



Via E-Mail

August 1, 2008

Ms. Nancy M. Morris, Secretary
United States Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

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

Dear Ms. Morris:

This comment letter is offered by the American Business Conference (ABC), a coalition of CEOs of midsize growth companies founded in 1981 by Arthur Levitt, Jr. ABC's current chairman is Alfred West, CEO of SEI Investments, Oaks, Pennsylvania.

General Comments We agree with the Commission that issuers should be required to provide financial statement information in interactive form, that is, in eXtensible Business Reporting Language (XBRL). We think that this reform might be of particular value to midsize and small public companies.

Compared to the largest public companies, midsize and small public companies tend to have a greater percentage of their equity in the hands of individuals and are tracked by a smaller number of professional analysts. According to Commission data, companies with less than \$500 million in annual revenues (about 72 percent of all public companies) typically have only half of their shares held by institutions. The other half represents the direct investment of individuals. Leaders of such companies must therefore be particularly mindful of the interests, attitudes, and, crucially, knowledge of individual shareholders. And they must do so in the context of the steadily eroding number of professional analysts who cover smaller public companies.

By reducing the necessity of manual data entry and by making that data easier to search and analyze, XBRL has the potential to transform investment research, especially research across companies and industries, by making it vastly more disciplined and comprehensive. As a result, we believe smaller companies will receive better analyst coverage.

Furthermore, we believe that access to interactive data will improve the ability of individual investors to consider a broader array of companies in which to invest, including smaller public firms. For those individual investors, Internet delivery of XBRL-enriched documents could prove to be as revolutionary in its way as Internet-based shopping. The Internet has provided millions of Americans with an unprecedented opportunity to compare prices and products with a resulting efficiency that benefits those consumers and the economy as a whole. In an XBRL environment, Americans “shopping” for investment options would be similarly able to decide for themselves in a more informed way where best to put their savings. The parallel is not exact, obviously, but it is suggestive.

Cost Neither the Commission’s current, voluntary program for XBRL adoption nor the experience of XBRL in other countries such as Japan have yielded useful data on the cost of XBRL adoption for smaller public companies. For this reason, although we believe that XBRL shows immense promise for improved and more useful financial reporting, we are skeptical of the Commission’s optimistic view of the cost of this change for smaller public companies.

The Commission is correct to note that smaller companies “generally are disproportionately affected by regulatory costs.”¹ This is especially so for new rules whose mandates are not, as in the case of XBRL adoption, scaled to firm size. Nevertheless, the Commission predicts that smaller companies “would be able to provide their reports in interactive data format without undue effort or expense.”²

The Commission bases this conclusion on several things. First, it asserts that smaller public companies tend to have “simpler” financial statements compared

¹ Release, pages 33 – 34.

² Release, page 34.

to large issuers “with fewer elements and disclosures to tag” for the purposes of software formatting.³

Second, the Commission expresses the hope that, following an initial period of investment for interactive data reporting, issuers will experience “efficiencies” thereafter, resulting in a net saving overall.

Finally, the Commission has structured its proposal in a way that would “phase in” its rule over three years. It would first come into effect beginning with fiscal periods ending on or after December 15, 2008 for the very largest accelerated filers. All other accelerated filers would become subject to the rule by December 15, 2009. Finally, smaller reporting companies would commence interactive data reporting no later than December 15, 2010.

This phase-in, the Commission hopes, will allow smaller issuers “to learn from the experience of the earlier filers” while giving them “a longer period of time across which to spread first-year tagging costs.” Moreover, the Commission expects that “both software and third-party services will be available to help meet the needs of smaller filers.”⁴

ABC supports the phasing-in of mandatory interactive data reporting. However, we do not take it for granted that smaller companies will learn from earlier filers – the transfer of knowledge between companies is never smooth or assured or, for that matter, always relevant to different company situations.

Nor can we be certain that new software or third-party services will appear over the next two years or, if they do, that they will be available at an affordable price to smaller companies. As for the “learning curve” effects of regulations, by which upfront costs are said to be recaptured by downstream efficiencies, we would respectfully observe that, given what we have seen in regard to compliance with various Sarbanes-Oxley regulations, this contention seems to be, as is said of second marriages, a triumph of hope over experience.

In light of these unknowns, we believe that the proposed rule should direct the Commission to monitor the potential costs of compliance for smaller public companies as the rule is phased in for larger issuers. Doing so might best be done by the Commission’s Office of Small Business Policy, which has an

³ Release, page 34.

⁴ Release, page 34

admirable history of documenting the disproportionate costs smaller businesses must pay for new, blanket regulations.

If, after two years of implementation, the Commission finds insufficient grounds for assuming that small business could adopt interactive data reporting without undue costs, the deadline for the rule's implementation by small business should be delayed. Moreover, we question the utility of ever requiring interactive data tagging of IPO registration statements. The IPO process is a serious challenge for a young company without adding the burden of providing data in XBRL.

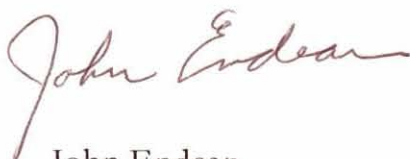
Liability ABC appreciates the Commission's concerns about new liability exposure for companies that adopt interactive data in their financial reporting. We are concerned, however, with the two-part nature of the "safe harbor" outlined in the proposed rule for a company that fails to make a proper filing and later corrects it.

The Release (p. 19) says that no liability would attach for failure to comply if:

- the failure was corrected as soon as practicable, AND
- the failure occurred "despite the issuer's good faith and reasonable effort."

Notions of good faith and reasonable effort have proven to be insufficient standards for protecting parties from liability because they call for a costly, fact-intensive inquiry as to the actions and intentions of executives of defendant companies in private securities claims. In order to ensure that no new liability results, the Commission should remove the two-part test for this protection and make it available if the issuer corrects the failure as soon as practicable when discovered.

Sincerely,



John Endean
President