

# SavaNet LLC

August 1, 2008

Mr. David Blazzkowsky  
Director of Interactive Disclosures  
U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

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

Dear Mr. Blazzkowsky:

Please find attached our comments on the SEC's proposed Interactive Data to Improve Financial Reporting rule. We hope that you find it useful in your efforts to implement XBRL into the regulatory reporting process in the country for the benefit of investors and professional analysts. Please feel free to contact me directly if you have any questions.

Sincerely,

/s/ Eric P. Linder

Eric P. Linder, CFA  
CEO, SavaNet LLC

[Attachment]

# IMPLEMENTING XBRL<sup>®</sup> FOR INVESTORS AND FINANCIAL ANALYSTS

July 2008

Eric P. Linder, CFA  
CEO, SavaNet LLC [www.savanet.com](http://www.savanet.com)  
eric.linder@savanet.com  
(212) 203-7946

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## I. Introduction

The XBRL reporting format holds the potential to radically improve financial reporting, drastically reduce fraud, increase financial stability, and save the US economy untold billions of dollars in improved capital allocation and the virtual elimination of unproductive manual data reclassification and management. The ultimate beneficial consequences of its adoption by the SEC to investors, analysts and financial institutions could eventually even eclipse even the most enthusiastic prognostications of the SEC chairman and other XBRL supporters.

However, even after years of testing, XBRL's implementation by the SEC for regulatory reporting still does not meet investor needs. The fact of the matter is that the reports being made under the SEC's voluntary reporting program remain virtually unused due to the lack of necessary content structure and unnecessary use of the more complex aspects of the XBRL which were designed for accounting system use, not end user reports. And the SEC's newly proposed implementation architecture exacerbates the earlier problems of its voluntary program more than it improves them because, over the past two years, the SEC has not only not addressed the issues of classification and has actually supported (implicitly or not) more technical complexity which makes content less accessible and allows for less fixed structure in the reports.

SavaNet has been involved with XBRL over the past five years and most and was one of the designers of the SEC taxonomies for the main body of the financial statements. As a financial software company which also has extensive experience in Wall Street investment research and investment management industries, we are in a unique position to observe and comment upon the implementation of XBRL by the SEC from an investor and analyst perspective. We are sharing our observations and recommendations to improve the implementation of XBRL for the benefit of all end users of SEC reports.

So, this is a paper which brings the contrasts between the potential and the current situation of XBRL to light and provides recommendations for how this gap can be bridged. On the one hand the SEC should be strongly applauded for the leadership it has taken in a relatively unknown area with so much potential for investors, but on the other hand it could and should do more to implement XBRL in a manner that meets the needs of its end user investor constituency, particularly in light of its outsourcing of the work to a private organization dominated by a preparer-side technologists.

In this paper, we will treat the enormous benefits of the new XBRL format as largely self-evident and instead focus on the outstanding issues that need be resolved. **But SavaNet would like to make clear that we are enormous supporters of the of the XBRL format and that none of our critiques of its proposed implementation by the SEC should be taken as being not supportive of the adoption of XBRL, but rather are being made to incite change which will release the potential of the format for investors.**

The professional financial analyst community should one of the strongest supporters of, and prominent organizations involved with, XBRL in the country. However, to date neither has been the case largely because it remains little known and has to date held little value for this

community under the current implementation program at the SEC. We very much acknowledge and appreciate the efforts of the XBRL-US organization and SEC administration in developing and supporting XBRL in the United States, but believe that these efforts need to incorporate the interests of individual investor and professional financial analysts that have not been materially incorporated into the implementation process.

We hope that this practically balanced view of XBRL, along with our unusual combination of professional security analysis and XBRL software development experience, will lend weight to the contents of the remainder of this submission to the SEC. While we are critical of several aspects the SEC's approach and the XBRL US Inc implementation design, we can assure the SEC and the investors in the country that, if properly implemented, an XBRL reporting program can be even more successful and hold even more national benefits than even the SEC's highest investor expectations.

**IMPORTANT NOTE:** Although the author is vice chairman of the New York Society of Security Analysts' Improved Corporate Reporting Committee and is also a member of the CFA Institute's XBRL working group, this paper does not reflect these organizations' views. The CFA Institute has made its own public comments both to XBRL US Inc on its taxonomies and implementation architecture and to the SEC on its XBRL reporting proposal. This paper does quote some of their requests which coincide with certain SavaNet recommendations, but the reader should NOT infer that the CFA Institute necessarily supports any recommendation made in this paper.

### ***The Potential and the Problems:***

The core obstacle to the successful implementation of XBRL for regulatory reporting in the country is that the current financial report presentation regulations are both extremely outdated and insufficient for electronic reporting. This situation has both the direct effect of making it very difficult to create base industrial taxonomies which can be compared without alterations but it also causes the even more serious problem of leading to a much more technologically complex implementation to [ostensibly] handle these differences.

Despite the obvious deficiencies to existing regulations, the SEC started out on its XBRL project both publicly stating, and privately acting under, the assumption that XBRL can be successfully implemented to the benefit of its constituency without any changes in reporting regulations. It has since seemed to step back a bit from this position with the recent introduction of a "21<sup>st</sup> Century Reporting Initiative" but this is a long term project and the SEC has still not directed the short-term XBRL implementation design to meet investor needs as much as possible without conflicting with existing regulations. The only successful solution lies in a two-fold approach of adding as much additional structure as possible in the initial XBRL implementation without infringing upon existing statutes and a longer-term approach of actually updating these extremely outdated regulations.

The major financial statement presentation regulations in this country are contained in the SEC's own Regulation S-X which has been in effect without significant change in this area for over 40 years. (Note: FASB rules are primarily concerned with the recognition and measurement of income/expenses, not with their categorization and presentation.) This means that the

presentation and categorizational structure of today's financial statements was designed well before even the advent of personal computers. As one of the organizations which significantly contributed to the structural design of the main body of the base industrial taxonomy financial statements the SEC adopted, we can say first hand how difficult it was to design the statement presentation structure for the next century with our hands tied behind our backs by 40 year outdated regulations, many of which are no longer even [unofficially] enforced by the SEC.

Adding XBRL as an overlay onto its 40+ year old reporting regulations is like the SEC white-washing a fence that has rotted down so badly as to allow the cattle to step over it. Whereas XBRL has the potential to provide an excellent new fence design for the coming, post Glass-Steagall century, it is being designed to completely accommodate the holes and fall-downs of the past 40 to 75 years of regulations.

### **Problem #1:**

As a result of the extremely outdated and incomplete presentation regulations, companies now report in a partially structured (but not unstructured) format, but investors need information in a well structured (but not completely standardized) format. While the total *amount* of presentation structure required by the SEC and FASB in current financial statements is actually sufficient for most financial analysis purposes, the structure that is provided does not match up with the needs (more on this later.)

While this problem is decades old, and is the *raison d'etre* for a multi-billion dollar industry which re-classifies and re-structures "as reported" information for professional investment use, it is an issue that now needs be addressed by the SEC with the advent of electronically tagged reporting. This is because without at least a high level of categorizational structure, electronically tagged financial statements hold little to no additional value to investors and analysts. As this issue has also put the SEC's *raison d'etre* constituency, the individual investors of the country, in a distinctly disadvantaged situation relative to professional who can afford up to \$20,000 per person per year for such well structured information, clearly the SEC's goals are aligned with the recommendations of this white paper.

As the CEO of Pepsico, Indra Nooyi, stated: "We need to balance between standardization and customization", we need a discussion. The SEC "must set and enforce the rules. I cannot think of any better catalyst than the SEC."

### **Problem #2:**

XBRL as a Potential Solution to Problem #1 has lead to Problem #2. XBRL was created for use in virtually any business report anywhere in the world, which is a huge strength, but this also places great deal of responsibility on the sponsors of each implementation program to design and implement and XBRL reporting system that uses this customizability and flexibility to meet their specific use needs. This puts additional demands on organizations which may not have the expertise, required regulations, or political will to do so.

Thus XBRL can be implemented using many different methods with a wide variation in level of complexity, required structure and usefulness. For specific implementations, such as the filing of regulatory financial reporting forms to the SEC in the United States, there needs to be a much

more directed use of the format (as the designers intended, but have not implemented). The reason that the SEC's Voluntary Filing Program ("VFP") did not achieve the goal of interactive data to be automatically analyzed and compared is because the implementation method was not sufficiently well defined. In fact, the only guidance given was that one of the base industrial taxonomies be used, but since these can be completely re-defined using the specification, this provided no structure at all, so, in essence the SEC said: use XBRL without any implementation direction.

While XBRL regulatory implementation is [hopefully for investors] still a work in development, the XBRL specification itself is very flexible and is perfectly fine for the SEC's purposes. This is very good news because the specification itself is much more difficult to change than its chosen implementation method. This paper is about addressing the regulatory and implementation issues of XBRL and making sure that the implementation uses the specification in the least technically complex manner as necessary to make it as accessible as possible by all.

XBRL as a technology, if properly implemented, can greatly exceed even the SEC chairman's and investors' high expectations, but it needs to be implemented from a user/analyst perspective, while the SEC has not only allowed, but funded and supported a preparer/technologist implementation method. As a result the filings being made to the SEC in XBRL format hold little additional value for investors over the current html-only versions. The SEC may well be soon be under fire from companies which rightly claim that they are being required to perform additional work which adds limited additional value to their investors. But when or if the SEC receives this response, it should not bow to such pressure or conclude that XBRL does not hold value, they should look introspectively and realize that the implementation method that they are proposing does not meet the needs of its constituency.

SavaNet has implemented the most detailed and advanced financial analysis application system in the professional analyst community using XBRL but we have both significantly extended its structural requirements and directed extensions/alternations such that they do not compromise comparability. We have also used the technology in a manner which can be integrated into existing investment systems and processes and we do not make use of complex technical structures which are questionable for use even by next-generation enterprise class accounting systems much less being completely unnecessary for external reporting. While we are not going nearly so far as to ask that the SEC meet the very exacting needs of the professional Wall Street community, we are asking that the SEC have requirements that at least provide a high-level of required classification for investors and to not allow technical structures which prevent direct access to content and further hinder already limited comparability.

## ***Implementation Issues With the SEC XBRL Reporting Proposals***

### **Basic XBRL Technical Overview**

Over the years, SavaNet has found that the forces that seek to implement XBRL for the benefit of the accounting system and consulting industry have used the lack of understanding of the XBRL technology by the end users to their benefit. This is because the end user rightly thinks that they shouldn't need to understand the technology they should just need to specify their needs and the technologists will adhere to them. And the technologists are only too happy to oblige this view because it gives them a carte blanche to do their own bidding without any oversight.



And in the rare cases when the few involved users have raised questions the technologists rattle off incomprehensible reasons for their structure which intimidate the actual users.

So, in order to arm the end users with at least a minimum of understanding of the XBRL technical structure, we are providing some basic direction. To start, here are the four XBRL building blocks:

1. **XBRL Specification:** A 150 page written language specification (version 2.1) with supporting rule and conformance documentation.
2. **XBRL Technical “Add-On” Guides and Recommendations:** Various supplemental guides and technical recommendations including Preparer’s Guides, Style Guide, FRTA, FRIS, “add-on” specifications (e.g. Dimensions 1.0) and “insider” practice guidance.
3. **XBRL Taxonomies:** Business and financial reporting design files which conform to the XBRL specification and (optionally) to various add-on specifications and technical guidance. These files contain references to supporting linkbase files which contain information about the definitions of elements used, calculation relationships between them and basic default presentation order.
4. **XBRL Documents:** The actual XML-formatted text files that hold data in a structure which reference one or more taxonomies.

Both the greatest hope for investors and the greatest potential threat to their needs being met lie in the still being defined #2 items. Often times additional specifications are added here that do not user needs and are effectively abandon in practice even though they still stay “on the books”. While end users want more “market determined” consensus structure to take route here as practical guidance, they do not want many of the proposed structures which don’t meet their needs to be “institutionalized” through enforcement rather than market practice.

XBRL documents are simply text files with individually “tagged” items of financial information along with references to *taxonomies* which describe this information. While the underlying specification structure for this XBRL text file can be technically complex, in order to have a basic discussion about XBRL, one must really only need understand what a *taxonomy* is:

A **taxonomy** is group of files referenced by an XBRL document that contain a list of the elements that are used in the file to tag financial information (known as a schema file) and files which contain descriptions of these elements and their relationships to one another (known as linkbase files).

The information about the tagged elements found in a XBRL document and its taxonomies include descriptions such as the element’s label, definition, regulatory references, data type, time period, currency, and definition. The relationship between elements is given in the presentation and calculation *linkbase* files and describe and how elements should be presented and how they mathematically relate to each other.

## **Balancing High Level Goals with Low Level Implementation Decisions**

This is a detailed document, but one which we hope the SEC and interested parties will find balance the “high level” positive generalizations and XBRL with the extremely “low level” technical specification documents. Bridging this gap along with the gap between the preparers and users of financial reports is the central challenge of XBRL.

We believe that the combination of knowledge of analyst and investor needs with an understanding of the regulatory reporting structure and the XBRL technology itself is extremely rare. Even beginning with a large amount of experience in one of these areas, it could take years to fully comprehend the situation and design a system that could practicably meet all the needs of the participants in the system. By drawing simultaneously on expertise in these areas, we hope to provide a unique insight and well founded recommendations. This is simply not a situation that can be addressed in 2 hour investor roundtables with 8 participants. XBRL can indeed provide the solution individual investors and professional analysts have been looking for for so long, but it requires that the SEC fully understand the new areas it is moving into and takes the steps necessary to implement it in the way that solves the problems.

The proposals of this document are based on two logically connected, indisputable points:

- 1) No matter how hard the SEC pushes XBRL, if it is not adopted by the investors and analysts of the country, it will not be used and will result in a great deal of transition expense going to naught (not to mention a great deal of embarrassment for the SEC.)
- 2) XBRL will only be adopted and embraced by individual investors and analysts in the country if it addresses their issues and adds value. The filings made under the SEC voluntary XBRL reporting program did not do this and the new taxonomies and im

XBRL is being championed, paid for and implemented largely by accounting firms and software systems companies with little to no input from the investor analyst community.

## ***Lessons from the SEC Voluntary Filing Program***

The SEC’s implementation of XBRL for the Voluntary Filing Program was really just a trial that added little additional value to regulatory reports for investors and analysts over current html reports mainly due to:

- 1) lack of required classification structure,
- 2) insufficient reporting rules that allow too many different reporting approaches and
- 3) difficult to access content contained in unnecessarily complex technical structures that do not integrate well with existing investment systems.

But instead of recognizing these issues and learning from them in their next version, both the SEC and XBRL US Inc have largely blamed its problems on incomplete taxonomies, which was really a secondary issue. As a result, they did not address the major issues at hand and actually exacerbated them by creating even many more unnecessary and complex technical structures rather than better define the ones they already had in use.

## Insufficiently Defined and Unrequired Classification Structure

The first issue is based mainly on the fact current reporting regulations have a minimal required classification structure but XBRL and its reporting program rules can be used to add structure without infringing on existing regulation in the near term and in the longer term these regulations can be changed.

The SEC would very much like to push presentation requirement responsibility off on GAAP rules and if one approaches an SEC staffer and ask what they thought of these comments they will likely say something about not setting accounting standards and they have to accept whatever comes in that meets GAAP rules. In fact, Corey Booth devoted a long paragraph to this in a recent speech saying that “I think the SEC should continue to pursue is to make sure registrants continue to have as much flexibility in the presentation of their financial statements as they currently do under US GAAP accounting.” The extremely misleading part about this statement is that the vast majority of the presentation structure of income statements and balance sheets is due to the SEC’s own Regulation S-X, not any GAAP rules and this is about the presentation of GAAP-compliant financial statements, not about GAAP rules themselves. Now one can understand how non-professionals might miss this distinction, but we would like to believe that the SEC, particularly their chief information officer, does not. The only conclusion one can come to then is that they are strongly trying to disengage themselves from this responsibility because by making comments such as this he is shutting down conversations that absolutely need to occur before they even start.

Don Young, a FASB board member, has publicly stated that the desires of the accounting industry and the desires of the investors are often at odds with each other. The SEC needs to uphold its mandate to represent investors and counter the influence of the preparer community on XBRL where they conflict with the needs of investors and analysts.

The lack of a fully detailed, well categorized, and reliable financial information classification structure is the major problem facing investors and analysts. The reason for the lack of support for the VFP is that it did not address this one major problem as one would very logically expect it would. And if investors and analysts are not using and asking for the solution the companies themselves are thus not interested. **It’s that simple.** The continued pressure to get more companies to file under a failed program is only going to breed disillusionment with the standard. The SEC repeatedly asks why are not investors and analysts clamoring for XBRL. The answer is simple: because the SEC’s implementation of XBRL does not address the one central problem that XBRL is uniquely qualified and expected to address.

Although it’s great to have the SEC use its influence on companies to push the standard forward, it wouldn’t have to if it used its influence on preparers and XBRL US Inc to instead design an implementation that met investor needs rather than their own. Pushing forward with more filers to a program with little end user demand could even cause disillusionment with XBRL by both filing companies and investors if pushed for too long.

The very, very good news in this difficult situation is that:

- 1) there is a near term solution described in this paper that can be integrated into the proposal it has on the table without changes in GAAP that will lead to investor uptake,

- 2) the longer-term regulatory changes to fully realize the value of XBRL are very minimal and don't require more disclosure, just changes in presentation/grouping rules; and
- 3) XBRL provides a technical solution that can allow enough flexibility for companies to report their information as they desire (almost exactly as they do today in most cases) while still providing the underlying calculation relationship structure absolutely necessary for XBRL to provide the promised comparability and automated analysis.

## **Insufficient Rules for Taxonomy Alterations and Extension Elements**

Other XBRL implementations around the world, such as that done by the Chinese stock exchanges, have much more fixed structure and less complexity and deliver a great deal more value to investors. So our country's XBRL implementation has become a competitive weapon on the world stage to attract capital and we are currently losing in this regard.

There is absolutely no doubt that investors and analysts want more as much structure as possible from the country's XBRL implementation. In a public comment letter made to XBRL US Inc., the CFA Institute informed them that a completely overwhelming "91 percent [of its surveyed members] indicated a preference for companies to have no or limited ability to extend the taxonomy." This fact was provided to XBRL US just as they were proposing adding several major complex and unnecessary additional structures to its implementation to increase flexibility and company-specific additions to filings. Yet XBRL US Inc moved on with their proposals, completely ignoring this very valuable and rare analyst input.

Another major example of insufficient amount of reporting rules is the lack of restrictions in the SEC's program on the alteration of base taxonomies and the placement and use of extension elements. Since the SEC is allowing extensions to be placed at even the highest of levels, this means that extensions are essentially not required to be categorized at all by filers (not even abiding by the categories the SEC requires in Regulation S-X) and thus no information about extension content is required to be given to analyst and investors at all.

Not only do uncategorized extensions greatly reduce and even eliminate, comparability, a company can simply create uncategorized extensions to "hide" expenses in any type of automated and comparable analysis which are the inevitable and desired use of XBRL.

## **Unnecessarily Complex Report Technical Design Hinders Accessibility**

The effective ranking of the constituencies served by the SEC's implementation of XBRL is: Technologists, Accountants, Companies, Analysts and Investors... in that order. Whereas it should be the reverse order. Analysts and investors were not involved at all in the development of XBRL. While the AICPA embraced XBRL and even foot part of the development early bills, and software companies began to provide products for re-sale, the analyst and investor communities were left out. (The largest CFA society in the world, the NYSSA through its Improved Corporate Reporting committee, did however respond to SEC requests for input, but the SEC has yet to incorporate its input).

Not only was the analyst and investor community left out of the specification development process, but they have been left out of the process of constructing implementation guidelines. As an example the XBRL organizations FRTA rules, which pertain to financial reporting, were written completely without analyst input and contain provisions that are solidly in favor of preparers rather than users. This is the effective equivalent of financial analysts going and telling accountants how they should design an internal accounting system. Many items are in direct conflict with analyst and investor needs.

Perhaps not surprisingly, given the technologists leadership role, the other cause of investor obfuscation created by the SEC's implementation program is unnecessarily technical complexities of the implementation design provided to the SEC by the XBRL US Inc. organization under contract. The implementation design provided to the SEC benefits the accounting system and consulting companies through unnecessary complexities which are more likely to require their services. These structures make content less accessible, less directly defined, and MUCH less able to be integrated into investor and analyst spreadsheet and database systems.

In fact, simply displaying the content of the most recent filings is a technical challenge-- with the result always being far inferior to current html filings. This has not stopped the SEC from claiming victory with its free browser-based XBRL "viewing" websites which simply only display a much more poorly formatted version than the original html filing.

If the SEC moves forward with these structures in the taxonomies, then investors and analysts will almost never directly use these filings and the community will still be dependant on data service providers who agglomerate, re-categorize and re-structure data for access by spreadsheets and relational databases. Why doesn't the SEC give investors and analysts the data in the format THEY want rather than the format the preparers want to deliver it in?

While one would assume that as the SEC begun to seriously take interest in XBRL that they would direct that the implementation architecture to better meet the needs of their end-user constituency. But perversely, the opposite result occurred because when the accounting system consultations and software companies saw that the SEC wanted a final solution quickly and that the SEC would accept whatever that was delivered to them, they went into overdrive adding as many new complexities as possible while they had no oversight and no review. (There was a 3 week comment period last August but it was just for show as everything in their "proposal" had effectively already been implemented).

As evidence of this, in its comments to XBRL US Inc during the comment period, the CFA Institute requested that "New technological features should either reduce or have a neutral impact on the need for company-specific taxonomies in order to maintain a minimum level of comparability". As Dimensions are by definition a new technology which use additional company-specific taxonomies, clearly XBRL US Inc ignored this rare input from this important end user community as they did with many other requests made by the CFA Institute.

This one specific item called Dimensions was the last minute addition of an entirely new major specification to replace much simpler structures for identifying repetitive content and segment information that had been used for years. As a result, the SEC's proposal does not require that companies provide standardized information directly within XBRL "context periods" that tells

analysts and investors whether the information is for the consolidated entity, business segment, geographical segment, etc. This puts no restriction on the use of highly complex non-standard specifications such as Dimensions which force companies to create special structures and use non-comparable elements and terms to describe their segment and scenario information.

The result is that there are four or 5 different methods that could be used to identify segment and scenario information. So this not only causes problems for investors trying to find the information they need but also provides companies with methods to technologically hide information.

So, unless the SEC addresses these new potential problems, not only will investors still have the deal with the original Problem, but will have new issues pertaining to uncategorized extensions and different, undefined technical implementation differences in filers create their taxonomies.

### **XBRL Misinformation**

There are four major pieces of incorrect information that were regularly given to the SEC as reasons for the lack of market uptake of XBRL during the voluntary reporting program:

- 1) That the ability to automatically and accurately compare and analyze XBRL instance documents is a **software issue** that the SEC can solve by fostering more software development
- 2) That the changes in presentation groupings required for XBRL reports to be comparable would require a **change in GAAP accounting rules** that the SEC does not have control over.
- 3) The **taxonomies are incomplete**, once they are complete all the extensibility problems will be solved
- 4) The problem with the XBRL VFP is **lack of participation** which can be solved by the SEC influencing more companies to participate.
- 5) The **market can address** the SEC reporting problems for investors after implementation.

All these key arguments and regularly asserted statements to the SEC are wrong, plain and simple. While the few financial analysts knowledgeable about XBRL understand the fallacy of these statements, they are regularly asserted by technologists and accountants and the SEC itself.

**First** of all, it is a matter of financial statement presentation, not software's ability to consume it, that is the major issue here. No software program will ever be able to replace the role of a professional financial analyst to classify information properly if the necessary information is not provided. Only after the SEC properly implements XBRL, will it enable advanced software analysis.

Among the hallways of XBRL discussion that the SEC has a presence in, it has surely heard the old and regularly repeated assertion that the "software will make it happen" or "we are just waiting for the software to catch up to the specification." This is said by technically informed participants and believed by financially informed participants but it is not said or believed by technically and financially informed participants because they understand the financial requirements and the specification and taxonomy implementation that instance documents on the

SEC system use and know that there cannot force software to do something that that underlying instance document does not enable.

Advanced analysis software functionality is not being developed for the SEC's instance documents because they contain non-comparable uncategorized content in complex technical structures they are not well suited for analytical use. Any software company that has anyone with financial analysis experience will know that the proposed structure does not meet their needs and will have to be changed. So why develop for it? XBRL doesn't yet have a workable implementation, so it is a bit pre-mature to start talking about the capabilities of XBRL software except to say that it won't have very useful capabilities if the SEC doesn't get the implementation right.

**Secondly**, and this is the most common piece of mis-information given to the SEC, is that these are NOT GAAP issues, but issues related to the presentation of GAAP-compliant financial statements under Regulation S-X. In fact, what readers will soon learn from this document is that the vast majority of non-comparability of financial statements does NOT come from differences in the line items that different companies in different industries report, but the different grouping of these items that result from the effects of the many outdated presentation regulations and company practices which have accumulated over many years. While this may sound surprising to lay people, truly company-specific line items are actually very rarely reported and when they do occur, they can be categorized under a higher level grouping with little effect on comparability.

The usual boiler plate SEC response to these issues is to say that they recognize the GAAP promulgated by the FASB. But 1) there is a huge difference between accounting principals and presentation requirements; 2) there is what seems to be a very uncomfortable chink in the passing off of responsibility of this response and it's called Regulation S-X. Financial analysts should thank the former SEC management who long ago said that the reporting requirements of GAAP were completely insufficient and that the SEC should add their own.

This difference between GAAP regulations and the presentation of GAAP compliant financial statements seems to not be understood by most people involved with XBRL. FASB presentation rules are insufficient for the SEC to achieve its mandate of protecting the individual investor and the authors of Regulation S-X realized this 30 years ago. The current SEC administration needs to realize this again and embrace Regulation S-X, not disavow it.

**Thirdly**, Taxonomy design is one of the most time and resource intensive projects (in terms of time and resources devoted to actual physical change measurement) that one could possibly imagine. Creating, positioning and fully describing a single line item requires investigation into 1) the SEC reporting regulations for the item, 2) the FASB rules for calculation, 3) the industry practices for disclosure of this item, 4) the various different names that a company might describe an item, and 5) the various different groupings a company may use which may include this item. Balancing these sometimes conflicting factors requires a very rare combination of skills and experience and those with the necessary combination of skills make them very valuable resources that are unlikely to devote full-time to the physically menial task of taxonomy design. The taxonomy designers can and do spend hours, days and even weeks making decisions that affect only a small group of elements. And there are 3,000 items and they are all inter-related. **And the SEC presentation regulations that they are trying to design the future of**

**electronic reporting to adhere to are paper-based, 30 years old, and regularly disregarded in industry practice due to lack of enforcement.**

In **fourth** place is that the SEC is giving the impression that the problem with its Voluntary Reporting Program is lack of participation. So, after a year of poor results from the program, instead of changing the program, it embarked on a drive for participation into a failed program with little value.

So this puts the SEC in the strange situation of both leading the way on a new technology but also being the ultimate source of its main impediments. Although to be fair, the SEC has come on strong on addressing the third point coming through with \$5 mil in funding. But having participated in the taxonomy development, SavaNet can assure the SEC that it could get more done for investors with just 2 SEC staffers jotting down issues as they came up and editing Reg S-X rather than spending \$5 million to come up with complex technical work arounds.

## ***Organizations Involved In Development***

### **FASB/FAF and XBRL Organizations**

Recently it has been suggested that perhaps the FASB's Financial Statement Presentation project could address some of the issues raised. However, this project (formerly known as the performance reporting project) has been ongoing at the FASB for 5 to 7 years with only very recently demonstrated progress. Anyone who has followed the FASB knows that even relatively minor changes in statement formatting take many years and a major project such as this makes it a seemingly unrealistic option for the SEC to shed its responsibilities in the near term. And this project, as far as we understand it is not specifically incorporating XBRL into its design plans so if the SEC wants to speed up the end result for XBRL it is going to have to introduce XBRL expertise into the mix. The best way to do this is to fold XBRL US Inc, which the SEC helped to create, into the FASB which will also give this currently "quasi-government" private company proper public oversight.

While any FASB progress on this issue would be welcomed and necessarily required in corporate reporting, this talk could have the EXTREMELY detrimental effect of XBRL progress because there is little to no chance that the FASB could jump start a 7 year old project in 6 months and there is absolutely no way that they would come even close to addressing all the issues outlined above. So, hopefully the SEC is not hoping that this talk will let them fail to live up to their responsibilities for even longer than the two decades which it has already done so.

Since XBRL came from the internal accounting end of the process rather than the investor end of the process they are getting no improvement out of the new system proposed by the accountants. So while the SEC has been getting most of their XBRL advice from accountants, they actually serve the end investor. And this makes the SEC the organization that must push back from the investor direction and ensure that this once in a lifetime transition actually addresses the unmet needs of the investors in the country. Anything less would be a dereliction of duty on the SEC's part.



## **XBRL US Inc.**

Working with XBRL and its US jurisdiction representatives is a very enlightening experience for analysts, as it is like visiting a foreign culture when they speak with the XBRL accountants and technologists. And it is immediately apparent that each side has much less understanding about what the other does than they thought. Analysts learn that accountants are very little concerned about cross company consistency (other than meeting the few regulations) and work mostly with specific company charts of accounts.

A major misconception that the XBRL accountants and technologists seem to have about analysts is that our main problem with reports is the re-keying of information into our analysis when in fact our main problem is the re-categorization and normalization of inconsistently presented and that is the enormously time consuming and unnecessary part of our job that we want XBRL to do. If we were just typing information in as it was in the report we could simply copy and paste from html tables into spreadsheets. It's the re-categorization that results in the extreme time and addition costs and errors.

The other realization that analyst come to is that XBRL has been almost entirely developed over the past eight years by preparer-side accounting system technologists with little to no input from end-user investors and analysts who desire a more standardized and easily accessible, but no less detailed, implementation design. The XBRL architectural implementation was designed more for company-specific internal accounting systems rather than external reports and multi-company analytical use. This makes the financial reporting use much more complicated than need and this complexity reduces value to investors, not increase it.

While most of the audits and preparers are interested in ways that XBRL could be used to help investors, these good intentions of most XBRL US Inc members are overshadowed by the very small cadre of accounting system consultants and software developers who have nearly complete control over the taxonomy designs and implementation architecture of XBRL in the country under contract from the SEC. The resulting implementation design, of course, thus tees up the accounting system consultants and software providers to profit as much as they are able and often at the investors indirect expense of not having as useful reports as they would otherwise have.

## **The Intellectual Property Issue**

Although the ownership of the intellectual property of the work XBRL US Inc did under contract for the SEC has not been publicly disclosed, it is widely known within the XBRL community that, even though most of the national taxonomy and architecture development was done using taxpayer funds, somehow the private company of XBRL US Inc managed to retain ownership of the intellectual property. This should never have been allowed to occur, and should be immediately addressed because XBRL US Inc's retaining of the IP puts public investors at too much of a subservient position to the private preparer members of XBRL US Inc even if royalties are never explicitly charged for it.

ANY sort of retained IP ownership by XBRL US Inc would also be a serious impediment to non-regulatory adoption of XBRL in the country. For example, if data service providers are not free to copy pieces of the national taxonomies (such as element definitions and references, etc) in

their own taxonomy elements and system designs (which they might re-sell to their clients) then their use of XBRL would be questioned. At best they would have to design taxonomies completely from scratch so as not to use ANY XBRL US Inc element information which would drastically reduce national reporting comparability. In fact, even if these companies came up with taxonomies completely on their own, they may have to painstakingly compare all of the meta-data of their elements to make sure that it doesn't even inadvertently copy the intellectual property owned by XBRL US Inc.

To make this situation even murkier, XBRL US does not even clearly have ownership of the IP as it has been contributed by its members and contractors over many years, some (if not most) of which who never signed any sort of agreement giving it ownership of their contributions. This is especially problematic because the organization started out as a group within the AICPA but with third party members paying dues. Undoubtedly due to this convoluted situation, when the SEC went to fund XBRL US Inc and it became an independent organization, letters went out asking members to sign over their IP contributions to XBRL US Inc, but not all contributors signed. So there could even be legal challenges if XBRL US Inc tried to profit by taking ownership of all contributed IP as its own.

**The SEC or FASB must take complete intellectual property ownership of the US GAAP taxonomies which it paid for using taxpayer money and restrict XBRL US Inc and its members from independently trying to profit from ownership, control or enforcement through validation of a public standard as a private entity.**

It is extremely unusual that the SEC did not require ownership of the intellectual property they paid to create as this is unheard of in "work for hire" contracting industry and the SEC paid \$5.5 million of public taxpayer money to XBRL US Inc. What makes it even more suspect is that the SEC's other XBRL contracts for the development of a XBRL viewer for its website required the developers to hand over their code to the public domain as part of the contract.

If XBRL US Inc. wanted to profit from its intellectual property as a private entity, through royalties or validation fees they should have privately funded development and taken the adoption risk themselves. Their opportunity to profit from intellectual property went out the window the moment they took public development funds (if not earlier when they failed to take proper intellectual property ownership from its members). Now the SEC needs to remedy its error and make this clear to the country because XBRL will not be adopted by entities worried that if they create their own taxonomies which use any XBRL US Inc taxonomy content they may be subject to explicit royalty fees or implicit "validation" fees in any product they re-sell.

### **Proposed Validation Fees are Even Worse for End Users Than Royalties**

The extremely tenuous grip the XBRL US Inc has on its intellectual property and government involvement would make it difficult for XBRL US Inc to try to extract direct royalties from filers, so instead it seems that XBRL US Inc. has proposed trying to charge "**validation**" fees for the uses and extensions of their taxonomies rather than royalties. Even if this validation is not required by the SEC, it may still end up as another payment in the XBRL filing checklist (in addition to accountants and filing companies) and a payment that would need to be paid by any third parties making use of the national taxonomies for other purposes.

If XBRL US Inc. is allowed by the SEC to charge “validation” fees rather than royalties it is actually MUCH worse for end users than outright royalties. This is because they would have to pay additional, knock-on costs beyond these validation fees to XBRL US Inc members to fix any “nonconformant” items found by the XBRL US Inc and also lose the channel-specific usefulness of their solution. Combined these three items would greatly exceed any reasonable royalty fees. The effect of XBRL US Inc. unofficially charging fees for “validation” work would thus be the same as payment to the mafia for “protection” work. But while the mafia is content with payment only (e.g. “royalties”), XBRL US Inc. would require both payment and “conformance” to its unnecessary technical specifications (e.g. “validation”) which only serve to benefit the additional services of its largely preparer-side members rather than the SEC’s investor constituency.

Now that end users, including investors and analysts, are finally starting to become involved the implementation the tide is starting to turn and XBRL US Inc. is trying to nail the implementation design down before much can be changed. Their strategy for doing this is to try to use their publicly-funded intellectual property and quasi-government standing to begin charging for “validation” services which would allow them to be the ultimate arbiter who can force the use of its desired implementation design and stomp out any improvements for investors that might challenge its members’ business models.

The potential consequences of making XBRL US the "gate keepers" of XBRL in the United States are too "Big Brotherish" to even contemplate. There are hundreds of different XBRL implementation designs in the world and this would be equivalent to granting XBRL US Inc a monopoly in the US as any publisher who did not pay to get their system design "validated" by would be called into question. It would also give XBRL US a carte blanche to design XBRL implementations that benefit their preparer-side members at the expense of investors because they would never have to be proven in the marketplace.

All of the above specific reasons should be more than enough to spur the SEC to prevent its quasi-official off-spring known as XBRL US Inc, which is working out of the SEC’s New York offices, from re-charging the public for IP it already paid for. But if they are not, than the SEC also shouldn’t allow it on the grounds that simply having a private company profit from its quasi-government status (like Fannie Mae and Freddie Mac) is an unviable situation riddled with opportunities for even the best meaning private company as eventually it will take advantage of their situation. Not-for-profits have to take in revenue to fund operations, too. The three drivers of XBRL US Inc. looking to fund itself, its technologists chomping at the bit to take more control and force immediate acceptance of even their most extreme quasi-proprietary technologies and its members looking for additional “knock-on” ways to profit from XBRL makes it extremely likely that XBRL US Inc leadership will propose to the SEC and its board that they charge “validation fees”. In the obvious interest of investors, the SEC should prevent this from occurring even if the XBRL US Inc member board were to approve it.

The SEC’s creation of XBRL US Inc. should, without question, be incorporated into the FASB, if not the SEC itself. As it has a very small number of direct employees on the payroll, moving them to the nearby FASB offices or staying with the SEC in its offices should not be an issue financially or logistically. The question is whether the SEC is willing to continue to support its financial statement presentation responsibilities or if FASB can be cajoled into taking on the responsibility for updating their own rules in XBRL format.

The US investor has suffered for decades because of the financial presentation “hot potato” thrown between the SEC and the FASB. They should not let the XBRL US organization stay in the air, too, one party should catch and hold onto it for the benefit of the investors of the country. The eventual consequences of leaving it as a quasi-governmental private “free agent” are simply too negative for the country’s investors to leave the situation as is.

## The CFA Institute

With XBRL organization members consisting largely of accounting and technology firms and the background of the vast majority of SEC staffers being in the legal, accounting or technology fields, the logical question to be asked is: who is representing the investors and analysts in this situation? And the answer, until the CFA Institute started its XBRL Working Group at the end of 2006 (and the SEC appointed the outsider David Blaszkowsky as director of interactive disclosure last fall), was virtually nobody. Now the CFA Institute has very commendably created its XBRL working group, but the group has no advance input or influence over decision making going on behind the scenes at XBRL US Inc at all. Except for their name ostensibly carrying more weight, the CFA Institute group submits comments after-the-fact like any other public person or entity.

After seven years of being implemented solely by technologists and accountants, there was much work to be done in order to shift the direction of XBRL such that it also meets the needs of investors and analysts. Yet, even with the CFA Institute involvement and its diligent recommendations over the past 18 months, the implementation of XBRL by XBRL US Inc., under contract by the SEC, has actually gotten worse from an investor and analyst perspective. It has become clear that even the well-informed involvement of such a respected and representative organization as the CFA Institute has been unable to affect any changes in direction and design by the technologists and accountants of the XBRL US Inc. organization.

Under the terms of its contract with the SEC, XBRL US Inc. was required to solicit input from the analyst and investor community. As an expert insider (as both a member on the CFA Institute XBRL Working Group and also a member of XBRL US that was deeply involved in XBRL taxonomy design and architectural discussions) it is our individual opinion that the CFA Institute is being used by XBRL US Inc. solely to check off this requirement. The support behind this statement is that not only have no significant *changes* in implementation been made for the benefit of analysts since the SEC contract was signed and the CFA Institute group started, but it has actually gotten worse due to the addition of more technical structures that make the information less standardized and accessible for analysts.

[What makes this XBRL US Inc. move toward more complexity and less fixed structure even more jaw dropping in face of increased analyst involvement is that it also runs completely counter to the SEC chairman’s own fight against complexity.](#) It certainly begs the question as to whether the SEC chairman fully understands the implications of the unnecessarily complex XBRL implementation design provided to the SEC under contract as it seems unlikely he would accept it given his strong stance on this issue. That is unless he too is feeling the time pressure of a term ending and has decided to let things slide. [Note: It is our overriding belief that the SEC chairman should be commended for his strong support of XBRL, but should go farther to make sure that it immediately meets investor and analyst needs.]

## ***XBRL in the Global Financial Marketplace***

One of the criticisms of the SEC's proposal is that it doesn't require ALL companies to file in XBRL format, just the largest. But the issue is really quality and usefulness, not quantity because if you achieve the former than latter will take care of itself. If the SEC were to have every company in the country report under the proposed program rule it wouldn't do much for professional analysts or individual investors whereas if it were adopted in a manner as people rightly expect it should by even a few companies, it would eventually usher in a new era of reporting and new methods of advanced analysis.

## **Financial Information Access and Comparability**

Comparability is key. Large amounts of very valuable information are lost because it is not directly accessible or is lost in the standardization process which requires agglomeration which results in errors. In fact, comparability was a central reason for the creation of the SEC. As former NASDAQ president and current XBRL US board member Alfred Berkeley said, the original 1933 act allowed for "the magic of comparative information". The SEC has stated that a goal of XBRL is increased comparability, yet it hasn't achieved this goal with its proposal due to lack of enforced statement classification structure and difficult to access technical structure. Even the single base taxonomy elements are not comparable from one report to the next because companies may have added a new element which contains some of the base taxonomies' content or it may have changed parent/child element relationships in such a way that the base taxonomy definition has changed.

Companies do not exist in a vacuum (which many accountants live in). While company-specific analysis, including qualitative research, is a large part of the value provided by professional financial analysts, comparable analysis is an absolutely essential part of the investment decision making process. If the SEC does not put forth a proposal with at least a minimum of required comparability, then most of the value of XBRL will be lost in its implementation.

While many observations have been made regarding how the internet has empowered the individual investor, so far the electronic age has actually resulted in the development a huge relative inequity between individual and professional investors. Over the past two decades (which should be noted as being well after the release of SEC Regulation S-X), a two-tiered financial information market has developed in the market with vastly different information being made available to individual and professional investors despite the fact that in both cases the information is sourced from the exact same SEC filings. While individual investors are being fed the equivalent of low-grade dog food, professional investors with their up to \$20,000 / year subscriptions are lurching on standardized and precisely cut cubes of filet mignon (but are still losing much of the detailed flavor). And the SEC not only has seemed to be just fine with this situation for many years, it is passing on the opportunity for improvement with XBRL. The implicit sanctioning of this situation by the SEC is equivalent to a government-mandated (minimum \$3,000/year) price of entry for well-informed investment decision-making.

Maybe when these standardized financial data systems first came out the professionals who adopted them gained an edge over others but now their use is so widespread that there is no edge

to gained relative to other professionals, **so they have become just an “no value added” tax that the SEC implicitly requires professionals pay that only serves to disenfranchise the individual investor consistency the Commission was created to protect.** Unfortunately, while the transition to XBRL can very easily remedy the situation, the XBRL reporting structure proposed by the SEC only serves to perpetuate, and even officially adopt, the existing situation into the national reporting framework and can even make the situation worse as companies are given the ability to game the system with uncategorized extensions that even professional analysts, much less individual investors, will have great difficulty adjusting for.

The existing in-equality of the “two-tiered” financial data system in the country clearly shows how the SEC has not fulfilled its individual investor protection mandate since the movement of financial information to electronic distribution. The unquestioned adoption of an XBRL implementation design which does nothing to immediately address this situation brings the question as to the whether the situation is due to lack of knowledge, organizational will, or political power at the SEC to the forefront.

So, if the SEC goes forward with a mandated XBRL reporting implementation allowing unrestricted alterations similar to the VFP, it will not only NOT be taking advantage of a once in a career opportunity to remedy a decades old system which has had unforeseen consequences that are extremely inequitable to individual investors, it will be officially endorsing and ingraining a preferential two-tier reporting system in the country and abetting a new system for companies to hide undesirable items in custom uncategorized “extensions”. So, do the lack of required categorizational structure, which requires systematic re-classification, and the high technical complexity, which will only be able to be deciphered and by professional data service providers (using XBRL US Inc member software,) the SEC may actually end up exacerbating the existing “data divide” between professional and individual investors with its implementation design.

Because the professional analyst cannot extract any marginal value from the existing standardized, yet highly agglomerated historical financial information that all their professional competitors also have access to, they are more than willing to trade to a much more detailed and standardized reporting structure with full detail which provides more opportunity for their added value analysis. Frankly, the facts that they wouldn’t have to pay exorbitant amounts for this much better data and that individual investor, who is a minor player in the overall market, would also have access to this data, are only a marginal considerations to the professional investor. But, for individual investors, just starting with the same content as professionals is a major step forward.

So the interests of the both the professional and individual investors are aligned together if the SEC changes its XBRL implementation structure for better categorized yet more accessible content. To both the individual investor and professional analyst, it is just saddening to see the opportunity that the SEC has with the implementation XBRL just slip by.

## **Global Competitiveness**

The XBRL implementation method being proposed by the SEC in the United States is **very** different than that being used in other successful XBRL implementation methods by regulatory authorities and stock exchanges around the world which are much more accessible by investors.

In fact, the unlimited extensions and new technical structures being proposed by the SEC have NEVER been successfully implemented for investment analysis purposes on a any scale anywhere. Yes, given enough work, the XBRL information in these reports can be viewed using the SEC viewers, but this is meaningless as a much better formatted viewing is already available in html format. What matters is whether the data is *easily accessible* and can be used for *automated* and *comparable* analysis.

The proposed SEC XBRL implementation is going to have negative ramifications for the global competitiveness of US markets because not only is the US implementation more difficult and onerous for companies, but it adds less value to investors. So, while US exchanges are already losing new global listings, our country's XBRL implementation method could exacerbate this trend as not only will companies be less willing to list here, but even US investors would prefer that companies list elsewhere so that they can get more standardized and comparables financial reports for the companies they invest in.

When comparing the extremely detailed fixed-structure XBRL filings made to Chinese stock exchanges with much more complex and less [required] structured SEC filings, a global investor will immediately feel much more reliably informed on its Chinese investments. [Note: this paper is absolutely NOT advocating a fixed chart of accounts as some countries have done, but an implementation method where the company can present their information in exactly the custom statement formats they do now while still providing a minimum but required high level categories that MUST be adhered to without the use of additional technical structures which inhibit accessibility.]

It doesn't matter how good, conservative or well followed accounting rules are if the resulting figures are not *presented* to the end investor and analyst in a format that allows them to efficiently make use of the information. As Greg Jonas from Moody's Investors Services said last year "presentation runs a distant third behind recognition and measurement" at the FASB. This is why the SEC has responsibility for presentation in Reg S-X and why the SEC needs to step up to its responsibilities here.

## II. Implementing XBRL For Investors and Analysts

It is difficult to take issue with the SEC chairman and its director of interactive disclosure who have over-worked staff yet are so very supportive of a format which has the potential to radically improve reporting to their investor constituency. Yet, they need to push farther to get an investor-ready XBRL implementation because if they stop halfway and accept the contractor-defined solution that they have proposed, the situation could actually get worse for investors and never recover (especially if XBRL US Inc is given "validation" enforcement powers to cement their existing proposal).

Comments by the SEC to re-direct reporting presentation responsibility to the FASB and/or XBRL US organizations are not only unfounded because the SEC, through regulation S-X, currently holds primary responsibility for the presentation of the main body of financial statements, but they are counterproductive to the protection of investors in the country. FASB

rules provide little to no direction on the presentation of primary financial statements and it would be very slow to get up to speed on providing the presentation direction necessary. As Greg Jonas, a managing director at Moody's Investors Service, stated at a NYSSA event, "presentation runs a distant third at the FASB behind recognition and measurement." Since XBRL is all about presentation, the FASB may not be the place to turn over the SEC's own, much more presentation focused regulations.

The lack of current reporting presentation standards, combined with conceptualist accounting approaches was largely responsible for the Enron-era of financial reporting problems because even professional analysts couldn't determine the sources of income in detail and cross-check again other reporting areas. Analysts can do the SEC's job for them if they would enable them. As an example of the power of XBRL's ability to find inaccuracies through cross-checking, SavaNet, in mapping the Form 10-Ks of companies into XBRL format, found an error in Sanmina-SCI's 2004 10-K stock option disclosures where the weighted average exercise price of stock options was outside of the high-low range given, which is mathematical impossibility. **SavaNet notified the company of this inconsistency in August 2005** and requested the proper figures, but received no response. More than a year after this disclosure to Sanmina-SCI, the company disclosed irregularities in their stock option accounting. It was the hyper detailed prescribed structure of the taxonomies used by SavaNet which allowed for the automated analysis that made this discovery possible, however, not XBRL reported itself. If the SEC made similar disclosure requirements many more such irregularities would undoubtedly be found

Almost every accounting recognition and disclosure issue that investors are faced with now can be addressed at least partially through XBRL. For example, the major issue of 2005 with companies not wanting to recognize option plan expense would have been a non-issue if XBRL were in wide use with a well-defined structure. With XBRL all that is required is the disclosure because then investors and analysts can always "create their own" measures of earnings and whether they recognize it or not in the income statement just doesn't matter anymore. If taxonomies and the reporting regulation are well designed by the SEC, XBRL can even enable the automatic creation of the some of the entirely new reporting statements in the CFA Institute's "Comprehensive Business Reporting" effort such as a statement which provides a differentiation between cash and accrued income statement amounts.

The best solution for financial statement presentation structure to investors is very far away from the current regulations, practice and political viability. While this long-term and best solution will require a re-write of existing FASB an/or SEC rules and regulations, there is most definitely a minimum set of requirements necessary for XBRL to add any significant value to individual investors and professional financial analysts which can be achieved in the near term without any changes in regulations. But the implementation approach needs to be made from the investor/analyst perspective rather than the technologist/preparer perspective.

### ***The Two Approaches to the Implementation of XBRL***

XBRL, for better and for worse, is a very flexible specification. There are several technical methods to achieve the same result. For example, there are at least four different design methods for identifying and "tagging" business segment information. In addition, the extremely outdated and almost unconceivable spottiness of current SEC regulations and FASB rules in the area of



financial statement classification and presentation results in many additional inconsistencies in the presentation of the same information.

The combined result of the technical flexibility and accounting inconsistencies has led to an extremely wide divergence in the possible routes taken for the implementation of XBRL. Not surprisingly, one end of the spectrum, seeks to capitalize on these issues to benefit the accounting system consultants and software providers while the other end of the spectrum seeks to reduce the effect of these items to benefit the end user. Following are the two different representative approaches which can be taken.

1. A non-comparable taxonomy design and very complex implementation architecture should be adopted on the basis that many extremist presentations are still allowable, even if this means that comparability is lost and extensive processing is required even for presentations which conform to base industrial taxonomies.
2. Taxonomies are designed with a well designed classification structure which accounts for comparability the vast majority of presentations that allows for a great deal of comparability and is consistent with current reporting regulations but not required by them. Technical implementation architecture can be designed to classify options rather than being free form to allow for automatic processing.

Given that XBRL was developed almost exclusively by accounting system technology consultants and software providers, it is not surprising that the first approach has been the approach taken by XBRL US Inc which the SEC has accepted. But the SEC should take the opportunity of the once in a career advent of XBRL to help to close some of its past remittances rather than to allow them to be permanently institutionalized.

**Would the SEC be greatly influencing, if not outright requiring, more structured and comparable reporting if it took the second approach? Absolutely! And this is the minimum approach it should be taking if it is not willing to actually update its reporting regulations from its 40 year plus hiatus.**

If these two approaches were to represent different ends to a spectrum, the approach taken by the software accounting systems technologists within the XBRL organization can be described as extremist in the first approach, so this will be called the preparer/technologist approach. The second approach, which will greater benefit investors and financial analyst end users, will be called the user/analyst approach.

The goals of the preparer/technologist approach is to continue the company-specific non-comparability into the next generation of financial reporting and to not only profit from the continuance of this situation but to add to their revenue streams for the unnecessarily complex system conversion, report publishing and consulting work. At every opportunity, the preparer/technologists attempt to require the use of the most complicated approach possible which requires the most processing and is least likely to allow for standardization and the ability to store XBRL data in “standard” relational databases.

SavaNet representatives have participated in closed door meetings where key implementation issues are decided and SEC representatives, which have preparer backgrounds, supported the preparer/technologist positions in nearly every respect.

## ***Technology and Regulation Need Work Together Like Never Before***

While the SEC and the FASB are doing their best to fit the old regulatory paradigm into a new technology, the fact of the matter is that XBRL requires that an entirely new regulatory approach. Although this new approach will make regulation much easier, the transition is a major hurdle. This is because while the initial adoption of XBRL does not require a complete transition, it does require some additional structure. So, if the SEC and FASB stand by their assertions that nothing will change in regulatory reporting, then the entire implantation of XBRL in the US is in a Catch 22.

The Danish government said during its work with XBRL that it had learned how to much better write regulations. This admission was very refreshing and the SEC and the FASB need to get to the point where they admit this so that they can move on to do something about it.

So, if implemented properly by the SEC all these issues would become almost moot and the SEC would have an army of analysts to discover issues. THIS is the type of private sector work that the SEC can make use of, but they need to enable the private sector to do this.

### **Technical Complexity Issues**

Recently Chairman Cox said that XBRL was part o "SEC's war on complexity" and while XBRL, if well structured, the path that the SEC is being lead down by the XBRL organization technologists is the most complex XBRL implementation that could be imagined. And this complexity leads to less well defined and less reliable information, not more well defined information.

The way that XBRL has been implemented in other countries in the world to date has been much more structured than what its creators wanted or envisioned by a wide margin. In short, all of the major regulatory XBRL implementations in the rest of the world have rejected the extremely preparer-side, unlimited alterations approach proposed by the core XBRL International technologists. The US is their last stand for their unstructured approach and they are taking advantage of the more open government and its funding to serve their needs, not the investors. While it is possible for XBRL to be implemented with some guided extensibility that has never before been adopted in any wide scale implementation elsewhere in the world, the technologists at XBRL US are not even satisfied with that and want even more control. Instead, the independence and time pressure that accounting system technologist consultants have been granted by the SEC in the US, has been used to try force through a much more decidedly preparer-approach than has been used elsewhere.

Outsiders may think that in its rush to get XBRL implemented that the SEC would push to keep things simple on the first try, but exactly the opposite is happening as the XBRL technologists see the rush as an opportunity to get as many additional complex specifications mandated into the system without proper review or proving themselves in the marketplace. So we are in the unprecedented situation where in its rush, the SEC is being lead to mandate additional

unnecessary complexities of the type that Chairman Cox is trying to eliminate elsewhere in the SEC.

So, while the SEC often states that the rest of the world, such as the Chinese stock exchanges and Netherlands, ECCOSB, or the Korean Stock Exchange is ahead of the US in terms of XBRL, the fact of the matter is that the rest of the world has sided with the investor, not the accountants, technologists and corporations desiring to continue to hide in reporting complexity as the SEC is doing with its support of an unstructured solution with a level of technical complexity that is even beyond what has been rejected by the rest of the world.

In addition to the taxonomy content, there is a good amount of taxonomy design involved in creating taxonomies and still another level of technical architecture regarding how all the various taxonomies of a framework work together. As this is often completed within the realm of technologists, it is extremely important that both accountants and analysts over see this design process through a group to ensure that financial statement presentation problems are not replaced by over complex and non-structured technological implementation design issues.

Nearly all the XBRL implementations around the world which have analytical value, such as the KOSDAQ, European Central Banks, FDIC, NASDAQ have all been fixed standardized taxonomies. But we are Americans so we want to be rebels with freedom, so we have to give some extension leeway. Luckily, by structuring taxonomies under Reg S-X categories and through the innovation of separating presentation from calculation relationship, the SEC has the opportunity to allow companies to extend taxonomies and allow companies to present information however they want AND provide necessary analytical value while still not resorting to a fixed taxonomy. However, to XBRL technologists, the SEC is their last hope to implement the full complexity of SEC so they will fight it. This fight is currently underway and we request that the SEC will eventually side with their constituency the investors and not the technical and preparer community.

Unfortunately, while the XBRL specification can be used on an as needed basis, some key XBRL “architecture” technologists have made it their goal to force “all-or-nothing” XBRL processing – but there have had NO takers on this proposition anywhere in the world. They are no trying to force into use specifications that are not even part of XBRL, such as the dimension specification. The SEC also needs to disallow the use of the dimension specification.

The technologists involved in XBRL design often state that the end users should not get involved in technical design and that “they will take care of it.” This is extremely dangerous development approach which has been repeatedly debunked in software development circles in books such as “The Inmates Are Running the Asylum” by Alan Cooper where he finds that this leads to unnecessary use of additional technology that results in less robust and usable products for the end user. Despite these known failings, this is exactly the development approach being taken by XBRL US organization and the SEC as the technologists are indeed attempting to incorporate as much technical complexity as possible to assure that their products and consulting services will be needed as much as possible. In fact, the XBRL International organization would be a perfect case study for this book.

Not only is the stated XBRL technologist approach of telling the end users not to get involved with the technical design because only technologists need to deal with it a rejected approach, but it is misleading in another way in that it leads the SEC and accountants to believe that they will

have their technologists design methods for them to work with XBRL. This is misleading because technologists cannot understand of work with the complex dimensions either, it is ONLY the few technologists authors and the close knit XBRL software companies that even understand what was written (but they haven't made it work for analysis purposes, either.) Even the head systems technologists at leading Wall Street investment banks are baffled not only by the complexity of the fringe XBRL specifications, but why they would be attempted at all because they reduce value not add.

## **Posting to Corporate Websites**

The idea to have companies post their filings to their websites is an excellent idea, but the SEC should maintain a list of filers (with their tickers) and their web page locations.

## ***SEC Needs to Provide a Better Implementation Architecture and Rules***

For analysts, XBRL means an “escape from earnings” and its going to make our jobs interesting [again?]. One FASB staffer criticized analysts focus on earnings, but this is only because it is the only value required to be presented in the income statement that is and has a definition. Now the definition is 100's of pages long and is inexact, but at least it is a required and defined item the analyst community could use for comparison purposes.

Although the SEC may already overwhelmed with responsibility and would prefer that XBRL US, the FASB, or the market take care of these issues, but they just can't. And money and software can't solve it either. There is no solution other than the SEC getting into the presentation details and stepping up to their responsibilities. They may not want to be, but they're “it”. The CFA Institute is trying to help by providing input, but the SEC is the one that's got the pen for Reg S-X, the pen for XBRL implementation, and the purse for taxonomy development.

The “market” can absolutely take care of many reporting issues as the SEC would like, BUT it must first give the market a framework to operate within. The market can take care of nearly every disclosure issue, but the SEC must provide structure to financial statements that is common to publishers and users of financial statements. Thousands of analysts swarming over documents can find fraud and the prospect of this alone will put companies nose to the grindstone of disclosure, which is better and more desirable than any regulation by all concerned. The analyst community will do the SEC's difficult and political “dirty work” for it but the commission will have to give us an analytical leg to stand on.

In thinking about getting information from companies to investors in a form they can use, it may be helpful to picture a bridge with technology coming from one side and reporting structure coming from another. XBRL is a framework designed to reach across the chasm, but it needs additional reporting structure coming from the other side. XBRL has done its part now it's up to the SEC to make good on their responsibilities and meet in the middle. XBRL is like the girders holding up the bridge, now the SEC needs to fill the holes in the roadbed so investors can make it across without falling through. This is the type of securities market “public safety” service the SEC is required to provide.

An XBRL implementation solution which meets at least high-level investor needs is achievable under current presentation reporting rules through enhanced use of the XBRL and extremely careful taxonomy design. However, in order to fully achieve the potential of XBRL, the SEC is going to have to make longer term changes in reporting presentation regulations.

So, the SEC must use a two step XBRL implementation process:

1. **Immediate XBRL Proposal Implementation Rules Need to Be Changed** and FASB, but should not be put solely under FASB control because this is not only a GAAP issue -- this is about the presentation of GAAP-compliant financial statements. Need to require that taxonomies do not violate Reg S-X and that there are suitable taxonomies for “common document” information.
2. **Long-Term Plans for Modernizations of Reporting Regulations Need to be Put in Place.** The SEC is asking XBRL-US to design a next-generation electronic reporting format based on 20-year old paper-based reporting requirements

The first immediately implementable step is meant to direct, but not require, the comparability in XBRL reporting which is required by the SEC’s investor and analyst constituency. The second, longer-term, step is meant to require it.

### III. Current SEC Proposal Recommendations

#### ***XBRL Implementation Design***

A successful SEC XBRL reporting programs begins with an implementation architecture designed to meet the needs of investors, not preparers. This architecture includes not only taxonomies but the technical structures selected to underpin these taxonomies. Implementation also includes the publishing rules and requirements regarding how a company is to prepare their reports using the taxonomies provided.

Implementation is everything with respect to a specification as enormously flexible as XBRL. If there is one piece of information to be taken out of this report it is that the success or failure of the SEC XBRL reporting program is *entirely* dependant upon how it is implemented, not the XBRL specification itself. Implementation is a term that includes everything beyond the XBRL specification itself that goes into an XBRL solution. By properly implementing XBRL, the SEC can avoid the problems that have plagued other well-meaning initiatives such as Sarbanes-Oxley by making it easier to comply with and adding value to the end users.

"The problem with 404 [Sarbanes Oxley] is the way it was implemented," -- John Thain, chief executive of the New York Stock Exchange

The completely unrestricted implementation is not even an option as it can’t be implemented and even if it could, it would be incredibly complicated and expensive and not achieve the goals of the SEC. So this idea needs to be let go of so debate can move on to the next questions: how much does the SEC wish to bridge the structured vs. as reported “gap” from each side (i.e. how

much, if any additional regulations do you want?) The question of using XBRL at all is really secondary as you face same issues with or without it.

While this may be in contrast to the way people understand XBRL, there is no benefit for financial analysts in company-specific tagging of existing financial statements as it defeats the purpose of using a standard. I know it seems that there would be tremendous benefit for analysts not having to “get a cup of coffee” and re-key in information manually from releases, but that is no the way it happens. Text-parsing and line-by-line tagging of html filed financial statements is trivial compared to re-classification and normalization work that needs to be done.

## ***XBRL Implementation Recommendations for Investors***

**The remainder of this section (III) of this paper contains specific near term recommendations to the SEC in order to implement an XBRL reporting solution that meets the needs of investors and analysts.**

0. **Specific recommendations will be numbered** and appear in a separate paragraph beginning with blue font.

**The guiding principal for the implementation rules is that companies should continue to be able to present their financial statements as they like but that the underlying definitions and categorizations should not be changed and so as to maintain at least a high level of comparability across companies and be useable for classification purposes..**

Companies must be required to more consistently work within the existing structure of the base industrial taxonomies. While there was a rule [almost the only rule] in the previous VFP implementation that companies must *start* with a base gaap industrial taxonomy, there were no rule as to how much they alter it, which, in XBRL terms means that it is not a rules at all. The new SEC proposal needs more rules.

## **Achieving a Near-Term Solution Under Current Regulations**

The SEC has made two seemingly contradictory statements about XBRL: it has said that it will not require a change in regulations but has said that XBRL will allow for direct comparability. On the face of it, anyone who understands current reporting regulations would conclude that these two statements are incompatible. However, given the new technical structure of XBRL, well-conceived reporting regulations, and a little management discretion, a new near-term reporting solution can be designed to achieve both these goals.

The following proposed solution allows the SEC to add to exiting reporting program rules without contradicting existing regulations and establishing a structure that allows for management to use its discretion when mapping its reported line items. This is similar to the FASB new Performance Reporting standard of providing an income statement framework, but allowing management desertion on how to classify. It serves many purposes:

- a. Does not require a re-write of existing SEC presentation regulations, such as Regulation S-X

- b. Companies can still present information exactly as they do now.
- c. Does not require that companies change reporting structure, they need only to use their discretion in mapping to existing structure
- d. It frees reporting entities of the liabilities of mis-representation as they need only prove that in their judgment they provided the information in the best manner given the format provided.

### **Furnished vs. Filed Documents**

The issue of whether a company “furnishes” or “files” XBRL filings to the SEC has become somewhat of a divisive issue. As the general consensus seems to be that XBRL should eventually completely replace the existing filings, which would have “filed” status, the question is really if or how long the XBRL filings should have “furnished” status. As the solution presented in this paper has both a near-term and a long-term plan, our recommendation is to:

1. [Companies should be allowed to simply furnish XBRL filings](#) until reporting presentation regulation updates, such as the FASB Financial Statement Presentation project and the SEC’s updates to Regulation S-X, are complete and the move is made to have only the single XBRL version of a filing.

From an investor and analyst perspective, clearly they want the most reliable information available, which would suggest the use of the more stringent “filing” requirements. But this does not mean that there should not be an interim period of “furnished” status because this period may give the time that is necessary for companies to move towards more comparable filings. Until presentation regulations are updated, we also want companies to not be afraid of using management discretion to select existing elements rather than creating new extension elements.

If companies were forced to move to filed status immediately, they would be more likely to do whatever they could to minimize any differences from their current filings which would make their statements less comparable with other companies. This may include using an inordinate amount of company-created elements to be sure that there are absolutely no differences between their line items and definitions of the base industrial taxonomy elements, for example.

Another consideration in the furnished vs. filed debate MAY be that there is an undercurrent as to how this would effect WHO would do the XBRL mapping. If the documents are only furnished then it will be more likely that companies will chose an outside vendor, such as an EDGAR filing company to do the mappings as this would likely be easier and lower cost for them. Using filing companies to do at least the first run at an XBRL filing (which could them be sent back and reviewed by a company’s accountants) would also likely lead to greater comparability for investors as fewer companies would be creating the filings and they would establish best practices.

### ***Designing Taxonomies for Analysts and Investors***

One thing the SEC will definitely need to do before its final proposal is to make alterations to the taxonomies to be used. This is because the most recent “final” version sent to the SEC by XBRL US still is way too preparer-side focused and purposefully omits items and item types which are necessary to meet the more structured, yet less complex requirements of investors and analysts.

Yes, there was a 3 week comment period on the taxonomies last August but they were developed so quickly that even the little input provided by end user investors was ignored. The SEC needs to re-edit the taxonomies for investor use. If the SEC fails to edit the taxonomies as part of their final proposal, it send a clear signal that it is not protecting the needs of its constituency.

We have several recommendations regarding taxonomies design with the first one being:

2. **Reduce the number of industrial taxonomies** (or, more specifically, industrial taxonomy “entry points”) and combine the banking and savings taxonomy with the broker-dealer taxonomies as requested by the CFA Institute.

Currently there are 5 industrial taxonomies which generally match those with different presentation requirements in Regulation S-X and those in use in the marketplace.

The CFA Institute also made this public recommendation to the XBRL US during taxonomy review period: “We also recommend that XBRL US consider merging the Banking and Savings Institutions and Broker Dealer taxonomies. Our review noted no major structural differences between the taxonomies so they could share a standard presentation linkbase.” But this request, like most others from the analyst community, was ignored by XBRL US Inc.

## **Alternative Layouts**

Also, in order for the taxonomies to lead filers towards the comparability that is necessary for investors, the SEC needs to request that XBRL US remove the multiple versions of some financial statements for each base industrial taxonomy

3. **There should only be one set of default financial statements** provided for each industrial taxonomy. Multiple “default” versions of financial statements, such as one with “Gross Income” and one without, should not be provided.

The CFA Institute has also asked that “There should be only one set of financial statement layouts for each core industrial taxonomy. For example, there should not be two versions of a commercial industrial Income Statement simply to include or exclude Gross Margin as this greatly inhibits comparability.” in its comments to the SEC.

Additionally, so-called “alternative” layouts should not be provided in the base industrial taxonomies. This “Alternative” elements/layouts is a term used for alternative layouts which usually contain additional of elements for netted vales that do not easily fit into the base taxonomy structure because they net values across different “branches” of the taxonomy layout hierarchy.

In nearly all cases, alternative presentations can be handled by careful hierarchical taxonomy design, but eve if this cannot be done, then the elements for both alternatives can simply be placed as children to the parent element that they sum to. While from a taxonomy linkbase standpoint this may appear to cause conflicts in actual presentation and analysis use cases, it works fine as unused elements are not displayed.



## **Number of Elements vs. Structure of Elements**

The SEC may have been lead astray by focusing on increasing the number of elements as the main way to address non-comparability. The thinking is that if there are fewer company-specific extension elements then there will be more comparability. This is not the case. In fact, it would be much better for investors and analysts to have even a very limited 100 element taxonomy of high-level items for just the financial statements that had an easily accessible architecture and enforced extension rules that allowed extension only below these elements than it is to have a 14,000 line item taxonomy.

There is a great deal of unnecessary and complex new additions that XBRL US Inc made to the latest version of their taxonomies which were not in the early taxonomies used for the VFP. In particular is the completely unnecessary addition of [Table] and [Axis] “container” elements to the most recent version of the taxonomies. These again are last minute contrivances added by XBRL US Inc technologists which are highly detrimental to investor end use as they add a great deal of complexity and no analytical value. This has made the taxonomies even more difficult to navigate and complex to process as observed by the CFA Institute which said that “In looking for the tag “Operating Income(Loss),” the user must open 10 different parent links. While each of the abstracts that are opened may offer some value in creating an instance document, an analyst looking to create a model needs a more streamlined path to the tags. We recommend addressing this concern as a short-term objective, and encourage XBRL US to design an appropriate and streamlined method.”

## **Other Investor Taxonomy Design Items**

Following are remaining issues related to designing the taxonomies for investor and analyst end use. :

- Make sure there are simple taxonomies for “common document” information that can be used by all forms filed with the SEC.
- Use enumerated content lists wherever possible such as fir accountant attestation, etc
- Add at least “text block” items to contain the cover page and MD&A of a form so that filers can put the entire content of their filings into XBRL immediately if they desire.
- Make the sign of numbers published to instance documents the same as what investors are used to using. For example, do not have any items in the cash flow statement which are cash outflows appear as positive values as this is NEVER done in practice so will cause investors to become uncomfortable with XBRL for no reason other than to please more theoretically-thinking technologists.

It is important that the taxonomy design process actively involves representatives from all the major organizations involved and, as most projects, manage the balance between broad input and a knowledgeable core group with responsibility. In addition to the public and professional organization representatives, it is also extremely important to incorporate private sector input at the table as this was one of the strengths of the previous process and we are in danger of losing it. After-the-fact comments are simply no substitutes for being at the table to begin with. In addition to the CFA Institute, the SEC could include input from other professional analysts and even a data service provider.

As shown in this section and next, our recommendations are not calling for a so-called “standardized chart of accounts” in order to achieve comparability but make use of the new flexibilities of the XBRL standard while still achieving a base level of comparability. We fully realize that taxonomies are not a “standardized chart of accounts” which seems to be something that some companies are worried about and the SEC wants to avoid. The good news is that a “standardized chart of accounts” is no longer necessary for automated comparability with the advent of XBRL but only *IF* it is implemented correctly.

Taxonomies are more a structured list of reporting items that are to be selected from, and added to if need be. The resulting presentation of financial statements using the same taxonomy and custom presentation can be almost exactly as they appear today. In most circumstances, a taxonomy which has the fixed calculation grouping necessary for financial analysis could be presented such that it would be very difficult even to the trained eye to see the differences from a company’s current statements.

Easier and better structured taxonomies will lead companies to provide more information. "Use this opportunity to give investors something new," said Deborah Allen Hewitt, a College of William & Mary professor and a member of the investment committee of the Virginia Retirement System (VRS). "Don't just wrap the same type of data in a new technology. Use this as a chance to provide broader data about your company, and deeper data." She asked that companies consider using XBRL to tag highly coveted, and closely held, data such as business-segment information, so investors get a better sense of how revenues and earnings are produced.

### ***XBRL Report Filings Rules***

One key issue to be addressed is the creation of extension elements as there is a great probability that in order to cover their regulatory risks companies will create company-specific extensions whenever in doubt. The SEC needs to make the opposite case clear to them— that they will be in trouble if they unnecessarily create extensions. This can be helped by providing the filers with guidance on which commonly used items in their financial statements should be mapped to which base taxonomy elements as labels do not always match exactly.

We also want to once again let all readers know that all these negative consequences are the result of an XBRL implementation which gives companies the unlimited ability to alter calculation relationships in the financial statements. **An XBRL implementation that has high level calculation groupings under which extensions must be categorized in the main financial statements will actually not only avoid these negative consequences but greatly strengthen the integrity and reliability of the financial reporting system in the country.** This huge dichotomy in results based on an issue that is not immediately apparent to most observers is a major reason for lack of uptake of XBRL in professional analyst circles.

Another, perhaps simpler way to explain this is to think of the base taxonomies as hierarchical groups of elements with the highest, top level items being added or subtracted to obtain a financial statements total result (net income, assets, cash flow, etc).

While *horizontal* extensions which fall under one of these highest level category items can be handled by analyst and investors as 1) they have some high level items they can always rely 2) they at least know something about the extensions for automatic analysis and 3) they can adjust

their analysis for extensions in certain places. But, if a company adds *vertical* extensions at the highest level, then they invalidate the entire financial statement for automated analysis because there is no way to automatically tell where the extension has taken amounts out of other, even the highest level grouping, elements so potentially then NONE of the financial statement elements are reliable for automated analysis.

### **Content Format and Presentation:**

One of the more contentious points within the XBRL world recently has been the debate over how to “render” or present the content of an XBRL document in a publisher-defined format. The debate ranges from those who think that there need be no rendering solution at all as each user and software application will simply display the information as they desire. Then there are others would want to design a completely new, XBRL-specific technical rendering specification, a project which would be similar in scope to re-writing html.

The best and only practicable solution for viewing the contents of financial report in XBRL has been clear and used for years, but it has been fought by XBRL technologists because it would meet all user needs without requiring any additional specifications which they could profit from, effectively eliminating the possibility of any of the proprietary methods from ever being used. The solution is simply to tag sections of the original report in html format using xbrl elements using a process which replaces html characters which would cause a problem if mixed with XBRL. And by simply creating a presentation linkbase of these XBRL elements which contain html, a “table on contents” for the document can be built using XBRL.

The problem of “rendering” XBRL data is rendered a completely moot point once the entire contents of the original filings are placed into XBRL tags with full html formatting. It also allows for the immediate meeting of the CFA Institute’s request that there be a “for a single XBRL-related filing.” The one catch here is that, because the XBRL US Inc technologists wanted to use a complicated in-development rendering method focused on preparers rather than the easy and complete html rendering method for investors, they refused to add an html data type to the taxonomies they developed for the SEC. So, this data type should be added before the final SEC proposal is released.

The SEC has to take a step back here and not get caught up with the XBRL technologists and accountants that are pushing more complex “H-Schema” or “In-Line” rendering approaches. The fact of the matter is that investors and analysts want to do 2 things with a report: they want to read it and they want to analyze the content. Since we already have fully formatted html versions of these reports, it may seem that the reading part is already taken care of, but XBRL has value here too by providing direct and interactive access to pre-defined content. (also there is a desire to eventually have just one file for a filing.)

In order to meet the two “read” and “analyze” uses of an XBRL document, the SEC should first require that every section, statement and note of the complete original report first be tagged in their entirety in the current fully formatted html format and THEN have the companies ALSO tag each of the individual values or pieces of content in that note that might be used in detailed financial analysis. This would also increase acceptance of XBRL by companies because it will allow them to maintain their formatting and help them to provide the information in context with

other information they want to provide while still allowing analyst to use the individually tagged items for automated analysis.

1. **Report Content:** The complete contents of the report, including MD&A and Notes shall be supplied within the XBRL instance document in [escaped] html format. A document presentation linkbase shall be included within every filing with the elements which contain this content organized in a “table of contents” structure so that the complete original report with filer-desired formatting shall be able to be rendered very easily for viewing purposes.
  - This requirement completely solves the “rendering” issue as if the user simply wants to view or read the report they can easily do it with full formatting and immediate access to each section or note. This frees up the rest of the filing to be structured for [a more standardized] analysis without regard to presentation issues.
  - Even the main body of each financial statement should appear as an element in the table of contents as should each note. The SEC should either provide a simple “document” taxonomy for each of its forms with elements for each section in the table of contents or allow companies to report the entire document in html provided it has Header hyperlinks down to the individual note level.
  - This structure would meet the CFA Institute’s request that “Reports filed should include a table of contents that identifies each section of the filing (e.g., primary financial statement, disclosure notes, MD&A) and allows for easy navigation between the various sections.”
2. **The presentation linkbase** can be freely altered by publishers without restriction (but calculation linkbase can only be extended, not altered, below high level categories, see below.) Custom subtotal elements can be added to presentations but should not be added to calculation linkbase and all of their children need be part of existing taxonomy calculation linkbase.
3. **Labels over-writes** are to be encouraged, but only used according to the following rules. If used in this manner, the user of the financial statements is actually given even more information with no loss in comparability. The SEC will make clear that label over-writes will only be allowed to:
  - Change the formatting of a label (ex: change to ALL CAPITALS)
  - Re-phrase the label (ex: “Operating Profit” over-writes “Operating Income(Loss)”) )
  - to NARROW the definition of the element to give more information to the user (ex: “Equity income from fuel cell joint venture” replaces “Earnings(Losses) from Equity Investments”)
    - Label changes rather than new elements should be used in all cases where the narrowing of the definition of a base taxonomy element does not exclude any other content. For example, if there are several line items disclosed pertaining to equity income then several child elements should be created for Equity Income in the calculation linkbase. If there is only one line item for equity income disclosed, then a label overwrite should be used.
  - To add indication of the inclusion of immaterial amounts (ex: “Prepaid Expenses and Other Current Assets” can overwrite “Prepaid Expenses” if the company is

willing to say that other amounts are immaterial. If not, then a higher level parent or “Other” item should be used.

4. **Table and Axis elements should be removed** from the taxonomies. As these complex “container” elements were meant for presentation purposes, they are no longer necessary with html display capabilities and they make the content much more difficult to access. They are also unnecessarily complex new additions to the taxonomy (note: Tables took 17 sections(!) in the preparers guide just to explain from a high level preparer perspective) that lack sufficient support in the marketplace. Clearly these were added to generate preparer consulting and software fees, not benefit the users who are much better served by a fully formatted html version of a table for viewing purposes.
5. **Info Context:** Every XBRL instance document filed with the SEC should be required to have an “Info” context with basic information about the filing company and its securities (such as Ticker, MIC, industry code, report date, form type etc.).
  - As a “lowest common denominator” taxonomy to be included in every filing, the taxonomy which contains “Info” elements should be as technically simple as possible—just a list with no parent-child relationships, no calculation linkbase, no tuples, dimensions, etc at all.
  - Investors using reports should not have to cross reference CIK codes on the SEC website in order to get filer information.
  - The Ticker and Market Identifier (“MIC”) code of the filer’s primary equity securities should always be provided in every filing for public companies as the best license free securities identifiers available.
  - The SEC and/or XBRL US should follow up on conversations with industry classification systems GICS and ICB to arrange for individual company filers to obtain their classification code free of charge for inclusion in their filings.
6. **Remove all Document and Entity Tables and “Sub-Taxonomies”** for country codes, currency codes, exchange codes and industry codes as they are unnecessary complexities. The DEI taxonomy should be a simple list taxonomy with single elements within the DEI directly tagging the required code. For example, there should simply be one element in the DEI regarding the market identifier code (“MIC”) code that directly tags the code without the use of an exchange code taxonomy such as:  
`<PrimaryExchangeCode>XNYS</PrimaryExchangeCode>`

## Segment and Scenario Classification

In addition to the there being an insufficient amount of structure to the financial statement content in the instance documents reported to the SEC under the VFP, there is also a great deal of technical differences in the manner in which the XBRL documents are structured. A great deal of this has to do with the extreme misuse and over use of context periods. Because the SEC does not require that the content of these context period be classified, it is impossible to tell which periods hold the consolidated information financial statement and which contain sub segment information. (Microsoft, for example, spilt its content into over 100 context periods that could never possibly be pieced back together.)

This problem is evident in the SEC’s online XBRL Viewer and is the reason for the recommendation numbers 3,4, and 5 which require that context period information be identified using an enumerated list such as [Consolidated, Parent, Subsidiary, BusinessLine, Geographical, Acquisition, DiscontinuedOperations, Fund, ShareClass, Other]

7. **Segment and scenario context information** should be defined within the context period information or elements within the segment note of a consolidated context. Contexts shall identify their contents using an enumerated list of Segment Types and Scenario Types.
  - o Every filing should have a context with a “Consolidated” Segment Type.
  - o Suggested segment types are [Consolidated, Parent, Subsidiary, BusinessLine, Geographical, Acquisition, DiscontinuedOperations, Fund, ShareClass, Other]
  - o Suggested scenario types are [Restated, Proforma, Estimated, Guidance, BaseForecast, HighForecast, LowForecast, Budget, Other]
  - o This eliminates the need for extremely complicated and unnecessary add-on Dimensions 1.0 specification which is an unnecessary accounting system contrivance. (see comments sent to BRL US for more information regarding Dimensions and 27 reasons why they should not be used from an investor perspective.)
8. **Summary segment breakdowns**, such as the typical five line items [Revenue, Operating Income, Depreciation, Capital Expenditures, and Assets] may be placed within the Business Segment note elements created for these items in a consolidated context period for ease of use.
  - o These necessary financial line items need to be added to the business segment note of the base industrial taxonomies before final proposal release.
9. **The new add-on Dimensions specification should not be used** for segment and scenario information as it greatly impedes investor access, storage, analysis and integration with existing systems for no additional end-user benefit. SavaNet wrote a separate paper on the proposed XBRL implementation architecture last August which contained 27 reasons why the newly add-on Dimensions specification should not be used with full paragraph explanations for each reason. It was submitted to the SEC (to David Blaszowsky and Jeff Naumann) in addition to the XBRL US Inc organization last August. Interested readers should e-mail the author for a copy.

Just as they did not allow an html data type to try to prevent the use of a better and easier presentation solution for investors, the XBRL US Inc technologists also would not allow for elements to be added to the taxonomies delivered to the SEC which would contain elements to hold segment and scenario information directly within the context period information. So these elements should also be added to the taxonomies before the SEC releases its final proposal. Here is XBRL context period which contains the necessary <contextInfo:> elements:

```
<context id="IBM_xNYS_FY06_Con_Res">
  <entity>
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While there are many issues at stake regarding whether the SEC implementation of XBRL meets preparer desires of investor needs, the dimensions issue is a good example, so we will go into detail. The requirements of dimensions will result in the sea change in implementation that the technologists are trying to achieve while resulting in less useful and even unusable information for investors.

## Calculation Relationships and Alternations

Because the presentation of XBRL information can be completely altered to meet each companies reporting format, the ONLY structure available to the end user investor to provide comparability between filings is the calculation linkbase. As such, the SEC needs to place very stringent rules on how it can be altered or extended. The good news is that since there are no existing regulations on the books regarding calculation metadata, the SEC is free to add necessary XBRL reporting rules here.

10. **Identify high level category elements.** The SEC needs to identify the high level parent category elements in the calculation linkbase for each financial statement and not allow any extensions or alterations higher than these elements in the calculation linkbase hierarchy.
  - In this manner, the SEC will provide at least a very high level of comparability using groups similar to those which already appear in Regulation S-X, albeit not exactly the same groups
11. **Filers should not create custom calculation linkbases:** The SEC should direct filers to use the lowest level elements in the base taxonomies which meet the definitional content of their reported line item and to leave all intermediary parent items in the calculation linkbase in place for categorizational purposes.
  - Filers should thus NOT create a new calculation linkbase that only contains the elements in their own financial statements.
  - While many validation tools will “calculate through” items in a calculation linkbase which don’t appear in the instance document, it would be helpful, though not strictly necessary if XBRL US directed all software vendors to make sure their software processors work this way.
12. **Net Items:** As it is very difficult to put all the possible net line items in a taxonomy, a filer can add them as a custom subtotal (e.g, only in presentation, not in calculation linkbase) if its children are also given or, to the appropriate positive or negative (Increase or Decrease) line items while exist in the base taxonomy.
13. **Move line item breakdown in notes into main body calculations** whenever possible. The taxonomies delivered to the SEC are not particular good in this regard as many line item breakdown such as for Debt appear only in notes, not in statement. By moving them into the main body, analysts can drill down to get detail more easily and see how detail foots to total amounts.

In its comment letter to XBRL US Inc., the CFA Institute asked both that: 1) “Custom extensions should not alter the primary element definitions and calculation relationships within the published taxonomy” and 2) “When adding a custom extension, companies should include sufficient detail in the definition and regulatory reference sections of the new element so users can understand the difference from the core taxonomy field.” By not altering parent/child calculation relationships, this request would be met.

## **Preparer’s Guide**

A taxonomy user’s guide will be essential in the SEC interactive data solution. Because of the conceptual, non-prescriptive approach of accountants, this type of direction has never been provided by XBRL so the SEC or its contractor will have to provide it.

A Taxonomy User’s Guide needs to be created with explicit entry instructions for the items in the base taxonomies for users to refer to when mapping their statements to the customizable industrial taxonomies. The expected general entry methodology needs to be explained and specific comments as they pertain to the entry of individual items from the existing statements into the base taxonomies need to be added.

The last taxonomy design issue to deal with is the FRTA rules written by XBRL technologists completely without analyst input. As a result, they simply cannot be followed because some key points are in conflict with analyst and investor needs. It’s kind of like analysts going and telling accountants how they should design an internal accounting system.

## ***SEC Internet Browser XBRL Viewing Tools***

The SEC has recognized that end user investor and analyst uptake of the technology is crucial to its success and funded the development of on-line XBRL viewers. However, if the XBRL was better structured and met investor needs then many private sector companies would have been able to fund the development of free viewing tools such as these. The \$250,000 paid is an easily raised sum in the private marketplace. This approach of forcing a standard that is not meeting market needs obviously brings to mind a more authoritarian philosophy than the private/free market spin that the SEC is trying to put on its out-sourcing. This is NOT to say that the SEC actually realized and consciously took this approach, it is just a failure in understanding.

What the SEC should, of course, do to achieve investor and analyst acceptance is to direct that its own regulations and the XBRL technical implementation be designed to meet end user needs. But this is much more difficult both politically and resource-wise than not changing any regulations and paying a mere \$250,000 for software to solve all of its problems. Unfortunately this latter approach doesn’t work. The SEC needs to take address the root of the Problem, not just the presentation.

That being said the SEC needs to be very careful with its move into the XBRL viewing space to make sure that they don’t move into the realm of providing analysis tools. This is because it runs the risk of leaving its impartiality at the door if it adds analysis capability to the XBRL viewer it has developed for its website. This is result of the fact that chosen analytical measures cannot help but favor one company over another. For example, should the “official” SEC XBRL analysis tool provide Debt / Equity or Net Debt to Equity as an analysis metric? Selecting one or



the other could seriously affect companies could debt and cash management strategies based on which one the SEC decides to use. While this may improve their rating in the “official” government analysis tool, it may very well be economically inefficient. Our recommendation is that the SEC simply provides an XBRL viewing tool and structure the instances for analysis. If it does, this plenty of analytical tools will be developed for free without the SEC having to lose impartiality and enter into the new business of analysis.

The CFA Institute has publicly stated that “Regulators that adopt an XBRL framework should only define or provide analytical calculations as defined in the accounting literature. Likewise, they should only provide software that facilitates the investor’s ability to make this type of calculation and analysis.”

### ***XBRL US Inc Intellectual Property “Validation”***

The SEC gave \$5 million of public taxpayer money to XBRL US to fund taxonomy development, but they are using it as a private trade group to fund the members business interests. The leadership of the organization has stated they are simply there to lead the membership interests in an attempt to seem bipartisan, but 1) this is impossible where their organization is 80% technologists and 20% accountants and 2) the SEC is paying nearly all the bills and membership interest should be allocated in that regard. The end result is that the public taxpayers are paying to improve the business prospects of XBRL software vendors and accounting firms and decrease the quality and usability of the financial information they receive at the same time.

In the spring of 2007, the XBRL US organization privately assembled a group of just over a dozen members to make the major technical implementation decisions for XBRL regulatory reporting in the country. To this small group of technical insiders, it was known as the “cage match” because of the major disputes that everyone knew had been put off which would the discussions would entail. The composition was 70% technologists, 30% accounts. The worst case assumption was that the technology firms want to sell as much software as possible and the accounting firms are looking for another Sarbanes Oxley windfall gains. But there are other factors at play. First of all, neither group has virtually any comprehension at all of the investor and analyst perspective. Secondly, the technologists simply want to use technology and accountants don’t understand it and simply take their word for it. While it is impossible to tell the profit motive from the ignorance and technological arrogance motives, the end result is the same for the end user.

This is not to say that all the members of XBRL US Inc are not end use motivated, but only that the company has been co-opted by the fewer that are and the executive leadership has allowed and supported this.

### **Forcing the Purchase of New Database Systems**

XBRL US Software Vendors are specifically designing the XBRL implementation with unnecessary structures that will require the use of their software, databases and services.

In the face of continued criticism over the complexity of the specification and implementation design, the XBRL US actually took steps to make it even more complex and difficult to work

with. The reasons were two-fold: they saw that the SEC was going to accept anything that they came up with and 2) they saw that the current implementation design was actually not making use of their database designs.

## Public Ownership of XBRL US Intellectual Property

14. [Public Ownership of XBRL US Intellectual Property](#). The SEC must not allow the private sector XBRL US Inc. organization to maintain ownership of the intellectual property (system design and taxonomies) that the public funded the development of.

## XBRL US Inc Private Benefits of Quasi-Government Standing

Despite the many early-stage issues with the SEC's current XBRL implementation, they can be addressed if the SEC lets market forces take their course. So the worst possible thing that the SEC could do now (even worse than taking no actions to change final rule) is to support additional developments which prevent necessary improvements for end user investors.

15. [XBRL US Inc "Validation" Business](#): The SEC absolutely should not grant the private sector XBRL US Inc. organization and the ability to charge for "validation" services.

There are many things that need to be done to improve the situation of investors in the country and the last thing we need is the SEC creating another problem for them by allowing the XBRL US Inc organization and members use their publicly funded intellectual property as government granted "quasi-regulator" standing to benefit themselves further at the expense of end users.

If the SEC allows XBRL US to charge for validation services then the nation's taxonomies and XBRL implementation architecture will never have been subject to market forces and the investors and analysts of the country will forever be held hostage by whatever technological structures the accounting systems consultants and software vendors want for their own business reasons.

**Unfortunately, it looks as if the SEC is going to just this by allowing the private XBRL US Inc. organization to use its SEC-funded quasi-government status to charge for "[quasi-]official" "validation" services of XBRL taxonomies and filings in the country. If this private organization is granted this power then the very small cadre of accounting system consultants and software vendors will be made the ultimate arbiters of XBRL filings and they will only allow the current technical designs that most benefit their provider-side employers rather than the end user investors in the country.**

The SEC must find a home for its creation called XBRL US Inc. where it can be properly overseen by a public authority. The country simply cannot have a private entity that received public money running around trying to profit its members through its quasi-government

standing. As the country has learned from the Fannie Mae and Freddie Mac debacle you cannot privatize gains and publicize costs.

16. [The XBRL US organization should unquestionably be folded into FASB/FAF](#) so that it can closely manage taxonomies with accounting pronouncements and the upcoming Financial Statement Presentation project.

As part of FASB/FAF XBRL US can also make use of their relationship with the IASB so that convergence occurs at both the technological and rule-making level. Lastly, As part of FASB/FAF the SEC will not have to worry about potential for a private entity and its members to try to make use of its government-granted quasi-regulatory status for their own benefit. There is no question about this, all reasoning points to XBRL US becoming part of FASB/FAF as is done internationally with the IASB. The United States needs a mirror organization which incorporates XBRL into accounting rules bodies to effectively work with them.

## **IV. Long-Term Solutions to Reporting Regulations**

If the SEC makes the changes recommended in the prior section to its proposal currently on the table, it should be able to achieve the minimum necessary requirements for adoption by investors and analysts. But in order to fully release the potential of the format, the SEC must update Regulation S-X to the 21<sup>st</sup> century. It should be done in conjunction with the FASB Financial Statement Presentation project, but will still need to remain in effect although in a significantly edited form.

The fact that the SEC has financial statement classification and presentation regulations which pre-date personal computers is an egregious lapse in the functioning of the Commission. Perhaps in order to tackle the Regulation S-X updating project, the Commission needs to look inward and determine why this occurred. It may be because no SEC chairman has had the desire to take on such a challenge which may cause significant filer resistance and may take longer than their politically appointed term, but this is pure speculation.

Another cause of the extremely out-dated state of Regulation S-X is the common mind set at the SEC and in the financial community that making such updates to Regulation S-X would be a very major ordeal. This may or may not be true, but even if it is true, chairman and that it would be a multi-year effort, then chairman Cox should do his successor a favor by getting the process started if it is likely to take more time than a single administration.

However, from the standpoint of the Regulation updates necessary to release the full potential of XBRL, the edits could be made in a few months by an end user committee of members who have experienced in XBRL, financial statement data schemas, and financial analysis. The CFA Institute's XBRL working group would be a great place to start. The few companies within XBRL US that made major contributions to the existing financial statement taxonomies (SavaNet included) would also have a great deal to contribute as he understand the regulation issues which cause the problems for comparative taxonomy design.

The most important change to be made to Regulation S-X for XBRL implementation is to update the financial statement classification categories that already exist in it. The regulations need to be tightened up with category descriptions which clearly require that every reported line fall under one of these categories and that no line items should combine amounts across these categories.

The regulation editing committee might also include FASB staff working on their own Financial Statement Presentation project to assure consistency, although the SEC categories will be more specific and well-defined. So the establishment of this cross-organization committee will allow the SEC to get the country's presentation regulations house in order. The current system is not working because neither of the groups that have regulatory responsibility for the presentation of information (the SEC and the FASB) has sufficient regulations in place and it is unclear where the responsibility of one organization ends and the other begins.

Additionally we now have a private entity "free agent" with quasi government status in the form of XBRL US Inc that needs to be folded into the process (preferably as part of the FASB as recommended above). One of our key recommendations is that the Regulation S-X categories be updated such that they align with the "top level" grouping items in an XBRL taxonomy so that there are no uncovered "gaps" in taxonomies which have elements that do not fall under a Regulation S-X category. So, extremely close integration between Regulation S-X updating and taxonomy updates are required.

## ***Updating Regulation S-X***

Although even most professional Wall Street equity analysts often don't know the sources and reasons for the financial report line items they are provided with, any research into the matter quickly uncovers the SEC's Regulation S-X as the primary, if not only, source of regulation for the presentation of the main body of financial statements. This is at least the case for the income statement and balance sheet as the regulation is so old that it pre-dates the cash flow statement which is solely an FASB construct. So, the SEC's Regulation S-X, which is 40 plus years old, is the main source of presentation structure for financial statements and the SEC is now asking that the 21<sup>st</sup> century future of electronic reporting be based upon the rules established before computers were even used. ***This is simply inconceivable in practice as the SEC is both pushing the reporting framework into the future while tying its feet together by the past.***

The SEC has failed the investors of the country in not updating this regulation which may have at least partly caused the fraudulent practices at some companies in 2000 and the current problems in the banking sector. In order for XBRL to meet the requirements of automated and comparative analysis, which is both the stated goal of the SEC and necessary for professional analysis, the categorization of elements is an absolute necessity. Fortunately, the SEC has exactly the type of reporting categorization regulations in place, and at its disposal to update, for electronically tagged reporting in the form of Regulation S-X.

However, comments by SEC CIO Corey Booth such as "the SEC should continue to pursue to make sure registrants continue to have as much flexibility in the presentation of their financial statements as they currently do" have been interpreted by the marketplace, perhaps incorrectly,

that the SEC will not consider regulation updates, effectively stopping a necessary discussion before it even starts.

**The SEC staffers working on creating a successful XBRL implementation should be thanking their predecessors for creating Regulation S-X and reveling in their good fortune that exactly the type of presentation categories they need to make XBRL a success already exist in their own regulations and all they need to do is update them. But instead, it seems that the SEC is turning its back on Regulation S-X and looking for a way out of the responsibilities that it gave them.**

## **Regulation S-X Updating Issues**

A small example of the power of presentation regulations is advertising and R&D expenses: One day, for some reason, at some point in time, somebody at the SEC or FASB decided to require that all companies disclose advertising expenses. Why advertising expenses and not Selling & Marketing or Labor Expenses or any of a myriad of other items? Who knows? But it shows the power of a single disclosure requirement. Advertising is not as useful as other potential items, but now it is in every well defined data service provider taxonomy and accessible and used by many analysis simply because every company must disclose it. It also shows that disclosure requirements should be better thought out and with more input from the end-user community.

Regulation S-X, while it could be used to meet most of the categorization requirements of electronic data, was actually written for paper-based reports. Indeed, many, if not most, of the grouping problems that are causing problems for electronic reporting were specifically allowed by Regulation S-X in order that a financial statement can fit on a piece of paper. [The particular Reg S-X category descriptions, and exceptions that lie within, are the primary cause of the major problem for successful taxonomy design and XBRL implementation which is the agglomeration of company line items across categories.](#)

Some examples of this are the merging of production, operating, financing and investment items in the income statement, cross-category “counter accounts” in the balance sheet or the netting of inflows and outflows in the cash flow statement. Although the Reg S-X categorizations are almost where they need to be, unfortunately the nature of financial reporting is such that “almost” may as well mean “not at all” in practice because of what can be called the “law of financial physics.” This “law” means that, because financial statements combine to a net result, any new amount added is necessarily taken out of somewhere else where it was expected to be, and if this location where it was removed is not categorized, then none of the statement at the same level and below can be trusted. For example, an extension element added to an altered calculation linkbase which is simply a flat list of items that add up to net income has no analytical value while an extension categorized as a type of cost of services sold or non-operating non-cash investment gain can be used for analysis.

In some respects, the very common SEC Regulation S-X presentation option to “state separately in the income statement or in a note thereto” is in conflict with the very idea of XBRL combining information from notes into the lower levels of the financial statement taxonomy hierarchy. This is because, if certain disclosures are required (whether in statement or notes) taxonomy groupings can be designed with the expectation that certain information must be provided, but

the waiver in Regulation S-X that allows that information could be provided in notes (due to paper size constraints) means that almost any grouping can be used on the face of the statement and taxonomies cannot be designed to incorporate all options.

This is a MAJOR problem in certain areas of the financial statements, particularly Non-operating Income/Expense where Regulation S-X gives the publisher the ability to report either “Non-operating income” OR “Non-operating expense” (including any or all of their required sub-components) to be stated separately in the income statement or notes. Also, when combined with materiality waivers, companies can, and do often net these two items. Also, this common SEC Reg S-X clause does not require that the notes disclosure has to foot to any particular statement line item, so automatic reconciliation (and comparison with companies that have the same disclosure requirements is impossible) if the publisher chooses the notes option.

Also, the nuances of material vs. immaterial which are taken advantage of in paper-based reporting will not fly in XBRL reporting unless explicitly allowed by the SEC. Take, for example, the case of Accounts Payable and Accrued Expense. In Regulation S-X, the SEC requires that Accounts Payable be disclosed separately on the face of the balance sheet, but very commonly companies will report it combined with Accrued Expenses in a line item called “Accounts Payable and Accrued Expenses.” Assuming companies are following the law, the only conclusion that can be drawn is that Accrued Expenses are immaterial. Yet, this causes obvious problems for XBRL taxonomy design as since Accrued Expenses can now be combined with either SEC Regulation S-X group “Accounts and notes payable” or with “Other current liabilities,” which is the group SEC regulation S-X places accrued expenses in. Should the taxonomy go with the direct interpretation of Reg S-X (“apples” option) or since companies often use the combined line item *label* should the taxonomy provide a group to combine the two (“oranges” option)? The only way out of this conundrum is for the SEC to tell the taxonomy design group to go by their regulations AND then state in SEC implementation rules that companies should map items combined with immaterial amounts to the material line item OR the SEC should update Regulation S-X categorization rules. (And if companies are illegally combining these items, the SEC should enforce the regulation so that this line item no longer appears.)

Also, since Reg S-X pre-dates the FASB cash flow statement division between operating, investment and financing delineations, Reg S-X makes no distinctions for non-operating income between financing and investment. [The result is that the Nonoperating Income section of a financial statement is a presentation disaster area](#) and allows almost limitless permutations of non-operating income line items in the income statement and (when combined with the lack of requirement that notes disclosures do not have to foot to statement line-items) perversely prevents the required detail of Reg S-X to be captured by XBRL in such a way that it can be used for comparison purposes or automatically incorporated into analysis.

[In short, Reg S-X disclosures requirements are being circumvented by Reg S-X presentation options in the world of electronically-tagged reporting. And because this presentation free-for-all opens the door to abuse, when the SEC looks for the cause of Enron-like they need look no further than their own internal resistance to address the presentation issues.](#) As a logical conclusion, Reg S-X must be updated for long-term electronically tagged reporting. There is no other option, yet the SEC to date has not taken action on this.

## **Regulation S-X Recommended Edits:**

The following recommended edits to update Regulation S-X for electronic reporting were conceived under the principal of making the minimal necessary changes to existing common financial statement reporting practices, rules and regulations. **A very important point to these items is that none of them require changes in GAAP rules**, they are merely presentation requirements which are already covered by Regulation S-X. For example, none of them require changes in how an item may be more consistently calculated or even used, just that items disclosed should be presented in a more consistent manner with more comparable groupings. While it would be good to have accounting rules for the calculation of a line-item also be more consistent, *we are now only striving for more consistency in presentation, not measurement, so FASB accounting rules are not at issue here.*

The absolutely essential item for automated and comparable analysis that doesn't require experienced manual reclassification by a professional analysts or expensive categorization by a data service provider before consumption is that all items are able to be categorized in advance through a known shared taxonomy.

Some of these edits are not really edits, but clarifications of existing SEC regulations, which have not been strictly enforced. The SEC should allow the adoption of these new Reg S-X rules to be incorporated by companies during their transition to XBRL reporting which should not require any restatements by companies. In practice, **the changeover to XBRL could then be used as an implicit one-time amnesty for corporations to address these reporting issues without the stigma of re-statement.**

1. **Industrial Classifications:** As with other sections of Reg S-X the industrial classification definitions need firming up and should be aligned with the XBRL base industrial taxonomies. So, Regulation S-X should also merge the Banking and Savings with the Broker-Dealer presentation requirements. But since this is probably the single most difficult to implement edit, it may have to be left undone in a quick few month updating of the classification categories. Another issue is the “quasi-industry” status of oil & gas companies, utilities and real-estate companies. In most cases these industries only require a few addition items that do not conflict with the basic commercial industrial taxonomies, so they should be placed under the commercial-industrial section simple as industries that require certain additional items to be disclosed

Edit #1: Update and clarify the industries with different reporting requirements to Commercial-Industrial, Banking and Finance, Insurance, and Asset Management.

2. **Note Disclosure Option:** Because of paper-size constraints, in many places the Regulation states that items may be reported in on the face of the statement “or in a note thereto.” This short, insidious phrase is the one of the main causes of the majority of non-comparability of financial statements today. This is because even though the companies may all disclose the same information, they can do so with an almost infinite

permutations of line item groupings on the face of the statement, forcing disclosed items be manually searched for in the notes and subtracted out of financial statement items in order to achieve some degree of comparability. But this is an imperfect process as companies often don't disclose which statement line item a certain note value is in and almost never gives a breakdown that foots to a total in the statement (which would be de facto required if it was in the face of the statement.) Note: Breakdowns of items that are required to be presented on the face of the face financial statement, such as Inventories, can still be placed in notes, the problem is when the option to place in notes leads to different, non-comparable "grouping" line items.

So, the SEC should eliminate the "notes disclosure" option where it leads to inconsistent groupings and/or highly abbreviated main financial statements. Some items, such as Inventory breakdown can be optionally displayed in notes if the breakdown is required to total to a financial statement line-item, because not inconsistency is created.

Example: Although Regulation S-X requires that both Interest Expense and Interest Income be disclosed, this may be done in any number of permutations reporting one, but not the other on the face, netting them out, or grouping with Financing or Investment Income or not disclosing one due to materiality . Although, since interest expense is required, if income is include

**Edit #2:** So, first thing: strike out any occurrence of the term "or in a note thereto" in Regulation S-X because electronic reporting has no paper size constraint and the SEC can easily eliminate the largest source of non-comparability *without adding any new disclosure regulations*.

Note this edit should also exclude line-item positioning options, such as the ability to place equity income before or after taxes, which unnecessarily requires multiple incompatible items for no reason (equity income is investment income accounted for on an ownership basis and as such should be always be given pre-tax along with other investment income (and is usually done so despite Regulation S-X's post-tax default positioning.)

3. **Agglomeration across Regulation S-X required reporting item groups:** In order to achieve some minimum, high level of comparability across companies, they should not be able to create items that agglomerate mixed content from the required Regulation S-X categories. Although this is generally implied and specifically required for most categories, there are also implied exceptions in the vases where alternative options are given (such as breakdown in notes) or (supposedly) materiality rules allow agglomeration. While the comparability issues that would arise if a company reported an item "Inventories and Accounts Receivable" may be obvious, almost as blatant cross-high level group agglomerations regularly occur.

This is related to item 2, but is distinct in that it applies to the creation of company-specific line item agglomerations. The vast majority of non-comparability does not arise from company-specific line items but from different groupings used by companies which provide no additional specific information and serve only as a source for abuse by companies to group dissimilar items together. Having companies abide by the groupings



of Regulation S-X will at least prevent this abuse at a high level. While it may seem that the value is still disclosed in the notes, this option does not say which line-item in the statement it was taken out and cause random groupings in the main statement. The authors of Reg S-X were probably satisfied by the fact that the amount was still disclosed in the notes, but probably didn't foresee the nightmare for comparability that it would cause for other items-- and they certainly couldn't foresee the move to electronic reporting 30 years later. Regulation S-X MUST be updated.

At a minimum the rule of thumb should be that if an amount is material enough to make the reporter feel obliged to make reference to items from two different Reg S-X categories in the line item label, then they should be broken apart. The corollary to this rule is that no line item label should make reference to content from two different Regulation S-X categories, for example, "Accounts Payable and Accrued Expenses" is not a valid line item under Regulation S-X unless the amount attributable to these two Regulation S-X categories are also broken out. If Accrued Expenses truly is immaterial, then this amount should be agglomerated with "Other" current liabilities and Accounts Payable, as a material Regulation S-X category, should be reported separately.

Examples: Accounts Payable and Accrued Expenses. IBM's "Intellectual Property" is manipulative in that it combines revenue with gains and reduces expenses to appear as if it has higher operating margins than it otherwise would when compared with competitors. Note: although IBM is a very prominent company which would lead one to believe that this is a common practice that would lead to a lot of changes, it is actually fairly rare.

Edit #3: This allows for company-specific line items but without completely ruining comparability. The title or positioning of the line should provide unambiguous indication as to which major group to which the line item shall fall under.

4. **Netted Values:** Netted line items values, such as Netting Interest Expense against Interest Income, Capital Expenditures against asset dispositions, or Investment Dispositions against are one of the top three problems for consistent taxonomy design. While only a problem in a half dozen or so places in the standard set of financial statements, netting is a commonly employed technique in these few areas. While this may be because one side of the balance is much less materiality, the netting practice can obviously be HIGHLY obfuscatory. It is also more common in the cash flow statement, where this is even more problematic.

Example: One particular problem area was the netting of business, asset and/or investments acquisitions against divestments in the cash flow from operations section of the Cash Flow statement. A more common and analytically troublesome example of netting issue is the reporting of Interest Expense net of Interest Income. While the netting of business acquisitions and dispositions are at least both within the Investment section of the cash flow statement, the netting of interest income, which is Investment income, against interest expense which is a Financing expense throws a wrench into investor analyst use of financial statements (and is an example of the problems with the SEC regulating the presentation of Income and Balance Sheet, but not the Cash Flow

statement). The fact that SEC Regulation S-X requires that interest expense be reported separately anyways should make this an easy issue to address.

5. **Clarify Materiality Threshold:** Materiality is not a company-specific issue because when a line item for one company includes, say 10% unrelated immaterial items and is compared against the same line for another company, the content variance could be up to 20%. Electronic reporting is going to lead to more automated comparison and allow for more items, so we need to make sure we are comparing as like items as possible. There has also clearly been abuse in this area leading from the ill-defined definition of materiality in Reg. § 210.4-02: “If the amount which would otherwise be required to be shown with respect to any item is not material, it need not be separately set forth. The combination of insignificant amounts is permitted.”

While the omission and combination of truly immaterial amounts is necessary to a certain extent, this lack of clear definition and unrestricted combination is a problem.

Example: Although Pre-paid expenses is a required item, it is extremely common for other immaterial items to be agglomerated with it, resulting in “Prepaid and Other Expenses” and it is unclear whether this line item is mostly Prepaid expenses or most “other”.

Edit #5: All non-material items should reported along with other items in its Regulation S-X category (e.g. even non-material items must appear under their proper high-level category). Also, the materiality thresholds should be cut in half: as there are no size constraints in electronic filing, it doesn’t matter if this results in more line items. The term “Other” shall not be included in the line item label with other Specified disclosures (such as “Prepaid and Other Expenses”) unless the combined Other amount is immaterial (at least <10%).

6. **Modernize and Clarify Reg S-X categories:** This is not adding additional requirements, but just updating to better match the items in current financial statements.

Example: While the SEC has 8 categories of Current Assets, they have just 2 for Current Liabilities: “Accounts and Notes Receivable” and “Other”. The description also then goes on to make unclear and arcane distinctions between amounts payable to “banks” and “factors or other financial institutions”, “underwriters or promoters”. It further goes on to blur the distinction of trade accounts payable and borrowings and then provides the option for some, but not all, of these unclearly defined amounts to be disclosed in notes with further leads to non-comparable groupings. To top off the confusion, Reg S-X actually places the current portion of long-term debt in the “Other” category while remaining debt, which may differ only by issuance date, is in the former category.

In contrast, most companies today now disclose Short Term Borrowings and Current Portion of Long Term Debt separately from Accounts Payable but this distinction is not clear in the Reg S-X category description. Also, because Accounts Payable is not a distinct Reg S-X category, companies often combine it with Accrued Expenses (which is still not actually allowable, but subject to erroneous interpretation due to the unclear

category description.) As a result of this, analyst and investors are getting unnecessarily non-comparable information in due to the dated categories and wording and the XBRL taxonomy for Current Liabilities is needlessly problematic as “apples and oranges” options must be provided to the point where groupings which are actually not Reg S-X compliant must still be provided because companies nevertheless use them.

So while Current Assets categories are very clear and well defined, Current Liabilities are not for no apparent reason other than dated distinctions. This has MAJOR ramifications for XBRL taxonomy design as while differences in Current Asset line items and groupings can be accommodated, the cross-category classifications conflict in Current Assets forcing an alternative grouping options for no reason (e.g. no benefit to users and of no consequence to filers).

- Edit #6: The example of Current Liabilities is an extreme case and other modifications are not so large but EVERY regulation s-X category needs to be significantly updated.

7. **Explicit Distinction of Operating, Investment and Financing Income.** While the Statement of Cash Flows (which isn't even covered by Regulation S-X) requires the explicit division of cash flows between operating, investment and financing sources, the distinction made in Regulation S-X for the much more ubiquitous and important income statement is only implied and incomplete in places. This situation, for example, is leading to companies playing fast and loose with the very commonly used item of “operating income” for which a definition is implied, but not clearly required by Regulation S-X and not duly enforced. This leads to manipulation of operating income which leads to non-comparability in what would arguably the most important item in the income statement after Net Income if reported consistently.

Example: The most common items are the inclusion of investment income in Revenues or the exclusion of interest expense related to client financing from operating income (example: GM). However, the reverse placement also occurs where certain operating income (such as custom development income by IBM) are not reported as part of Total Revenue.

8. **Production Costs vs. Selling, General and Administrative Expenses.** Regulation S-X makes a distinction between production-related costs and selling, general and administrative expenses, but this distinction should be clearly required and *enforced*. Recently, the SEC has gone to companies saying that some line items which are agglomerated across Production and SG&A expenses, such as Depreciation and Stock Option Expenses, need to be broken down and incorporated into either Production or SG&A expenses (leading to several restatements) but the problem is so endemic that it can only be addressed through a one-time change to updated regulations.

Example: Companies often report line items for Depreciation and Stock Option Expense which are agglomerated between Cost of Goods Sold and Selling, General, and Administrative Expenses, which is not allowable even under current Regulation S-X rules, but is not enforced. Also companies often don't make the distinction between

COGS and SG&A at all and just report a list of “Operating” Expenses which usually cannot be attributed to good/service production or SG&A expenses.

9. **Depreciation and Amortization.** Although Depreciation and Amortization are widely used line items in income statements, they are not listed as a required reporting category and, not surprisingly are thus reported differently by different companies and are a considerably large source of non-comparability. The reason for this is that different companies choose to include depreciation and amortization as part of the values for each required category (presumably what the SEC intended) but some companies break all or (more commonly) part of their depreciation and amortization expense out as a separate line item and do not state which Reg S-X category (eg Cost of Goods Sold, Selling, General, Administrative, etc.) which it relates to. As this non-categorization can be viewed as a violation of Regulation S-X, the SEC should make it clear this should not be done.

In the past couple years, as companies began to report Employee Stock Option Expenses as a single line item on their income statement, the SEC let it be known that this is not appropriate and that the expense should be broken among its component categories. As Depreciation and Amortization, like stopcock option expense, is not a Reg S-X category, the SEC should make a similar view be known to filers. They should

10. **Financing vs. Investment Income.** Regulation S-X directly requires that Interest Expense (a Financing Expense) be reported separately on the face of the Income Statement, yet this amount is regularly netted with Interest Income (Investment Income) by companies without response from the SEC. In order to be consistent with the more modern Statement of Cash Flows, financing expenses need to be distinguished from investment income.

Also, industrial companies with customer financing divisions should be directed to include customer financing interest income in top line revenue category but broken out, and related interest expense should be categorized under production costs, but again also broken out.

Example: “Non-Operating Gains(Losses)” could be a gain(loss) on the extinguishment of debt (financing expense) or it could be an investment gain or loss. This is specified in cash flow statement, why not in the more utilized income statement?

11. **Non-Recurring Items:** There are an extensive number of non-recurring items and, just as other expenses, they should also be divided as to source, (Production, Operating Expense, Financing or Investment) so that investors can add them back as they see fit for analysis. Even common non-recurring items such as the Gain on Sale of a Business are classified as operating or non-operating at the whim of management.

The break out of “non-recurring” (loosely defined as either unusual or infrequent, but not both) can help analysis, but can also be manipulated by companies. Analysts want this information in the statements, but they want it categorized so that they can decide to add back depending on their analysis. While the classification by companies between operating and non-operating depends on the operations of the business, the divisions of

the same gain or loss between operating and non-operating expenses is much more clearly arbitrary than business-specific. The gain/loss on sale or write-down of property, businesses and intangibles is particularly exemplary of this. The division for commercial industrial companies is fairly clear: if a company writes off operating assets it means that their cost was not properly spread among its time in operation, but remains an operating expense, albeit nonrecurring. If a company incurs a gain on the sale of an asset in excess of its carrying value, which may be due to an increase in property values, then this should be classified as an investment gain, not operating income (unless property investment is an operating activity of the company, such as a real estate company). Note: THESE ARE NOT FASB-GAAP ISSUES. GAAP gives directions on how these amounts are calculated, but does not give direction on if, where, or classification of their presentation in the income statement. The categorical discretion will still lie with the company, but a Regulation S-X clarification would require them to make a distinction and divide the charge, if necessary.

Companies should also be required to give the tax effect of non-recurring items as this is a MAJOR cause of analytical problems because companies do not always pre- and post-tax amounts.

Example: “Non-Operating Gains(Losses)” could be a gain(loss) on the extinguishment of debt (financing expense) or it could be an investment gain or loss. This is specified in cash flow statement, why not in the more important income statement?

Edit #11: State that Nonrecurring gains losses be broken down at a minimum between Production, Operating and Non-Operating/Investment Gains(Losses). In order to ensure that analysts know which line items these non-recurring charges affect, they should either be required to be disclosed in the main body of the statement (which would indirectly ensure that these charges are taken out of their respective items in order for the Income Statement to balance) or be disclosed in notes along with references as to which line item they affect.

12. **Equity Income and Minority Interest:** the current regulation allows for these items to be given before of after tax which adds no potential value to companies or investors yet causes a great deal of unnecessary comparability issues. This is extremely easily fixed as it requires no (and was partially caused by the suggestion by the SEC in the Regulation that Equity Income’s preferred location is post-tax. The placement of these two items is clear and within the analyst/investor community: Equity income is investment income and should be before taxes while minority interest is an income participation item (such as preferred shareholders and share subclasses) that should definitely be post tax. This also causes problems calculating the proper tax rate.

Example: Genzyme and Limited Brands report Minority Interest pre-tax while the vast majority of companies report post-tax. There have also been numerous comments on this positioning issue in the public response.

Edit #12: Require equity income to be pre-tax under the category of investment income and require minority interest to ALWAYS be disclosed separately as a post-tax income distribution item.

13. **Quarterly Exceptions:** As if designing a taxonomy to conform to the dated and option filled Regulation S-X for annual reports wasn't hard enough, the SEC introduced almost limitless grouping flexibility with its Article 10 pertaining to interim reports. Although they do say that the major items should still be reported the Regulation then goes on to contradict this by saying that if a balance sheet account is less than 10% of total assets and has changed by less than 25% since annual report, that is can be combined with any of these required items (this 10% and 25% restriction is large enough to drive almost anything through in reporting). The effect on the income statement restriction is even worse. Even for the face of the financial statements in quarterly reports, companies are free to hide some items in quarterly reports and cause enough non-comparability with annual statements to almost require another taxonomy to handle all the addition grouping permutations in quarterly reports.

All these interim exceptions on top of the annual exceptions make quarterly reports a virtual free for all with even less comparability. Quarterly reporting is a MAJOR topic nowadays and an entire Congressional panel was held to discuss quarterly earnings guidance. Though no speaker said it, the non-comparability structure and lack of reporting requirements for some key items is the cause of the problem, not the guidance itself. (Aside: the SEC should speak with the CFA Institute directly, but SavaNet's analysts are strongly opposed to the accounting industry's suggestion to eliminate quarterly reports.)

Example: While Regulation S-X states that Accounts Payable must be disclosed separately on the face of the statements, companies often report "Accounts Payable and Accrued Expenses" in quarterly filings and then report Accounts Payable separately in annual reports and group Accrued expense in with "Other items, **thus causing non-comparability even in the same company's reports.** And requiring two different taxonomies.

Solution: The simple solution to the problem is have disclosure requirements apply to quarterly financial statements too so , if companies try to manipulate quarterly results, analysts are MUCH more likely to identify this.

Edit #13: Add statement to the effect that "interim statements" should use the same line items in the face of the financial statements as either the prior or following annual report unless there has been multiple major corporate events requiring such change. Also exempted will be breakdowns of items specifically allowed to be placed in the notes (i.e. inventory breakdown), provided that the parent item is provided foots to the item provided in the annual release (i.e. Total Inventories, Net). This does not add quarterly audit requirements but. Since companies report these items annually and, being on the face of the statement are fairly general, this will not be a significant effect of effort. In fact, it is probably more of an effort for as company to go out there way to use multiple reporting formats.

Also, notes items which have become key to modern financial analysis should be reported quarterly, specifically stock option plan and pension/benefit plan expenses whose assumptions can be altered to substantially affect results.

14. **Employee Benefit Costs:** The expenses related to employee benefits such as stock ownership plans, pension plans and healthcare plans has increased dramatically in importance since Regulation S-X was released and FASB rules have actually done a very good job in drafting the annual disclosure requirements for companies, but Regulation S-X needs to update the presentation requirements to get this information to investors and analysts. The necessary changes include guidance on how these expenses should be disclosed in the main body of the financial statements and which key values should be reported in interim statements. In particular, there are three employee benefit items needed on a quarterly basis: the pension and OPEB expense, the recognized ESOP expense and the estimated over(under)fund of benefit plans. Note that almost all of the other edits in this list do NOT REQUIRE more disclosure, just better structured disclosure, and these three items are not additional disclosures, just more frequently released disclosures. This is an important point because analysts and the SEC do NOT want these edits to Regulation S-X to wrongly be perceived as a way for additional disclosures being required by the SEC

Example: While companies often allocate stock option plan expenses between Cost of Goods Sold, Marketing, Administrative and Research and development personnel, this is rarely disclosed and when it is, the presentation is inconsistent and non-comparable.

15. **Cash Flow Statement Direction:** The 2005 drafts of the us-gaap taxonomies were extremely weak in the area of the cash flow statement and this is where the majority of extensions have been made. One of the key reasons for this is that Regulation S-X is so old that it does not cover the cash flow statement. Providing categorizations for cash flow statement as it does for the income statement and balance sheet is different from the other suggested change as it adds to rather than edits the existing regulation. As such, this recommendation could be considered optional, but the benefits are so broad that it is included here. While the SEC's Regulation S-X is usually the reason behind what structure investors receive, the Cash Flow Statement, which actually is not in Regulation S-X gives a better breakdown of the sources of income than the Income Statement, which is regulated. Regulation S-X does give an implicit distinction between operating and Non-Operating but this is regularly ignored by reporting entities because it is implied, but not sufficiently defined. Companies should also be asked to start indirect cash flow at the same place, most likely Net Income. (A better position would be to start at Operating Income and add back only non-operating items, leaving cash Investment and Financing gains(losses) to these sections of the cash flow statement, but this is a major change beyond the scope of other recommendations)

If the Cash Flow Statement and Income Statement classifications were designed together (which they are not now with FAS 95 for the Cash Flow Statement and Regulation S-X for the Income Statement) a great deal of new insight could be unleashed regarding the cash and accrual components of income. This could easily be done by subtracting the cash adjustments from the cash flow statement from similar line-items in the income statement to arrive at the cash and accrual portion of these income items. As this is one of the major desires of the CFA Institutes Comprehensive Business Reporting model, the SEC could go a long way towards achieving this goal without the major overhaul that this vision of reporting would otherwise require.

Example: Should Deferred Revenue and Deferred Taxes be part on the Non-Cash Add-backs to operating income or under the changes in Working Capital accounts. Companies differently choose this which causes a major problem for taxonomy design, not because these items cannot be moved by because their movement changes the definition of their parent items.

## **Implementing Reg S-X Changes**

It is important to note that these items don't necessarily require MORE disclosure, but really just better structured information which should make them more politically acceptable to companies. This is in keeping with our earlier remarks that the amount of structure required doesn't necessarily have to increase, but it has to be allocated to the issues that matter for electronically tagged information. Indeed, companies that have something to hide might even breathe a sign of relief that the SEC did not impose a fixed chart of accounts and gladly comply.

It is important to note that these updates to Regulation S-X are much less prescriptive or extreme than would actually be reasonably expected for a move to hyper-detailed electronically tagged reported. The point is that these edits are a textual compromise solution between what exists today and what would be the requirements of a fully detailed "chart of accounts"-based electronic reporting solution. The SEC could require much more detailed and structured reporting requirements which strictly adhere to a hyper-detailed fixed chart of accounts, but this is not what is required by this compromise solution which makes only the minimal and requirements in a qualitative, textual fashion.

Having companies only map extensions to high level categories is not completely adequate for financial analysis, but it is the best we are going to do. In order to automatically process in a completely proper manner we also need to know if it is cash/non-cash expense, how frequent is it, etc. but there is no way we can get companies to report this type of additional meta-data. We can get them to map to groups that we know some of this information for, but that won't require that they start reporting non-GAAP meta-data.

The SEC has an excellent opportunity to remedy a decades-long oversight with XBRL, but, so far, they have stated their intention to continue shirking their responsibility to protecting individual investors and pointing fingers at the FASB. The FASB wasn't established solely to protect investors, the SEC was. It's time for the SEC to embrace and update Regulation S-X for the electronic age rather than turn their back on it.

## **V. Conclusion**

Attracting the use of XBRL filings by investors and financial analysts is the single most important indicator of the success of the XBRL reporting program. Yet, the SEC has outsourced the design and implementation of the new technology to an organization completely dominated by preparer-side accounting system consultants and software technologists. While this may have been the only option open to the SEC, it can and should do more, especially as the paying party



in its relationship with XBRL US, to make sure that the taxonomies and implementation design given to them best meet the needs of its investor constituency.

XBRL US Inc overuse of complex technical structures which are completely unnecessary in external reporting is placing the adoption of XBRL by investors and analysts at risk. The needs to be more classification structure, no base taxonomy alternative presentation structures, restrictions on calculation linkbase alterations, and the unnecessary and complex technical structures (such as Dimensions, Tables/Axes, and XBRL-specific rendering methods which were thrown in by the technologists during the rush to complete the taxonomies without proper oversight) need to be removed. The SEC should protect the American investors from these attempts to profit from over-complexity and keep the use of the specification only as complex as absolutely necessary.

The recommendations in this paper represent a new XBRL structural design with high level calculation groups for comparability but with completely customizable presentation. It is also novel in its suggested use of XBRL as a table of contents to hold the completely formatted contents of a report for reading purposes for an all-in-one file reporting solution.

The technological complexity issues are very real and addressing them would require that the SEC side with investors rather than technologists and accountants and companies that would like to continue to report in an opaque manner. As the current SEC administration has been drawing “criticism that its policies are increasingly favouring companies over investors” – Financial Times 5/11/07 the SEC should consider whether it is unintentionally adding truth to these accusations.

The country has recently endured a string of extremely expensive and counter-productive government financial regulations: most recently Regulation FD, Sarbanes-Oxley, Analyst and Officer “Certifications” and Elliot Spitzer’s Wall Street “settlement” for institutional research. As a result, capital which used to come to the US financial markets is going overseas (one example being IPOs and foreign listings in the U.S. markets being down in the U.S. but not overseas). Now other countries such as China are mandating higher quality disclosures built for investors rather than preparers and if the SEC does not respond by immediately making similar changes on behalf of its investors this capital flight will increase.

As far as our longer-term recommendations go, it may sound incredible that about a dozen edits to Regulation S-X can...

- un-do decades of unfair access to financial information
- lay a solid foundation for the implementation of electronically tagged reporting
- allow or a much simpler XBRL implementation
- create investor and analyst interest in XBRL by creating value for them and thus motivate companies to report in the format.
- greatly reduce the potential for accounting deception
- address most of the outstanding reporting issues such as stock option plan expensing and quarterly guidance
- usher in a new era of advanced analysis and valuation
- allow the SEC itself to better achieve its regulatory mandate
- make the United States more attractive to investors on the world stage
- save the economy unknown billions in productivity

...but this is absolutely the case.

The SEC is understaffed and would like XBRL-US, the FASB and the private sector to address these issues, but while it can make use of these resources, it **MUST** do more to direct their activities. The SEC is the only organization that can co-ordinate these required efforts. It must step up to its regulatory role.

From a competitive stand point, the US needs some of this seemingly long lost “positive” regulation. Although Sarbanes Oxley, which did nothing to improve financial statement presentation structure, has rightly raised questions of US competitiveness, do **NOT** get this mixed up with financial statement line item disclosures and structure regulation which will increase transparency and competitiveness and add value to US listings. Adhering to well designed statement disclosure structure is little to no additional cost compared to SarBox, it will actually provide legal cover rather than create potential liabilities and give assurance to investors that US listed companies are more attractive and add to. While there may be a few companies that want to make use of the ambiguity, most will say, we didn’t care and didn’t know that we were disclosing apples where others were disclosing oranges. As it was an arbitrary distinction and doesn’t require any **ADDITIONAL** disclosure, just a few changes to categorization, we are fine with it.

The potential value of XBRL to investors and the billions of dollars in potential savings to the economy in reducing unproductive reclassification work and more efficient capital allocation compared its implementation cost makes the decision to implement XBRL reporting unassailable. The proper XBRL implementation would have insignificant costs to benefit and be the largest increase in value to investors since the 1933 regulations.

As far as the professional analyst community goes, XBRL will usher in a new era of high-end financial analysis and valuation methodologies. And the professional analyst community could be used by the SEC to route out malfeasance much better for less cost and less legal liabilities for companies. By implementing this paper’s requests the SEC will empower analysts to do our jobs at a much higher level and to take part of their enormous responsibility off of their shoulders. If the SEC were to step up to its responsibilities the analyst community would once again be able to step up to ours.

XBRL could either be a ground-breaking exemplary government program or just another government regulation with little tangible benefit to investors. The difference depends on whether the SEC implements XBRL with an investor focus in the near term and updates the archaic Regulation S-X for electronic reporting in the mid-term. The massive difference between these two potential results is really that simple.

## **Author Biography:**

Eric P. Linder, CFA  
CEO, SavaNet LLC  
Vice Chairman, NYSSA Improved Corporate Reporting Committee  
Member, CFA Institute XBRL Working Group  
Member Representative, XBRL US

Eric Linder is founder and chief executive officer of SavaNet LLC, a financial software company that develops and markets applications for the publication and analysis of financial reports in XBRL format. SavaNet is a corporate member of the US jurisdiction of XBRL International where Mr. Linder has played a leading role in developing the country's financial statement taxonomies. SavaNet's products allow for the publication of XBRL financial reports directly from Excel and the professional-level analysis and comparison of report content using its XBRL viewing and analysis applications. Through his prior experience as an equity analyst and portfolio manager, Mr. Linder has become a leading advocate of the use of XBRL in the institutional investment community and works to bring its accounting system-based technology into use by professional analysts, portfolio managers and investors.

Prior to founding SavaNet in 2003, Mr. Linder was a portfolio manager at hedge funds Falcon Management and NWI Investments where he was directly responsible for the active management of quantitative and emerging market equity and derivative portfolios. From 1991 to 1997, Mr. Linder held various positions with J.P. Morgan Securities in the corporate finance, capital markets and equity research divisions, culminating in the position of senior equity analyst.

Mr. Linder is a CFA<sup>®</sup> charterholder and is an active member of the CFA Institute's XBRL Working Group and vice chairman of the New York Society of Security Analysts' Improved Corporate Reporting Committee. He has chaired several major finance industry XBRL events held in conjunction with NYSSA and Baruch College's Zicklin Center for Corporate Integrity. He graduated summa cum laude from Dartmouth College where he holds a degree in economics.