

**SEC Advisory Committee on Improvements to Financial Reporting  
Subcommittee 4: Delivering Financial Information  
Report for Discussion at November 2, 2007 Full Committee Meeting**

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***Introduction***

Subsequent to the August 2, 2007 meeting of the SEC Advisory Committee on Improvements to Financial Reporting (Advisory Committee), committee members formed four subcommittees to address the issues raised in Robert Pozen's discussion paper dated July 31, 2007 (Discussion Paper).

The attached report summarizes the efforts of Delivering Financial Information subcommittee thus far. At the November 2, 2007 full committee meeting, the subcommittee will present this report for discussion by the full committee.

**Members:** Jeffrey Diermeier, Chair  
Christopher Liddell  
William Mann  
Peter Wallison

**Observer:** Donald Young, FASB (observer for FASB Chairman Robert Herz)

***Scope of Work Plan***

Based on the Discussion Paper, the subcommittee identified the following areas for further deliberation:

- Delivering Financial Information to Investors Generally
- Use of Summary Reports
- Tagging of Financial Information (XBRL)
- Press Releases and Website Disclosures
- Disclosures of Key Performance Indicators and Enhanced Business Reporting

The subcommittee has been evaluating the information needs of investors, methods by which financial information is provided to investors, and means to improve delivery of financial information to all market constituencies. In evaluating the information needs of investors, the subcommittee has recognized that the information needs of different types of investors are not always the same. The subcommittee has agreed that information delivery must be provided in a manner that will make it efficient, reliable, and cost-effective for each of the relevant investor groups and will not significantly increase burdens on reporting companies.

The subcommittee has determined to focus its efforts on financial information provided by reporting companies in their periodic and current reports under the Securities Exchange Act of 1934 ("Exchange Act") and other ongoing disclosures provided by

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reporting companies to investors and the market.<sup>1</sup> The subcommittee believes that it can provide some useful recommendations to enhance ongoing reporting that will enable investors to better understand reporting companies.

In furtherance of its work, the subcommittee has interviewed representatives of various constituents of the financial reporting process regarding the use of XBRL and intends to approach additional market representatives regarding issues relating to the use of XBRL under the Exchange Act reporting regime. The subcommittee also intends to evaluate further other information disclosure models, including those involving enhanced uses of technology.

Question for the Full Committee:

Does the full committee agree with the subcommittee's preliminary scope? What areas, if any, would the full committee recommend adding or removing?

***Deliberations and Preliminary Hypotheses***

Use of Summary Reports

To address the information delivery issues, the subcommittee segmented retail and institutional investors. At the retail level, the subcommittee particularly targeted the serious retail investor as the primary beneficiary of improved company financial reporting. The subcommittee noted that serious retail investors may be persons who have concentrated holdings due to family or employment and, therefore, have a need to understand the economic nature of their portfolios or the investors may be individuals who take the time to understand and evaluate their portfolios. With these factors in mind, the subcommittee has observed that individual investors are an important constituency of the investment community. Individual investors have, generally, both less time availability and access to primary and secondary analysis tools than do institutional investors, thus raising the time commitment they need to do comparable analyses of company filings. A large portion of individual investors have lower levels of financial sophistication and respond to complicated documents by simply not reading them.

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<sup>1</sup> The subcommittee has determined not to address information delivery in registered offerings under the Securities Act of 1933 for two primary reasons. First, the SEC already has addressed information delivery in registered securities offerings when it adopted new communication rules in 2005 for registered offerings by issuers other than registered investment companies. Second, the subcommittee viewed information delivery relating to ongoing company reporting by public companies as the area needing greater focus.

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Subcommittee #4 has been exploring the use of a management letter to shareholders or other summary report as a mechanism for a reporting company to provide summary information to investors and shareholders about its business, financial condition, and other material information annually, quarterly, and at more frequent intervals. The subcommittee believes that companies should be encouraged to provide relatively short, plain English shareholder summary letters to investors that would help investors fundamentally understand the companies' businesses and activities. Such a summary report would be geared toward the retail investor and would be in addition to the annual report to shareholders currently required under the federal proxy rules and the periodic reports filed with the SEC. The subcommittee contemplates that the summary report would be available to the public on a company's website and also may be provided to shareholders directly.

The subcommittee has not explored in detail the content of a summary report, but, at a minimum, such a summary report could summarize key information that is discussed in greater detail in a company's periodic reports filed under the Exchange Act or in a company's glossy annual report. Such a summary report also could contain additional information about a company and its financial condition and results of operations. Members of the subcommittee believe that the summary report would be most useful if it included high-level summaries across a broad range of key components of the underlying report or release, rather than detailed discussion of a limited number of variables. The summary report would not replicate a company's glossy annual report. For a summary of a company's annual report, among the items that subcommittee members noted that investors may want to see in a summary report include some or all of the following:

1. A letter from the CEO/Chairman;
2. Brief description of the company's business, sales and marketing;
3. A digest of the company's GAAP and non-GAAP key performance indicators (KPI's);
4. 10 year summary financial figures;
5. Summary of a company's current financial statements;
6. MD&A, including a list of the company's subsidiaries and brands discussions, as well as a summary of risk factors.

Interim summary reports could be used to provide updated information based on information contained in a company's Forms 10-Q or other public information releases. The subcommittee would expect such summary interim reports to be relatively short.

The subcommittee discussed the fact that a summary report should present information in a manner that emphasizes, within the universe of material information that is disclosed, the information and analysis that is most important to a company. The subcommittee views the summary report approach as an efficient way to provide retail investors a

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concise overview of a company, its business, and its financial condition. For the more sophisticated investor, the subcommittee believes that the summary report may be helpful in presenting the company's unique story which the sophisticated investor could consider as it engages in a more detailed analysis of the company, its business and financial condition.

The subcommittee believes that consideration of the treatment of the summary report under the federal securities laws is important. The subcommittee noted that issues to consider include whether the summary report would be required to be filed with or furnished to the SEC, and what liability reporting companies would have for the content of their summary reports. The subcommittee discussed ways in which reporting companies could use such summary reports and address concerns about increased liability under the antifraud provisions of the federal securities laws. In addition, to encourage the use of summary reports by reporting companies, the subcommittee believes that it is appropriate to permit the summary reports, without additional liability, to:

- ◆ reference previously filed company reports under the Exchange Act;
- ◆ include hyperlinks to such filed Exchange Act reports or other additional information about a company so that investors easily can obtain additional or more detailed information about the matters discussed in the summary report;
- ◆ be provided at or after the Exchange Act periodic report or earnings release on which it may be based has been filed with or furnished to the SEC;
- ◆ to aid accessibility, be available electronically to the public on a reporting company's website without being required to be filed with or furnished to the SEC; and
- ◆ not be considered a "solicitation" under the federal proxy rules if it is regularly released in the ordinary course.

Based on the above considerations, the subcommittee intends to finalize the following preliminary hypotheses for the January 2008 full committee meeting:

***Underlying principle: Increase the usefulness of company reports to individual shareholders without raising either the cost to produce or the legal exposure for issuers.***

***Preliminary Hypotheses:***

***The SEC should confirm the ability of reporting companies to publicly provide summary reports of their periodic or current Exchange Act reports or other ongoing information releases provided to the public.***

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*Such summary reports should be able to reference the filed, furnished, or other publicly available report or release on which the summary is based and provide active hyperlinks to such reports and additional information. Such references or hyperlinks should not affect a reporting company's liability under the federal securities laws and statements in the summary reports should be able to be evaluated in light of the reports or information that have been referenced.*

*Such summary reports should not be considered "solicitations" under the federal proxy rules if they are regularly released by the reporting company in the ordinary course.*

Questions for the Full Committee:

Does the full committee agree with the subcommittee's preliminary hypotheses regarding summary reports? What revisions, if any, would the full committee suggest?

Use of Interactive Data (XBRL)

The subcommittee has been examining the use of XBRL by public reporting companies. XBRL is an international information format standard designed to help investors and analysts find, understand, and compare financial and non-financial information by making this information machine-readable. It also offers benefits to companies by allowing them to better control how their financial or non-financial information is disseminated and, by integrating their operating data with their financial reporting disclosure, to reduce reporting costs. XBRL is a computer language that permits the automation of what are now largely manual steps for access, validation, analysis and reporting of disclosure. Because XBRL uses standardized XML (eXtensible Markup Language) technology, it can be read by a wide range of diverse software systems.

Under current technology, for example, if an investor or analyst wants to compare the sales of all the pharmaceutical companies, he must download the financial statements of these companies and input the sales data into a spreadsheet. With XBRL, however, widely available software application can go into the SEC's database, extract the sales numbers and download them directly to a spreadsheet. This process takes seconds rather than the hours or days that might be required using current methods.

XBRL does this through standardized definitions of terms, like a dictionary. For example, there might be several terms for the top line on an income statement, which might be called sales, turnover or revenues. All of these terms mean the same thing, and

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are translated in XBRL into a common symbol, readable by a computer. When reproduced as a financial statement from the XBRL source, the statement will look exactly like the statement that the company produced for reading by humans.

The standardized terms are then arranged in a logical structure called a taxonomy. Under sales, for example, there might be several subcategories, such as sales through retailers, sales over the Internet, etc. These would be similarly standardized and included under sales (or turnover or revenues) because they are all aggregated to produce the number for sales. That logical structure is a taxonomy. A GAAP financial statement itself, in that its underlying details are summarized in the line items of a balance sheet or income statement, is a kind of taxonomy. There are taxonomies for different kinds of businesses. For example, the banking industry sector taxonomy differs from that of a software industry sector company.

XBRL also contains standardized relationships, such as EBITDA, so that if an investor or analyst wants to know the EBITDA of each of the pharmaceutical companies he would simply query the SEC's database with the appropriate search application. The numbers would again be downloaded in seconds. There would be no need to download the complete financial statements, ferret out the constituents of EBITDA and do the necessary calculations. The standardized XBRL concept of EBITDA embedded in XBRL provides all the explicit rules that enable a search engine to find the specifically identified concepts necessary to compute the number.

The SEC has adopted a voluntary pilot program for use of XBRL. Over four dozen companies are participating in the pilot program and have agreed to voluntarily submit their annual, quarterly and other reports with interactive data for a period of one year. The SEC recently has expanded the voluntary filing program to include mutual funds which will file using both a U.S. GAAP taxonomy developed by XBRL-US and a risk and return taxonomy developed by the Investment Company Institute.

The subcommittee has met with representatives of various constituencies of the financial reporting process regarding the use of XBRL and intends to approach additional market representatives regarding issues relating to the use of XBRL under the Exchange Act reporting regime.

The subcommittee believes, in conformity with the unanimous opinion of both preparers and users we consulted, that interactive data under an XBRL platform will offer significant benefits to public company preparers, users of public company reports, and the financial markets generally. Although the subcommittee recognizes that there are certain challenges to full implementation of XBRL, it believes that these can be effectively addressed. Accordingly, the subcommittee has concluded that XBRL has the potential to provide financial and non-financial information to the market in a way that is

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better, faster and cheaper than the current system, enhancing the availability, accessibility, consistency, and comparability of business information, together with cost-savings that will be of great benefit to companies, analysts and investors alike.

The subcommittee sees the following potential benefits for reporting companies and users of financial and non-financial information:

- Benefits to reporting companies
  - Improved communications with analysts and investors
    - Release of corporate data could be instantaneous and immediately usable – data can be immediately assimilated into analysts’ models; there is no need to wait for third party aggregators or staff to input the data into their own format and to transmit it to subscribers
    - Reduction in search costs both for preparers and users
    - Because of reduced search costs, there is potential for increased coverage of companies, especially mid-size and smaller companies, by sell-side and buy- side analysts, and at both major brokerage and independent research firms
  - Improved quality of data<sup>2</sup>
    - Because manual input is eliminated, there will be reduced error rates in reporting and inputting of corporate data by aggregators
    - Because aggregators will not be necessary, companies will be able to maintain control over their numbers; what they report will be what goes into the models
    - Improved ability of company to tell its own story
  - Improved integration of company operating and reporting data
    - Operating data can be accessed in the internal enterprise applications where it is regularly stored, and thus used for financial reporting purposes without the necessity for downloading to paper or manual search
    - Same electronically accessible data can also be used for other purposes beyond those of financial statements, including tax, industrial filings, audit, benchmarking, performance reporting, internal management, and sustainability
    - Significant time and cost savings if integration is accomplished

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<sup>2</sup> Although XBRL is frequently called Interactive Data, the use of the term “data” should not be deemed to imply numerical data alone. XBRL also is useful for the tagging of narrative information.

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- Benefits to Users, including both retail investors and the “model builder/research analyst.”
  - Development of more easily accessed, reliable sources of relevant information – lowered cost of search will increase quantity and quality of analysis
    - Reduces the cost of inputting data into analytical frameworks
    - By eliminating manual input, reduces the likelihood of input error either by the user or the aggregator
    - Reduces user dependence on proprietary and inconsistent data sources
    - Increases the likelihood that more users will utilize the primary sources of data
    - Reduces the cost to compare companies and improves comparability
  - Allows analysts to cover more companies because of reduced cost of coverage
    - Increases coverage, especially of small companies that now have no or limited coverage because of the costs of analysts’ time
    - Reduces time spent finding and keying data into analytical models
    - Reduces cost of re-distributing data provided by third-party data providers
    - Research organizations will be able to utilize their higher priced talent to spend more time in analysis rather than data gathering
  - Eases accessibility of the reported information for all investors and market participants
    - Analysts will see all of a company’s reported information, not just the information assembled and reported by aggregators
    - Eliminates time lag between the company filing its reports and analyst evaluation of the reported information
    - With simple search engines, all investors will be able to readily access all the information companies report.
    - Because of sharp reductions in costs of analysis, increases the likelihood that independent analysts will begin to offer their views to retail investors
  - Improves both analysis and dissemination of analysis to clients and others
    - Reported information goes directly into analysts’ models and is immediately accessible
    - Improves the efficient use of firm intellectual property for analysis and enables more rapid and effective collaboration/communication of these concept with clients
    - More information is contained in an XBRL report, lowering the cost of access for all reported information

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The subcommittee recognizes that there may be practical and policy issues associated with full mandatory implementation of an XBRL data reporting scheme. The subcommittee has identified these primary topics:

- Limited acceptance or understanding of XBRL
  - Companies, analysts, and software developers are generally unaware or uninformed about XBRL
    - Company officers do not understand how it works or the improvements it would bring to both their financial reporting and their costs of reporting
    - Company officers believe, incorrectly, that it would be expensive to implement; the two preparers we consulted cited 80 to 100 hours to prepare their first report
    - Companies need greater certainty that XBRL will be adopted before they will expend the necessary resources to understand it and its benefits
- Implementation issues (including continuing education)
  - The taxonomies that XBRL-US intends to release for public review and testing in December, and as adjusted thereafter, will have to be comprehensive for each business sector, including all common reporting concepts
    - There will have to be a continuing and sustainable process that will maintain the alignment of XBRL taxonomies with market and reporting changes
  - Taxonomy
    - The new taxonomy has over 15,000 elements. This is true, but not relevant; XBRL is, first, a dictionary of terms. In order to be useful, it must contain all of the terms or concepts commonly used in GAAP financial statements. Because XBRL also is structured as a taxonomy, with its elements grouped in logical categories, it is not complex or difficult to navigate
    - Testing of taxonomies. The testing process, which is to determine that disclosures are complete and relevant in current market environment, is now underway; the subcommittee understands that the tested taxonomies will be released by XBRL-US for public review and user testing in early December, and public comment and user testing will further test the quality of the taxonomies
    - Need for continuing preparer guidance on use and development of XBRL taxonomies to ensure consistency and comparability, including to assure consistency of extension elements (tags)
    - Effects of extension elements in SEC filings on comparability – customized extensibility enables a company to tell its own unique story

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- but may affect comparability. This is an inherent tension in the system, and one of the things that preparer guidance will need to address on a continuing basis
- Application of XBRL to footnotes and non-financial statement disclosures such as MD&A will require additional work and guidance by XBRL specialists
  - Need to consider financial statements of foreign or other issuers that are not prepared using U.S. GAAP. IFRS taxonomies are currently being recast into US GAAP architecture to promote convergence
  - The special challenges and burdens faced by smaller public companies
- Reliability/accuracy and assurance issues. The subcommittee believes that the following are the key issues that have to be resolved on the assurance question. The subcommittee believes that it is important that audit procedures for assurance on XBRL documents not add materially to audit expense.
    - Accuracy of “tagging”
      - Appropriate taxonomies used to describe reported concepts. E.g. did a bank use the banking taxonomy where appropriate or did they use the software taxonomy?
      - Appropriate application of XBRL taxonomy elements to individual company disclosures. Did management apply the sales taxonomy concept to the sales disclosure or did they apply it to shares outstanding?
      - Conformity with best practices as to the how granular disclosures should be structured using taxonomy concepts. How deep into the reported concepts is it appropriate for issuers to tag, and how far do the investors and analysts want them to tag?
      - Appropriateness of label/reference overrides. E.g., the disclosure item is 'Sales' and the common presentation label is 'Sales' but the company overrides the common presentation label and makes it 'Earning per share' However, if the company overrides the common presentation label and makes it 'Revenue' then is it acceptable?
      - Proper relationships within and between disclosure concepts. E.g., is the EBITDA supporting calculation in conformity with the reported concept?
      - Appropriate application of extensions for company specific reporting concepts. Are the extensions (tags) reasonable and consistently applied via the hierarchical structure?
      - Appropriate and consistent description of reports. Descriptions of the overall report document is more critical in an XBRL environment than in paper reporting, since the reports will be read by machines. E.g., if an investor sends a query for, say, the 'IBM statement of financial position' or the 'IBM balance sheet' he'll get it, but if the name has been changed to 'Period end summary' he won't.

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- Issue of assurance that items are properly tagged without requiring duplicative audit procedures
  - o Certification that the company report, taken as a whole, is fairly presented as well as the application of XBRL taxonomy elements to individual company disclosures. There is concern that investors may believe that assurance is provided at the level of individual disclosure item rather than on the company report 'taken as a whole'.
  - o Consistent use of taxonomies. E.g., consistent application of taxonomies from period to period
- Costs of implementation and compliance
  - If mandated, preparers may use an add-on solution in-house or use a service provider in the early stages before moving to a broader integrated interactive data approach. These costs in the initial phase on the facing documents appear to be low
  - The full benefits of XBRL for companies will most likely come when they incorporate XBRL in their internal reporting, instead of using it as an "add-on" after the financial reports are prepared. The subcommittee understands that is why companies may see XBRL as involving two reports—one the paper report and the other the XBRL report. The subcommittee believes that support from the corporate reporting community for mandating the use of XBRL, will more readily occur if they recognize that very substantial savings will come from developing financial reports directly from internal processes. The subcommittee has observed that currently, the preparation of financial reports is an "add-on" to the reporting of internal data on operations. With XBRL, the two can be integrated, so that financial reports are created directly.
  - Tagging beyond financial statements, such as footnotes and non-financial data, may require significant effort
- Liability Concerns
  - Treatment of XBRL data as filed with or furnished to the SEC

***Underlying principle: Implementing the use of XBRL by public reporting companies will provide significant future benefits to preparers, users, and the market***

***Preliminary Hypotheses***

***The SEC should consider mandating, or through other means create momentum for, wide scale adoption of XBRL within a defined time frame. The***

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*SEC should develop a roadmap that would phase-in compliance based on the size of the reporting company and the amount of information to be reported. The roadmap also would take into account issues involving technological developments and assurance. For example, as a first phase, the SEC should consider mandating the use of XBRL for the facing financial statements for fiscal years ending December 31, 2008 for large accelerated filers.*

*The SEC should work to reinforce the principles that XBRL be available without royalty, with a consistent global architecture, and accessible to the serious retail investor without the purchase expensive software.*

The subcommittee believes that mandating the use of XBRL would accelerate the realization of long term benefits for:

- the preparer community
- investors and analysts
- auditors
- regulators

Accordingly, the subcommittee believes that the SEC should adopt a measured approach in implementing a mandated XBRL system, recognizing that there may be challenges associated with company size, technological developments, and cost. The subcommittee believes that the challenges to adoption of XBRL by reporting issuers can be overcome by the following and intends to evaluate these matters further before the January 2008 full committee meeting:

- Acceptance and implementation of XBRL
  - Require the use of XBRL through a phased-in approach
  - Condition mandatory implementation of XBRL on successful testing of the taxonomies and tagging technology
  - Assure flexibility and technical support to allow for changes in technology and accounting
- Reliability of tagged data
  - Resolve the questions of auditor assurance
  - Consider alternatives to auditor assurance
    - Third-party verification structure
    - Internal company verification/certification
    - Development and use of self-checking software
- Liability for tagged data
  - Phase-in appropriate liability for tagged data

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- Retain auditor involvement and liability as today for filed audited financial statements
  - Consider future treatment of liability for tagged data once companies begin filing periodic and current reports with financial statements prepared on an integrated basis
- Early filers may move more quickly through the phases to help move up the learning curve

Questions for the Full Committee:

1. What views do the Committee members have on the benefits and challenges that the subcommittee has identified?
2. What additional suggestions do the Committee members have to address the identified challenges or other challenges the subcommittee has not noted?
3. What are the Committee's views on making XBRL mandatory or other ideas on achieving a belief in its wide scale adoption to clear the "wait and see" hurdle?
4. What are the Committee's views on the role that a company's auditors should have in a company's use of XBRL?

***Current Status and Further Work***

The subcommittee expects to finalize a recommendation to the full committee regarding the use of summary reports for the January 2008 full committee meeting. The subcommittee expects to continue discussions and develop preliminary recommendations to the full committee regarding XBRL, including assurance and phase-in issues as noted above, for the January 2008 full committee meeting.

The subcommittee expects to undertake the following in subcommittee meetings following the January 2008 full committee meeting:

- Finalize its scope;
- Continue discussions regarding the use of press releases and websites for providing information to investors;
- Consider potential recommendations as to the consistent layout and related matters for regular communications such as a reporting company's quarterly earnings press release;
- Address how MD&A is reported;

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- Continue discussions regarding enhanced business reporting including the disclosure of key performance indicators by reporting companies as well as the use by reporting companies of non-GAAP financial measures;
- Consider the need for the SEC to issue guidance regarding the reporting liabilities of preparers; and
- Consider whether an ongoing dialogue between preparers and users on the subject of communications should be encouraged through a neutral party.

***Coordination with Other Subcommittees***

The subcommittee has not identified any issues at this time to be referred to other subcommittees for consideration.

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