likely would not be cost effective. This concern could more likely affect issuers that are not large accelerated filers and phase-in to XBRL tagging on a delayed basis.

Liability standards

We are concerned that the Proposed Rule suggests two different liability standards for interactive data submitted to the SEC. As proposed, the XBRL data file (i.e., the computer readable code) submitted to the SEC would be subject to only limited liability, similar to the SEC's existing VFRP. The interactive data file would not be considered "filed" or part of a registration statement or prospectus for purposes of Sections 11 and 12 of the Securities Act of 1933 (the Securities Act) or Section 18 of the Securities Exchange Act of 1934 (the Exchange Act). However, human-readable interactive data, as displayed through browser software available on the SEC's website, would be subject to the same liability under the federal securities laws as the corresponding portions of the traditional filing and would be considered "filed."

We find such a dual liability standard to be confusing. We recommend that the SEC instead adopt the same liability standard as exists now for XBRL-related documents under the VFRP. That is, both the XBRL data file and the human-readable interactive data should be considered "furnished", at least during the phase-in. Over time, the SEC could reconsider the "furnished" versus "filed" status of XBRL data and the corresponding liability standards.

If the SEC is concerned that a measure of liability is necessary to assure that issuers and their management devote the necessary attention to the quality and accuracy of XBRL exhibits during the phase-in period, this could be accomplished in a way that would be less confusing. As an exhibit required to be submitted as part of periodic reports under the Exchange Act, it would appear that the preparation of XBRL exhibits would fall within the scope of "Disclosure Controls and Procedures" (DC&P), as defined in Regulations 13A and 15D under the Exchange Act, absent an explicit exemption by the SEC. Further, absent such an exemption, it would appear that XBRL exhibits would fall within the scope of the officer certifications with respect to DC&P as required under Item 601 of Regulation S-K.

Whether or not the SEC exempts the preparation of XBRL exhibits from the scope of DC&P and the related officer certifications, we believe that it is clear that, as long as the XBRL data is not filed, such data falls outside the scope of internal control over financial reporting, as defined in Regulations 13A and 15D under the Exchange Act. We urge the SEC to make a clear statement to this effect in order to dispel any potential confusion with respect to the scope of the related management assessment or auditor attestation under Section 404 of the Sarbanes-Oxley Act.

Just as the SEC has concluded that auditors have no responsibility for XBRL data furnished as part of a registration statement, the SEC should similarly clarify that underwriters, officers, directors and any other named experts do not have any liability under Sections 11 or 12 of the Securities Act for XBRL data furnished as part of a registration statement. As a result, these parties should not need to establish a due diligence defense with respect to furnished XBRL data.

In any event, we also are concerned that the Proposed Rule does not explicitly address auditor liability for either the XBRL data file or the human-readable interactive data. This could lead some to assume that auditors bear liability for such data, even if there is no separate attestation report from the auditor. We believe the SEC should clarify that, in the absence of a separate attestation report, auditors have no liability with respect to furnished XBRL data, consistent with the conclusion that SAS 8 does not apply because auditors are not associated with such data.

Consequences of non-compliance

We generally agree that the consequences laid out in the Proposed Rule for failure to comply with the interactive data submissions are appropriate. For example, we agree that a filer that was deemed not current solely as a result of not providing an interactive data exhibit when required should be deemed current and timely upon providing the interactive data (i.e., a delinquent XBRL exhibit or website posting should not cause the registrant to be considered a nontimely filer or to lose Form S-3 eligibility for one year). However, we are concerned that it may be difficult for the SEC to monitor compliance with timely posting of XBRL-tagged information on a company's website. The cost of such monitoring effort could outweigh any benefit to investors, as the information would already be available on EDGAR. Accordingly, we suggest the SEC consider removing the requirement for a company to post interactive data on its website. However, voluntary posting should be allowed and encouraged.

Financial statement requirements

We support the Commission's proposal to not require the interactive data submission for other financial statements that might be required of filers, including those financial statements provided pursuant to Rules 3-05, 3-09, 3-10, and 3-16 of Regulation S-X. After the phase-in, if the SEC wishes to reevaluate this position, we question the utility of tagging financial statements that are not expected to be filed on a recurring basis. Therefore, Rule 3-05 financial statements should continue to be excluded from the scope of XBRL tagging.

The Proposed Rule provides guidance for furnishing an XBRL exhibit in an amended periodic report in the event of a restatement of previously issued financial statements for the correction of an error. However, it indicates that companies would not be permitted to provide interactive data as an exhibit to a Form 8-K, which often is used to provide updated financial statements not caused by an error (e.g., a discontinued operation, change in reportable segments, retrospective accounting change). In these circumstances, we recommend that the Commission provide for furnishing an XBRL exhibit within a Form 8-K.

IPO registration statements

Under the Proposed Rule, subject to the phase-in schedule, all registration statements filed under the Securities Act, including initial public offerings (IPO), would be required to include interactive data when financial statements are included directly in the registration statement, rather than being incorporated by reference. We understand that a newly public company generally would not qualify as a large accelerated or accelerated filer until its second annual report filed with the Commission. Therefore, it would appear that the IPO of a newly public company would not be required to include tagged financial information in its registration statement until non-accelerated filers are required to provide interactive data. We recommend that the transition provisions for IPO registration statements be clarified.

Moreover, we question whether an XBRL exhibit should be required to be furnished in connection with the registration statement for an IPO. A significant percentage of IPO filings never become effective for a variety of reasons. Often, financial statements filed in the IPO registration statement are updated and amended prior to effectiveness. Further, XBRL data would more likely benefit the secondary

market of investors rather than the more limited number of initial investors in an IPO. Therefore, subject to the proposed phase-in, we recommend the Commission only require the XBRL exhibit once the related IPO registration statement becomes effective (with a 30-day grace period for submission).

Other comments and questions

The Proposed Rule contains several areas that require further guidance.

- In the proposing release, the SEC encourages US GAAP and IFRS filers to voluntarily provide financial information in interactive data format prior to their mandated phase-in period and notes that voluntary interactive data submissions would be under the proposed rules instead of the existing rules of the VFRP. The SEC should make clear that issuers voluntarily submitting XBRL-formatted information before their phase-in should be able to decide on a period by period basis whether to do so without adversely affecting any available grace periods upon their mandatory phase-in date.

- In order to promote comparability, the Proposed Rule limits the use of extensions to circumstances where the appropriate financial statement element does not exist in the standard list of tags. The SEC also is proposing that wherever possible, preparers change the label for a financial statement element that exists in the standard list of tags, instead of creating a new customized tag. We recommend that Regulation S-T and the EDGAR Filer Manual be revised to provide detailed guidance to companies on when extensions are and are not allowed. Other guidance available to preparers, such as the XBRL US Preparers Guide, also could better address issues such as company-specific extensions.

- The proposing release implies that the annual updates to the US GAAP taxonomy will be issued by XBRL US. We believe that the ongoing maintenance of the US GAAP taxonomy for changes in GAAP and SEC requirements is of critical importance to the success of interactive data. Therefore, the SEC's maintenance and support plan, including the mechanism to be used to communicate changes to the marketplace, should be exposed for comment.

- The Proposed Rule states that the Commission plans to utilize validation software to check interactive data for compliance with many of the applicable technical requirements and to help the Commission identify data that may be problematic. We believe the SEC should make its validation software publicly available. There should be no doubt among preparers as to whether their XBRL exhibit will pass any validation checks upon submission.

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We would be pleased to discuss our comments with the Commission or its staff at your convenience.

Very truly yours,

Ernst & Young LLP