

August 1, 2008

U.S. Securities and Exchange Commission  
Attn: Secretary  
100 F Street, NE  
Washington, DC 20549-1090

Re: **File Number S7-11-08**, *Interactive Data to Improve Financial Reporting*

Dear Secretary:

Deloitte & Touche LLP supports the Commission's initiative to require registrants to provide financial information in an interactive data format and is pleased to respond to the Commission's proposed rule, *Interactive Data to Improve Financial Reporting* (Release Nos. 33-8924; 34-57896; 39-2455; IC-28293; the "Release"). Rather than respond to each individual element of the Release, we wish to take this opportunity to provide the Commission with our broader perspectives on this initiative.

Overall, we support the objectives of the proposed rule and believe that the use of interactive data has the potential to improve financial reporting. We agree that no form of assurance should be required for interactive data during the phase-in period. However, as interactive data and its use evolves, the Commission should work with the public, the PCAOB, and the auditing profession to ensure that assurance models evolve to meet the needs of investors and to maintain the public's trust in the financial markets.

To ensure successful implementation of the proposed rule, the Commission should clarify or revise certain aspects of the Release and the proposed rule, as discussed below.

### **Updated Preparer Guidance**

Because XBRL is a new technology for many registrants, successful implementation of the Commission's proposed rule will depend heavily on the availability of comprehensive, understandable preparer guidance. The Commission should update the EDGAR Filer Manual to provide additional guidance on tagging information in the footnotes and financial statements, and this update should be exposed for public comment sufficiently in advance of the proposed adoption dates. The Commission also should work with others in the XBRL community to ensure that sufficient preparer and user guidance (such as the "XBRL US GAAP Taxonomy Preparers Guide") and software tools are available for registrants before the mandatory phase-in dates. For company-specific extensions in particular, it is critical that before the phase-in begins the Commission ensure there is robust guidance on when the creation of extensions is permissible. Without this guidance, registrants may create

unnecessary or inappropriate extensions, which may reduce the comparability of registrants' financial statements.

### **Maintenance, Support, and Updating of Taxonomies**

Maintenance, support, and timely updating of the underlying taxonomies will be critically important to ensuring the success of the Commission's interactive data initiative. The Commission should expose for comment its plan for ensuring that the XBRL taxonomies remain current as well as its planned mechanism for communicating such updates to preparers and interactive data users. If the Commission's plan contemplates delegating certain maintenance responsibilities to independent parties, it should specify how such efforts will be funded in the future.

### **Validation Software Considerations**

The Release states that the Commission plans "to use 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." The Commission should release its validation criteria for public comment sufficiently in advance of the first phase-in dates under the rule to enable preparers and users to understand the extent of the procedures performed by the software and the expectations of the Commission.

The Commission also should monitor the results of its validation checks to ensure that the quality and accuracy of the interactive data submissions meet the needs of investors, analysts, and other users. The Commission should look to the number of validation errors, rejected submissions, and other data points to assess the reliability of the interactive data submissions.

### **Monitoring During the Phase-In Period**

The Release states that the time between phase-in periods "is intended to enable [the Commission] to monitor implementation and, if necessary, make appropriate adjustments during the phase-in period." The Commission should specify, for the benefit of preparers and users, (1) the criteria that it will use during the early phase-in periods to assess the success of the implementation and (2) how it will determine whether additional adjustments will be necessary for the later phase-in periods.

The implementation cost estimates provided in the Release may be optimistic considering there is no comparable precedent for the mandate proposed in the Release. The Commission should monitor the implementation costs during the earlier phase-in periods to enable users to adequately address any concerns and to allow the Commission to revise the implementation schedule, if necessary. In addition, as the Commission obtains updated information on implementation costs incurred by preparers during the earlier phase-in periods, it should make this information publicly available to assist the planning efforts of registrants in the later phase-in groups.

### **Assurance Issues During the Phase-In Period**

We agree with the Release's provision that during the three-year phase-in period, no form of assurance should be required for the interactive data exhibit furnished with a registrant's filing. During their transition to the new reporting requirements, preparers will need to develop or refine existing internal review procedures to promote accurate and consistent tagging that will meet the expectations of the Commission and address the needs of all financial statement users, including investors and analysts. Although we agree that assurance should not be mandated during the phase-in period, we believe that application of independent assurance procedures to the interactive data exhibit would further build broad marketplace trust in the reliability of that information, and we anticipate that certain preparers may voluntarily seek to obtain assurance on their interactive data to satisfy the expectations of investors and analysts.

#### *Clarifying Extent of Auditor's Involvement With the Interactive Data Exhibit*

Investors that use financial statements issued by registrants that have not voluntarily obtained assurance on the interactive data exhibit may nevertheless incorrectly assume that assurance has been provided on that exhibit. To prevent investor confusion, registrants' filings should clearly specify the extent of auditor involvement with the interactive data exhibit. The PCAOB and the Commission should work with the auditing profession to revise the standard report of the independent registered public accountant (hereinafter referred to as the "auditor's report") to explicitly refer to the financial statements filed in Item 8 of the registrant's Form 10-K and perhaps to include a statement that assurance has not been provided on the interactive data.

However, prior to the issuance of amended auditing standards, we recommend that the final release explicitly prohibit tagging the auditor's report (or information related to it, such as the form of opinion, whether or not the report includes a going concern uncertainty, and the date of the auditor's report) when no assurance has been provided on the interactive data exhibit. Otherwise, an investor viewing the report in the rendered XBRL document could incorrectly conclude that the auditor's report covers the interactive data. Such a rendering may also implicitly create auditor association with the interactive data, which is inconsistent with other parts of the Release that state that application of the procedures in AU Sections 550<sup>1</sup> and 711<sup>2</sup> to the interactive data is not required. Unless an auditor's report on the interactive data exhibit is included in the filing, the Commission also should require separate disclosure in the interactive data exhibit explicitly stating that the interactive data have not been subject to any assurance procedures either at the individual tag level or taken as a whole.

As referenced above, the Release states that "[w]ith respect to our proposed rules, an auditor would not be required to apply AU Sections 550, 722, or 711 to the interactive data provided

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<sup>1</sup> AICPA *Professional Standards*, AU Section 550, "Other Information in Documents Containing Audited Financial Statements."

<sup>2</sup> AICPA *Professional Standards*, AU Section 711, "Filings Under Federal Securities Statutes."

as an exhibit in a company's reports or registration statements, or to the viewable interactive data." We agree that AU Section 550 does not apply and that AU Sections 722<sup>3</sup> and 711 are not required. The Commission could avoid the potential for confusion by requesting that the PCAOB issue guidance consistent with this interpretation.

#### *Accommodation of Voluntary Assurance*

Although the Release does not require it to do so, a registrant may elect to obtain assurance on its interactive data during the phase-in period; this appears permissible under the proposed rule. The Commission should work with the PCAOB and request that the PCAOB staff questions and answers on providing XBRL assurance,<sup>4</sup> which were used during the XBRL voluntary financial reporting program, be updated for use beyond that program. The Commission also should develop specific guidance on how the auditor reports that are issued on interactive data are to be filed in conjunction with the interactive data exhibit.

#### *Interaction Between Interactive Data and Internal Control Over Financial Reporting*

The Release observes that "issuers may integrate interactive data technology into their business information processing." It goes on to note:

When this integration occurs, the preparation of financial statements may become interdependent with the interactive data tagging process. As this occurs, an issuer and its auditor should evaluate these changes in the context of their reporting on internal control over financial reporting. [Footnote omitted] However, the evaluation would not require an auditor to separately report on an issuer's interactive data provided as an exhibit to a [filer's] reports or registration statements.

We recommend that the final release clarify that the auditor's report on a registrant's internal control over financial reporting (ICFR) provides no assurance on the registrant's interactive data exhibit. Under PCAOB standards, an auditor is not permitted to perform an audit of the effectiveness of ICFR unless it has audited the underlying financial statements to which the ICFR relates. Accordingly, for ICFR to be extended to include controls over the creation of the XBRL submission, the auditor also would have to perform an audit of the XBRL submission.

#### **Clarifying Extent of Auditor Liability**

The Release states that "the usual liability provisions of the federal securities laws also would apply to human-readable interactive data that is identical in all material respects to the corresponding data in the traditional format filing [footnote omitted] as displayed by a viewer that the Commission provides." This language is unclear and seems inconsistent with the

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<sup>3</sup> AICPA *Professional Standards*, AU Section 722, "Interim Financial Information."

<sup>4</sup> May 2005 PCAOB Staff Questions and Answers, "Attest Engagements Regarding XBRL Financial Information Furnished Under the XBRL Voluntary Financial Reporting Program on the EDGAR System."

notion that the interactive data should be considered furnished and not filed. The Release also fails to address whether Section 11 liability exists for viewable interactive data for other parties associated with the registrant's filing, such as the auditors and underwriters. In addition, attaching liability on the basis of a viewable rendering seems inconsistent with the fundamental nature of XBRL, which emphasizes the machine-readable characteristics of financial data over the human-readable renderings.

We believe that both the interactive data exhibit and the viewable interactive data should be deemed furnished and not filed. The final release also should state explicitly that Section 11 liability for traditional financial statements does not transfer to interactive data regardless of whether it is identical in all material respects to the traditional financial statements. Furthermore, the final release should specifically address auditor liability for situations in which (1) the registrant has voluntarily engaged its auditor to provide assurance on the XBRL submission and (2) the related report is included in the registrant's filing with the Commission.

It also would be helpful if the final release clarified whether preparation of the interactive data exhibit would fall within the scope of "Disclosure Controls and Procedures" (DC&P) as defined in the Securities Exchange Act. The Release indicates that the interactive data is excluded from the officer certification requirements under the Exchange Act, but it is unclear whether the basis for this exclusion is that the exhibit does not constitute DC&P as defined by the Exchange Act or whether the exclusion is simply an exception to the general rule that has been granted by the Commission at this time.

### **Early Adoption of Proposal**

The Release states that "companies that are not required to provide interactive data until a later time would have the option to do so earlier." The Commission should clarify how this provision might be applied by a registrant in one of the later phase-in groups. With the elimination of the voluntary filer program for all registrants except registered investment companies, it is unclear whether a registrant that wishes to early adopt the rule would be subject to all of its provisions. For example, could an early-adopting registrant furnish interactive data in a filing and choose not to furnish interactive data in subsequent filings until required by the rule? In addition, the Commission should clarify whether an early-adopting registrant could continue to block tag its financial statement footnotes until the date it is actually subject to the mandatory requirements of the rule to tag its footnotes at the detailed level.

### **IPO Registration Statements**

The Release states that "all registration statements . . . including initial public offerings [are] required to include interactive data when financial statements are included directly in the registration statement . . ." For initial public offerings, it is unclear whether a registrant will be required to furnish interactive data for each pre-effective amendment in situations in which multiple amendments to the registration statement are filed with the Commission. We do not

believe that the Commission should require interactive data to be submitted until after the initial public offering registration statement becomes effective.

### **Interactive Data and Financial Statement Requirements**

Registrants frequently use Form 8-K to update financial statements to reflect changes that are not corrections of errors (e.g., discontinued operations or retrospective accounting changes). The proposed rule currently would apply only to registration statements, annual reports on Forms 10-K or 20-F, quarterly reports on Form 10-Q, and transition reports. The Commission should clarify whether a registrant should file interactive data for Forms 8-K that update financial statements.

With respect to other financial statement requirements in registrants' filings, we support the Commission's exclusion from the interactive data submission of financial statements provided pursuant to Regulation S-X, Rules 3-05, 3-09, 3-10, 3-14, and 3-16.

### **Need For Assurance After the Phase-In Period**

The Release states:

Financial reporting based on interactive data would create new ways for investors, analysts, and others to retrieve and use financial information in documents filed with us. . . . Through interactive data, what is currently static, text-based information can be dynamically searched and analyzed, facilitating the comparison of financial and business performance across companies, reporting periods, and industries.

Such benefits of XBRL ultimately may lead financial statement users, including investors and analysts, to rely on interactive data as their primary source of information for financial analysis. This could create an expectation gap when an audit opinion covers only the traditional financial statements and not the interactive data. We are prepared to work with the Commission, the PCAOB, and others in the profession to help develop an appropriate assurance framework that would meet investors' needs at a reasonable cost. Throughout the phase-in period, the Commission should seek feedback from financial statement users regarding (1) whether their primary source of information for investing decisions is financial statements filed in the traditional format or as interactive data and (2) whether they believe assurance is needed for the interactive data. We believe that if the Commission ultimately determines that investors are relying primarily on interactive data as a basis for their decision making, the Commission should require auditor assurance on the interactive data.

### **Coordination With IFRS Initiatives**

The Commission has issued a concept release on allowing U.S. issuers to prepare financial statements in accordance with International Financial Reporting Standards. The Commission should ensure that any rulemaking associated with that concept release remains aligned with its XBRL rulemaking efforts.

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We would be pleased to discuss these comments with you at your convenience. If you have any questions, please contact Jim Schnurr at (203) 761-3539 or Mark Bolton at (203) 761-3171.

Very truly yours,

/s/ Deloitte & Touche LLP

cc:

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