



SOCIETY OF CORPORATE SECRETARIES & GOVERNANCE PROFESSIONALS

521 FIFTH AVENUE • NEW YORK, NY 10175 • P 212.681.2000 • F 212.681.2005 • WWW.GOVERNANCEPROFESSIONALS.ORG

VIA E-MAIL (rule-comments@sec.gov)

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Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

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Proposed Rule on Interactive Data to Improve Financial Reporting

The Society of Corporate Secretaries & Governance Professionals is a professional association, founded in 1946, with over 3,500 members who serve more than 2,500 issuers. Responsibilities of our members include supporting the work of corporate boards of directors, their committees and executive management regarding corporate governance and disclosure. Our members are generally responsible for issuer compliance with the securities laws and regulations, corporate law and stock exchange listing requirements, and have been on the front-line in implementing the structural changes necessitated by the Sarbanes-Oxley Act of 2002 and the related rules of the Securities and Exchange Commission, the Public Company Accounting Oversight Board and the national securities exchanges. The majority of Society members are attorneys, although our members also include accountants and other non-attorney governance professionals. The Society is generally supportive of the SEC's efforts to require companies to provide interactive data. However, we have concerns with portions of the Proposed Rule, including:

- the extent of the requirements for detailed footnote tagging,
- timing of the phase-in for detailed footnote tagging,
- liability provisions related to viewable interactive data,
- tagging of executive compensation data, and
- the due date for the interactive data submission.

Overall we believe the complexity and estimated cost to implement XBRL has been significantly underestimated.

Detailed footnote tagging

We agree with the year one requirements to tag financial statements and individually tag footnotes as a block of text, assuming that the tagged footnote information can be rendered in a format that is consistent with the current HTML version. However, we believe that the first submission for each issuer should be a Form 10-Q. This would assist issuers in their planning process and allow for a logical progression from the simpler Form 10-Q to the more complex Form 10-K. We also agree that in year two the requirements for tagging footnotes should extend to separately tagging each significant accounting policy and each table as a separate

block of text, also assuming that the tagged footnote information can be rendered in a format that is consistent with the current HTML version. However, we are opposed to the proposed requirement to separately tag each number and each narrative disclosure required by U.S. GAAP and SEC regulations within each footnote because the costs to do so exceed the benefits to users.

We estimate that performing detailed footnote tagging of annual financial statements as outlined in the Proposed Rule would result in a significantly higher number of tagged elements compared to the year one requirements. In year one, company personnel will need to develop a sustainable process, establish controls, train preparers, and create process documentation. Additionally, each tagging selection will require a preparer to determine, validate, apply and document the appropriate tag. Even if the steps for each tagging selection requires only a few minutes, when that time burden is combined with the upfront process development, it would result in hundreds of hours to complete the initial detailed footnote tagging requirement. We also estimate that it will take most issuers more than one hundred hours to tag the footnotes for each subsequent annual filing. Much of the work will have to be redone each year due to regular changes in data, format, narrative content and accounting and disclosure rules.

We believe the SEC requirements should focus on the most useful and used footnote data. Instead of requiring issuers to apply thousands of additional tags for detailed financial and narrative information, we believe a more targeted approach should be employed. We believe the SEC should work with issuers to determine which detailed financial information is most meaningful to financial statement users. We believe such an approach would involve engaging with financial statement users to identify the key data points that users would frequently access. The result may be 50 to 100 key data points for each identified industry group. We believe this approach would better balance the costs to preparers with the benefits to financial statement users. We further believe that the year two requirements should be delayed until the appropriate key data points are identified.

Regardless of what is ultimately determined for tagging numeric information within the footnotes, we disagree with the proposal to tag each required narrative disclosure. We believe narrative disclosures in particular are best understood holistically within the context of the complete financial statements and footnotes. Issuers often refer the reader from one footnote to another so they have an understanding of the impact of various items on the company's financial statements. A separately tagged portion of text that meets a specific U.S. GAAP or SEC regulation can provide investors with an incomplete or distorted view when that disclosure is accessed out of context of other narrative and numeric disclosures. Because narrative disclosures are less comparable between companies than numeric disclosures, it is unclear how much users would marginally benefit from tagging narrative disclosures. The costs to issuers are clear, as tagging the narrative disclosures is the most burdensome aspect of the proposed rule's requirements.

Phase-in requirements

Should the SEC issue a final rule that requires narrative disclosure to be tagged, we believe the phase-in approach for detailed footnote tagging should be extended. We believe that the process companies will need to develop to tag detailed numeric footnote information will be significantly different than the process required for tagging all required narrative disclosures.

As a result, we believe the effort required to move from the year one to the year two proposed requirements are significantly greater than the effort required to comply initially with the year one requirements.

In order to tag each number in the footnotes, a company would map each numeric disclosure to the taxonomy and extend the taxonomy where necessary. However, to tag the required narrative disclosures a preparer would need to map approximately 400 pages of disclosure checklists comprised of more than 3,000 items to each paragraph, sentence, or phrase, as appropriate, that meets the U.S. GAAP or SEC disclosure requirements. After mapping the narrative disclosures to the financial statements, they can then be mapped to the taxonomy. This effort will require experienced practitioners that are familiar with the company's financial statements. This expertise will likely only be available internally which would limit the ability for a preparer to outsource these tasks. In addition, unlike numeric disclosures, narrative disclosures are modified throughout the financial reporting process up to the time of filing.

We believe that based on current software capabilities, tagging narrative disclosure can only be efficiently performed after the HTML filing is complete. Due to the significant difference in process and time required to tag narrative disclosures, we believe the SEC should not require companies to provide detailed tagging of the narrative disclosures. In the alternative, we believe that the year two requirements could be further separated into numeric and narrative footnote tagging and phased in over two years. In year two a preparer would be required to tag numeric footnote disclosures and in year three narrative footnote disclosures would be added.

Grace period and integration of interactive data with business information processing

We agree that over the past decades "developments in technology and electronic data communication have significantly decreased the time and cost of filing disclosure documents." Partly due to these developments the SEC was able to accelerate the due date for quarterly and annual reports. However, there have not been significant changes in the technology for preparing filings subsequent to the time that due dates were accelerated.

As noted in the Proposed Rule, the SEC recognized "that at the outset, filers would most likely prepare their interactive data as an additional step after their financial statements have been prepared." We agree with this assessment and believe it will continue to be an additional step for the foreseeable future. We believe that it would be a significant investment over multiple years for a preparer to integrate interactive data processing into its systems for collecting financial data.

We agree with the initial 30 day grace period allowed for the first filing and for the first filing with detailed footnote tagging. However, because providing interactive data will be an additional step to the current process for many years to come and tagging narrative disclosures can only be efficiently performed when the HTML filing is complete (as outlined above), we believe that interactive data should not be due at the same time as the related filing. Further, because narrative disclosures change significantly over time and narrative disclosure can only be efficiently tagged at the end of the financial reporting process, we believe that the time burden for tagging narrative disclosures will not meaningfully decline after the first year they are required. Placing too many demands on a preparer in a finite period of time threatens the accuracy and quality of the filings and consequently, the usability of interactive data is

diminished. Consequently, we suggest that interactive data should be due within 10 business days after the related filing is filed.

Liability provisions

We believe addressing liability separately for the Interactive Data in Viewable Form will encourage users to rely on individual pieces of financial data without referring to the disclosures that accompany financial information in the filing. Accordingly, when the Interactive Data in Viewable Form complies with or is deemed to comply with the requirements of Rule 405, we believe there should be no additional exposure to, or standard of liability for, that data; any liability should arise only with respect to the disclosures in the Related Official Filing.

We also believe that the requirement to post a data file on the issuer's website isolates the financial statement disclosures from the context and disclosures that normally accompany that information when set forth in a complete Annual Report on Form 10-K, and that this separate posting requirement should either not be adopted or the posting should be insulated from all liability, with any liability instead resting solely on the corresponding disclosures made in the underlying document from which the financial statements have been extracted. If the SEC retains an obligation for issuers to post an interactive data file on their websites, the SEC should clarify that this applies only to the file submitted with the issuer's most recently filed Form 10-K and files submitted with any subsequent interim reports. The SEC should continue to emphasize that investors should read the entire filing when making investment decisions and that courts should review the entire filing when assessing the adequacy of disclosures. If liability is extended to interactive data we are concerned that this message will be lost.

We do not believe creating new standards of liability for interactive data files (i.e. "good faith", "reasonable attempt", "reasonably practicable") is necessary or appropriate. While the SEC may retain authority to impose consequences for a filing that fails to satisfy the XBRL requirements, we believe liability attached to interactive data should be limited to cases involving fraud for deliberately manipulating or misusing the tags. We also believe that compliance with Rule 405 should be enforced solely by the SEC.

The distinction of liability between Interactive Data in Viewable Form and "the substantive content of the financial and other disclosures" is unclear. As stated above, because the Interactive Data in Viewable Form is intended to be displayed identically in all material respects to the corresponding information in the Related Official Filing, only the Related Official Filing should be subject to liability.

Taxonomy updates

We believe that updated taxonomies need to be issued at least one quarter in advance of the period end date for the related filing to ensure accuracy is maintained. This is important as most current software does not allow an automated comparison of the base taxonomies. We understand that XBRL US will summarize the changes made between each release. However, until that comparison can be automated and tested, each time the taxonomy is updated a preparer would need to reassess each of the thousands of tags that it has used to ensure that no changes have been made that would result in a change in the tagging assessment. Therefore, timely releases of updated taxonomies are critical for the preparer to meet filing deadlines.

Executive compensation

Our primary concern relating to interactive data submissions stems from the fact that currently executive compensation data does not have the same degree of comparability among companies as does financial data. Items, such as “bonus,” “non-equity incentive plan compensation,” “non-qualified deferred compensation earnings,” and “all other compensation” are comprised of different elements at different companies. At many companies, the compensation awards that are commonly known to employees at those companies as “bonuses” end up being included in the “non-equity incentive plan compensation” column in the Summary Compensation Table, while at other companies they end up reported in the “bonus” column.

Under the SEC’s current method of calculating the value of options for purposes of disclosure in the Summary Compensation Table, two executives at different companies (or even at the same company) who were granted options equal in worth based on total fair value at grant could have drastically different values under the “options” column in the Summary Compensation Table (and in an interactive data comparison table) because one executive was age 54 and the other was age 55. In order for an investor to have an understanding and appreciation of why those numbers are different, they would have to read the accompanying footnotes and narrative to the Summary Compensation Table, which would likely not be included in a comparison table created using interactive data.

We are concerned that interactive disclosure of executive compensation data would encourage users to decouple the numerical (*i.e.*, quantitative) data from the narrative (*i.e.*, qualitative) explanations of that data. In the Adopting Release on executive compensation and related person disclosure, the staff stated that the approach of the new rules was to “combin[e] a broader-based tabular presentation with improved narrative disclosure supplementing the tables. This approach will promote clarity and completeness of numerical information through an improved tabular presentation, continue to provide the ability to make comparisons using tables, and call for material qualitative information regarding the manner and context in which compensation is rewarded and earned.” The release went on to say that the “narrative disclosure...provides material information necessary to an understanding of the information presented in the individual tables,” and that “[r]equiring [the narrative] disclosure in proximity to the Summary Compensation Table is intended to make the tabular disclosure more meaningful.” We believe this was done to promote the idea of placing executive compensation data in context and emphasizing that the numerical data and accompanying narrative explanation of that data are inextricably linked. To allow the investor to easily compare companies’ numerical data while omitting a similar comparison of the narrative heightens the possibilities for materially misleading comparisons.

In order to preserve the concept that the narrative and numerical disclosures are inextricably linked – that reading them together is necessary for an understanding of compensation – if tagging were to be required, the requirement should be such that any comparison of numerical data must require the accompanying narrative disclosure to travel with the numbers and appear at least in close proximity in the resulting comparison. The investor can then decide how carefully to read the narrative, but at least it would be readily apparent and not easily omitted or overlooked. In order for issuers and the SEC to focus on addressing issues that arise in the tagging of financial data, we would suggest that the SEC wait to determine whether or

not to tag executive compensation data until after issuers have had an opportunity to tag financial data in year one.

Lastly we would like to express our agreement for the following provisions of the proposal:

- No auditor attestation relative to XBRL data;
- Tagging of financial data should not extend to Form 8-K filings; and
- Interactive data should not be required for financial statements that are required pursuant to Rule 3-05, 3-09, 3-10, 3-14, and 3-16 of Regulation S-X.

We appreciate this opportunity to share our views with you, and would be happy to provide you with further information to the extent you would find it useful. If you have any questions, please contact Cary Klafter at (408) 765-1215, or Broc Romanek at (703) 237-9222.

Respectfully submitted,

The Society of Corporate Secretaries and Governance Professionals

By: Cary Klafter
Broc Romanek