

February 8, 2008

Memorandum for the Committee on Improvements in Financial Reporting

From: Peter J. Wallison

Subject: Proposed amendment to Committee Report on February 11

I am sorry to take the time of the Committee with an amendment to the current draft, but I believe strongly that some of the Committee's recommendations on XBRL needlessly limit the options of the SEC, and should not go forward in its current form.

As you recall, at our meeting on January 11, I voted against the draft recommendation. The reasons for this are in my Separate Statement, which is included in the final report language on which we will be voting on Monday. I urge you to look at that statement as background for the amendment I will offer.

I am concerned about our recommendation for a long phase-in for XBRL implementation, and our recommendation that XBRL material be furnished rather than filed with the SEC during this phase-in period. The reason for this recommendation, as you know, is the Committee's concern about the possible cost of assurance that might be necessary if the XBRL material is required to be filed, and thus subject to the full scope of liability under the 34 Act.

I will not re-argue the question of whether assurance will be costly. As I noted at length in my Separate Statement, I believe that there is no reason to expect that assurance will be costly, and many reasons to believe it will not be. Members of the Committee, however, have doubts about this question. I cannot remove these doubts. But the plain fact is that we don't know for sure. Once we make our recommendation, it will be up to the SEC to find out.

Under these circumstances, it does not make sense, I think, for our report to limit the SEC's options. Our recommendation will make it more difficult for them—if they determine that assurance will *not* be costly—to implement a filing requirement for XBRL or doing it on a faster track. They will have to explain why they are ignoring the views of our Committee.

In the last few days, the SEC has received a letter from EDGAR Online, a company that is in the business of converting audited financials to XBRL. They report that they have done this conversion for 40% of the filers in the voluntary filing program, and that it has taken an average of 10 hours for the conversion *and* assurance (confirmation of the conversions accuracy) by management and auditors. They also express concern that furnishing rather than filing XBRL material will adversely affect the quality and usefulness of XBRL for investors and analysts. A copy of the letter is available. This is important new evidence about the cost of both XBRL tagging and assurance that the Committee should consider.

My recommendation, accordingly, is that the Committee eliminate from its recommendations the long phase-in period and the requirement for furnishing rather than filing XBRL material. The Committee can (and should, given the concerns of some of its members) express concern about the possible cost of implementation and assurance, and ask the SEC to investigate and report to the public on these questions before acting, but I don't see any reason to limit the SEC's options at this point by specifying the length of the phase-in period or whether XBRL should be furnished or filed when the program is implemented.