October 29, 2015

Keith Higgins, Director, Division of Corporation Finance
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: Disclosure Effectiveness Initiative

Dear Mr. Higgins:

The Data Transparency Coalition (the “Coalition”) appreciates the opportunity to comment on the Securities and Exchange Commission’s Disclosure Effectiveness Initiative.

Our Coalition is the nation’s only open data trade association. Representing nearly 40 leading technology and consulting firms and growing startups, we advocate the publication of government information as structured, machine-readable data. We believe the transformation of government information from disconnected documents into structured data facilitates public accountability, enables data-driven government management, and automates compliance.

I. Executive Summary

The Commission’s public company disclosure system is based on documents. To better serve investors and companies, the Commission should transform the disclosure system to collect, manage, and disseminate all disclosure information as structured data instead.

The Commission should do this by adopting standardized electronic fields, or tags, for each piece of information filed or submitted under the securities laws by U.S. public companies, together with standardized electronic formats that express how these fields relate to one another. By adopting these data standards, the Commission will improve accountability to investors, allow public companies to automate compliance tasks, and enable the use of data analytics tools by its staff. Without this fundamental change, the Commission’s disclosure system cannot be modernized.

Incrementally, the Commission has already adopted such data standards for certain information contained within some of its existing disclosure forms. Chair White, Commissioners, the

1 www.datacoalition.org.

2 Consistent with the Commission’s existing structured data practices, we believe both numerical and textual information should be identified using standardized data tags.
Commission’s most recent strategic plan, and Commission senior staff have all spoken favorably about the potential of structured data to better serve investors and companies. But the Commission has not committed to a comprehensive replacement of documents with structured data. That is the transformation we recommend now.

This comment has seven parts. Part I is this Executive Summary. Part II discusses the Commission’s current corporate disclosure system, illuminating its failure to comprehensively use standardized data fields and formats. Part III explains how structured data could improve the effectiveness of the disclosure system for investors, companies, and the Commission itself. Part IV chronicles the Commission’s past incremental steps toward adopting structured data. Part V contrasts the Commission’s past incremental steps with the comprehensive transformation we argue is needed. Part VI provides suggestions on how this transformation could begin. Part VII offers concluding thoughts.

II. The Commission’s Current Corporate Disclosure System

The Commission collects hundreds of disclosure forms and exhibits from public companies, their officers and auditors, and related entities. Most of these pieces of disclosure are filed or submitted as plain-text documents, rather than as structured data with information identified using electronic fields. The Commission’s continued use of plain-text documents to collect, manage, and disseminate disclosure information imposes an unnecessary burden on all users of that information, especially investors.

As a first example, consider the proxy statement pursuant to Section 14(a) of the Securities Exchange Act of 1934, filed on the Commission’s Schedule 14A. The proxy statement contains information of many kinds: multiple-choice items; lists and biographies of board members and nominees; annual meeting details; compensation and ownership disclosures in tables; stockholder proposals; and extended discussions, such as the compensation discussion and analysis. None of this information is currently expressed as structured data.

This means investors and Commission staff cannot electronically search across companies to find proxy statements that fit certain characteristics unless they first transcribe the information into databases. For instance, there is no way for an investor to electronically compare a company’s reported audit fees against peer companies’, unless all the companies’ audit fees have been transcribed from their proxy statements into another system, because that information is embedded within a lengthy, unstructured text document, rather than set apart in predefined electronic fields.

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3 In the Commission’s current corporate disclosure system, forms and exhibits are usually filed or submitted electronically, using electronic document formats like HTML and PDF. This is not the same as expressing that information as structured data. In the current documents, specific pieces of information are not identified in separate electronic fields. Rather, all information is usually expressed as a single, continuous piece of text, sometimes delineated by minimal electronic structures such as linked headings.


Electronic text analysis technologies can assist investors and information intermediaries in retrieving particular details from unstructured text. However, variations in phrasing and pagination make insights derived from these tools much less reliable than if the information were simply expressed as structured data in the first place.

As a second example, consider the annual report on Form 10-K. In 2014, the Center for Audit Quality and the George Washington University School of Business’ Institute for Corporate Responsibility conducted their joint Initiative on Rethinking Financial Disclosure, an intensive review of the effectiveness of Form 10-K. The Initiative’s teams of graduate students, academics, and practitioners spent five months reviewing hundreds of public companies’ annual reports on Form 10-K to develop eleven recommendations to improve the usefulness of those reports’ disclosure information, especially as presented by the Commission on its EDGAR platform, to investors.

The Initiative on Rethinking Financial Disclosure’s recommendations included calls for the Commission to:

- “Provide search and filter capabilities,” such as an ability to view only the information that has changed since the same company’s previous annual report;
- Provide a visualization platform to allow investors to view “firms’ financial information historically and in the context of their industry”;
- Provide a way for companies to manage their own key facts and statistics on the EDGAR platform; and
- “Include industry-wide indicators” calculated by aggregating individual companies’ reported disclosures.

The Commission will be unable to fulfill any of these recommendations without changing all the contents of Form 10-K into structured data. First, without the use of structured data fields, no electronic system can reliably isolate and display the contents of an annual report that have changed since the previous report. Second, data visualizations cannot be created without source data. Third, company-facing interface permitting individual management of key facts cannot be created unless those key facts are identified using structured data fields. Finally, industry-wide indicators cannot be calculated unless the underlying information, for each company in an industry, is available as structured data to be aggregated by software.

As discussed in more detail below, the Commission has already adopted the eXtensible Business Reporting Language (XBRL) structured data format for the financial statements contained within the annual report on Form 10-K. However, so long as only the financial statements,

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8 Id. at 12.
rather than the entire form, are collected and available as structured data, these Rethinking Financial Disclosure recommendations remain out of reach.

The unnecessary costs of the Commission’s continued use of plain-text documents fall on public companies and the Commission’s staff as well as on investors. Around the world, leading regulators’ use of structured data formats permits regulated companies to use software to automatically assemble required information from source systems, reducing compliance costs. This modernized, automated reporting is unavailable to U.S. public companies. Moreover, U.S. markets’ cost of absorbing and analyzing corporate disclosures results in higher costs of capital to issuers, particularly smaller issuers.

Within the Commission, particularly the Division of Corporation Finance, staff frequently must manually check disclosure documents for compliance with applicable rules because the information they contain is not expressed as structured data.

III. Structured Data for Disclosure Effectiveness

Transforming the Commission’s corporate disclosure system from documents to structured data will help investors make better decisions faster; permit companies to automate disclosure processes that used to be manual; and allow Commission staff to modernize their review processes and deploy analytics solutions more cheaply.

First, investors will benefit when disclosure information is electronically searchable and manipulable. Structured data can be imported into visualizations and databases without manual reprocessing. Structured data can allow investors to quickly access details that otherwise would be buried in text explanations or footnotes. The availability of structured data reduces the costs


10 Critics of structured data reporting point out that switching from document-based to data-centric reporting shifts costs from markets to issuers. Before the switch to structured data, costs of deriving useful electronic information from disclosure documents are borne by the investors, analysts, information intermediaries, and other users. As the Commission adopts structured data fields and formats, however, issuers must adopt the software changes necessary to submit their disclosure information as structured data, while markets are able to access electronic information that need not be reprocessed before being used.

For two reasons, the cost shift is justified. First, before the switch to structured data, every user of disclosure information must perform the same transformation, which means the cost is incurred again and again, each time the information is used. When issuers bear the cost, it is incurred only once, and saved every other time. Second, structured data reporting mandates provide an incentive for technology companies to build solutions that automatically connect issuers’ internal systems to the required disclosures, reducing compliance costs below what they were before the adoption of structured data reporting—as has occurred at greater scale outside the United States.

incurred by market information intermediaries who can then pass on the savings to customers.\textsuperscript{12} Even when criticizing shortcomings in the Commission’s implementation of structured data, investors responding to a Columbia University study still wanted the Commission to collect data rather than unstructured documents.\textsuperscript{13}

Second, structured data will facilitate automation in reporting, reducing compliance costs for public companies. If the Commission consistently defines the data fields it collects through the corporate disclosure system, business software vendors will be able to upgrade their solutions to connect internal concepts to those required to be reported by the Commission. As a result, commercially-available software will be able to automate currently-manual compliance tasks. The availability of structured data will also lower issuers’ costs of capital, particularly small issuers’, by lowering the market’s costs of analyzing their performance.

Third, structured data will allow the Commission staff to more effectively pursue the Commission’s mission. Standardized formats will support analytics platforms that automatically flag anomalies. Standardized data fields will allow staff to match entities, products, and transactions across multiple reporting regimes; for instance, if the Commission fully embraced the Legal Entity Identifier (LEI), as more fully discussed below, Commission staff reviewing an issuer’s filings could automatically connect to the same entity’s submissions to other domestic and international regulators.

A full transformation from documents to structured data would address the technology- and functionality-related recommendations of many other comments on the Commission’s Disclosure Effectiveness Initiative. Relevant Disclosure Effectiveness Initiative recommendations include the following:

- A comment by the U.S. Chamber of Commerce Center for Capital Markets Competitiveness\textsuperscript{14} endorses the concept of a “company file”:

\begin{quote}
Computer-readable content is considerably less expensive to work with, and faster to make available to investors, than data that must be re-keyed and validated. More timely and less expensive corporate data benefits not just the investor but also the public companies themselves – in the form of lower cost of capital. Our investor clients require increasingly more granular data, analyzing and investing in companies that are open and transparent. If small company data is less accessible, this could lead to reduced exposure to potential investors. Moreover, if regulators have to maintain two separate systems, the cost invariably will be passed on the filers, investors and tax payers.
\end{quote}

\textsuperscript{12} See, e.g., Letter from Paul Klug, Managing Director, Investor Content & Analysis, to Rep. Scott Garrett (March 21, 2014) (opposing proposal to require SEC to exempt most public companies from obligation to file structured data financial statements):


Under this type of system companies would not be required to repeat prior disclosures on a regular basis, but would be required to discuss additional developments that are material. This type of system would make it easier for investors to identify the most current material information about a company without having to wade through historical information to ferret out what is most relevant.\textsuperscript{15}

The “company file” concept would require the Commission to adopt consistent electronic fields and formats to delineate each piece of information required to be filed or submitted. In other words, the “company file” concept requires structured data.

- A joint comment by the Center for Audit Quality, the U.S. Chamber of Commerce, Financial Executives International, and the Business Roundtable recommends that the Commission improve the functionality of its existing EDGAR website in two phases.\textsuperscript{16} The first phase “focuses on consolidating current search features by improving their visibility and organization.”\textsuperscript{17} The second phase includes recommendations for new search functionality, including recommendations for EDGAR to identify parent companies in EDGAR searches;\textsuperscript{18} link exhibits to the filing to which they relate;\textsuperscript{19} and allow financial information to be exported to Microsoft Excel.\textsuperscript{20} These second-phase recommendations can only be followed to the extent that the Commission collects and manages the underlying disclosure information as structured data.

- A comment by the CFA Institute\textsuperscript{21} calls for the Commission to pursue “more than incremental changes,” including the notion of a “company file” so long as audit assurances are not reduced; “technology that allows investors to search and display similar information in different sections of SEC filings simultaneously”;\textsuperscript{22} and the ability to track changes from previous disclosure periods.\textsuperscript{23} The CFA Institute’s comment also expresses a preference for “quantitative data … which isn’t bounded by the document in

\textsuperscript{15} Id. at 21.


\textsuperscript{17} Id. at 2.

\textsuperscript{18} Id. at 8.

\textsuperscript{19} Id. at 8.

\textsuperscript{20} Id. at 9.


\textsuperscript{22} Id. at 3.

\textsuperscript{23} Id. at 9.
which the information is contained.”24 All of these advances are only possible to the extent that the Commission transforms its corporate disclosure system from a document-based to one focused on structured data.

- A comment by Temple University law professor Tony Lin25 calls on the Commission to “adapt and update old disclosure practices to a new marketplace that is more complex and more technologically-driven” and to accommodate “more types of disclosed information and more mediums of disclosure.”26 The only means of modernizing Commission disclosure information to accommodate the market’s new technologies, and the only means of allowing that information to flow through different “ mediums of disclosure” effectively, is to replace documents with structured data.

IV. The Commission’s Incremental Steps Toward Structured Data

On January 30, 2009, the Commission adopted rules requiring public companies to file financial statements in the XBRL structured data format.27 The adopting release promised this change would benefit investors, public companies, and Commission staff in the same ways that are described in this comment.28

These benefits have mostly not been realized, for two primary reasons. First, the Commission has continued to require public companies to also file document-based versions of each financial statement. Faced with an obligation to file every financial statement twice—one as a document and again as data—companies have tended to see the data version as less important and the more familiar document version as official. Second, the Commission has not enforced the quality of the XBRL versions, with the Division of Corporation Finance only very rarely addressing XBRL errors in comment letters and issuing a single Dear CFO letter on the subject.29

As a result, the quality of XBRL data, though improving, has remained problematic. However, if data quality can be improved to the point where investors and markets can more easily use

24 Id. at 5.


26 Id. at 2.


28 Id.

XBRL data, the existing XBRL regime can serve as a foundation for the future transformation of the Commission’s whole disclosure system into structured data.\textsuperscript{30}

Over the last two years, Chair White and other Commission officials have publicly spoken in favor of the use of structured data to collect, manage, and disseminate corporate disclosure information. These statements suggest the Commission favors expanding its current limited use of structured data to capture more of the disclosure system:

- In comments to a Securities Regulation Institute in California\textsuperscript{31} in January 2014, Chair White said: “I believe we should rethink not only the type of information we ask companies to disclose, but also how that information is presented, where and how that information is disclosed, and how we can take advantage of technology to facilitate investors’ access to information and make it more meaningful to them.”

- In responses to questions from the House Committee on Financial Services after an April 29, 2014, committee hearing, Chair White said: “The Commission is committed to using developments in technology and electronic data communications to facilitate greater transparency in the form of easier access to, and analysis of, information. I believe that requiring financial statements in structured data format enables investors to search and analyze the financial information dynamically and facilitates comparison of financial and business performance across companies, reporting periods and industries.”\textsuperscript{32}

- At the Coalition’s September 2014 annual conference, Data Transparency 2014, chief economist Mark Flannery recognized the benefits of structured data for both investors and companies: "Helping smaller companies to improve the quality of their data is important because their ability to disseminate machine-readable financial information critically enhances their ability to access capital in financial markets."\textsuperscript{33}

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\textsuperscript{30} The XBRL reporting rules were not the Commission’s first use of structured data for corporate disclosures. In 2002, when the Commission first adopted disclosure rules for insider ownership and trading under Section 16 of the Exchange Act, it built Forms 3, 4, and 5 as structured data filings. See U.S. Securities and Exchange Commission, “Fast Answers: Forms 3, 4, 5,” \textit{available at} \url{http://www.sec.gov/answers/form345.htm}. The use of structured data for these filings “led directly to the discovery of what we now know were billions of dollars of illegally backdated stock options awards.” Christopher Cox, Chair, U.S. Securities and Exchange Commission, Opening Remarks to the Practising Law Institute’s SEC Speaks Series (Feb. 9, 2007), \textit{available at} \url{http://www.sec.gov/news/speech/2007/spch020907cc.htm}.

\textsuperscript{31} Mary Jo White, Chair, U.S. Securities and Exchange Commission, Remarks Before 41st Annual Securities Regulation Institute (Jan. 27, 2014), \textit{available at} \url{http://www.sec.gov/News/Speech/Detail/Speech/1370540677500#.VHOcNWTF8rM}.

\textsuperscript{32} Mary Jo White, Chair, U.S. Securities and Exchange Commission, Response to Questions for the Record from Representative Keith Ellison (April 29, 2014), \textit{available at} \url{http://www.datacoalition.org/wp-content/uploads/archivedfiles/white-qfr-replies.pdf}.

\textsuperscript{33} Mark Flannery, Chief Economist, U.S. Securities and Exchange Commission, Remarks Before the Data Transparency Coalition’s Fall Policy Conference (Sept. 30, 2014) (“Mark Flannery September 2014 Remarks”), \textit{available at} \url{http://www.sec.gov/News/Speech/Detail/Speech/1370543071869#.VDgMxqTFqUM}.
The Commission’s strategic plan for fiscal years 2014-2018, released in September 2014, committed to “continuing to modernize the collection and dissemination of timely, machine-readable, structured data to investors when appropriate … Additionally, the SEC will continue to pursue data standards and methods that permit investors to more efficiently search for information within forms as well as aggregate and compare financial data across filers.”

At the Coalition’s March 2015 financial regulation summit, Investor Advocate Rick Fleming endorsed the full transformation of all corporate disclosures into structured data:

[I]f we capture all of the information in a tagged format, it could be made more readily available to market participants who trade shares of the company … Smaller companies, in particular, are likely to see an increase in analyst coverage if information about those companies becomes easier to access … Investors would also benefit from having access to data that is interactive. Currently, it is a challenge to find a specific piece of data (such as earnings per share) within the relevant filing for the correct company. That challenge is magnified if the investor wants to establish trend lines or compare the performance of one company to the performance of other companies in the same industry. By capturing the data in a structured format, the SEC could better control the display of the information and layer it in a way that makes it easier to navigate.

On April 14, 2015, Commissioner Kara Stein called on the Commission to establish an Office of Data Strategy, overseen by a Chief Data Officer, to promote the adoption of data standards across all information collected by the Commission, including throughout the corporate disclosure system.

The Commission has faced criticism for the costs that the current XBRL regime imposes on small public issuers. According to a comprehensive study conducted by the American Institute


of CPAs and XBRL US, the median annual cost of XBRL reporting to issuers with revenues under $75 million is approximately $8,000 per year.\textsuperscript{38}

The Commission could bring small issuers’ XBRL costs below the current median of $8,000 per year by adopting the inline XBRL (“iXBRL”) format for financial statements, allowing public companies to submit one version of each financial statement that is both human-readable and machine-readable, rather than two duplicative versions. Adopting iXBRL would eliminate issuers’ current need to carefully compare the document version of each financial statement with the corresponding structured-data version, reducing compliance costs. Since Commission staff would have a single version of each financial statement—rather than a document and a duplicative data file—to review, adopting iXBRL would also improve data quality.

The Commission has frequently signaled its intention to adopt iXBRL for financial statements.\textsuperscript{39} On August 19, 2015, Chair White informed Congress that Commission staff were developing the technological capability to accept iXBRL filings and recommendations for the necessary rule changes.\textsuperscript{40} But the Commission has not yet taken any formal action to fix the current XBRL regime by adopting iXBRL.

The Commission’s public statements suggest it intends—eventually—to fully modernize its disclosure system. Likewise, its recently-expanded use of new technologies to review the XBRL financial statements it already collects is an encouraging sign.\textsuperscript{41} However, since approving the original XBRL rule in January 2009, the Commission has taken no concrete action to continue moving toward the transformation of its corporate disclosure system into structured data, with a single recent exception: on April 29, 2015, the Commission proposed to require public companies to file pay-versus-performance information in the proxy statement in XBRL.\textsuperscript{42} Broadly, the Commission’s concrete actions on structured data have not matched its public statements.\textsuperscript{43}


\textsuperscript{43} Outside the corporate disclosure system that is the focus of this comment, the Commission has recently adopted or proposed several noteworthy structured data reporting rules, including the following.
For the most part, the Commission’s corporate disclosure system has yet to be transformed from documents into data. Bold action is needed to resume the transformation that began in January 2009 but, notwithstanding encouraging public statements by Chair White and others, has since stalled.

V. Internal and External Recommendations for a Structured Data Transformation

A comprehensive transformation of the Commission’s corporate disclosure system from documents to structured data has been recommended by Commission staff, the Commission’s Investor Advisory Committee, the technology industry, and Congressional leaders.

In January 2009, the Commission’s internal 21st Century Disclosure Initiative report recommended that the Commission “design and implement a modernized disclosure system in which interactive data replaces plain-text disclosure documents.”

The report noted that “because EDGAR is essentially a document-based disclosure system containing information that is searchable but not interactive, it is no longer leading-edge technology”.

At present, an investor seeking a particular piece of information about a company must first find the correct document, which is frequently complicated by the filing of amendments to the original document, and then review an often lengthy static file. The basic search option is a plain-text search. All complex analyses and comparisons between different periods or companies require the investor to manually extract the underlying information or use a third-party service that has done so.

Unlike plain text, interactive data can be automatically processed by software. Each discrete piece of information can be individually searched for and identified, automatically compared with other data, and...

Final rules:

Proposed rules:


45 Id. at 4.
seamlessly plugged into models, calculations, and other applications. Replacing plain text with interactive data would improve transparency by making information more accessible and easier to use. Filers, too, could make their reporting processes more efficient by simplifying the process of filing disclosure information and by eliminating redundancies.

Further, interactive data could enable the Commission to perform a wide range of analyses to aid in its mission. A modernized disclosure system could unlock the power of interactive data while maintaining all of the functions on which investors, filers, and Commission staff rely.46

The report further noted that a transformation from documents to structured data could occur without changes to the substance required to be disclosed, and recommended a “company file” approach:

All information required to be disclosed under the securities laws would be submitted to the Commission in an interactive data format. Rather than requiring filers to draft and transmit plain-text documents based on forms, the Commission would require filers to submit interactive data corresponding to specific components of disclosure. As we have explained, this transition would not require any changes in the content of disclosure information or the periodic reporting schedule.

What would change, however, would be the need to file lengthy forms over and over. Instead, filers could submit specific disclosure information into a centrally-located company file that would contain all information about that filer. New information would be added according to existing disclosure requirements and schedules, but the need to file form after form with often repetitive information would disappear. All of the information that is currently supplied in reports would be contained in the company file, and any user would be able to effortlessly call up and print familiar statutory reports, such as registration statements, periodic reports, or mutual fund prospectuses.47

In July 2013, the Commission’s Investor Advisory Committee made a similar recommendation. The Committee asked the Commission to “adopt a ‘Culture of Smart Disclosure’ that promotes the collection, standardization, and retrieval of data filed with the SEC using machine-readable data tagging formats.”48 The Committee noted:

46 Id. at 11-12.
47 Id. at 13-14 (emphasis added).
49 Id. at 1.
Modern technology provides the SEC with the opportunity to unlock far greater value from the information that it collects and stores. Through the consistent application of data tagging formats like XML and XBRL, information filed with the Commission can become fully machine-readable and more easily accessible. Tagged data can, for example, be automatically downloaded into a spread sheet, where it can be sorted and analyzed. Data tagging will enable investors, regulators, and other capital market participants to retrieve information in a cost effective and highly usable fashion.  

The recommendations of the 21st Century Disclosure Initiative and the Investor Advisor Committee have been echoed by leaders in Congress. In September 2013, the House Oversight Committee asked the Commission to explain whether it would fulfill the initial intent of its 2009 XBRL rule by transitioning its whole disclosure system to structured data:  

Structured data in financial regulatory reporting has the potential to create profound, positive changes: better enforcement through analytics, more efficient and more accurate reviews, improved market efficiency, cheaper capital costs, and the open data investors are demanding. These revolutionary improvements will only occur as the SEC integrates structured data into its existing review processes, enforces the quality of data submitted under the [2009 XBRL rule], and articulates a vision for the transformation of its whole disclosure system from inaccessible documents into structured data.  

In July 2015, Senators Mark Warner and Mike Crapo pressed the Commission to replace its current XBRL reporting requirement, in which public companies must file financial statements as both documents and data, with a single, combined filing in the inline XBRL format. The Senators presented this improvement as a step toward “the full modernization of the Commission’s corporate disclosure system through the transformation of document-based disclosures into open data.”  

Bipartisan legislation currently pending in the House of Representatives would require the Commission to pursue a full modernization.  

50 Id. at 1.  
53 Id. at 3 (emphasis added).  
VI. First Steps toward Transforming the Commission’s Disclosure System into Structured Data

To better serve investors and companies, the Commission should transform its disclosure system to collect, manage, and disseminate all disclosure information as structured data instead. This goal is broad and will require a comprehensive reinterpretation of every piece of information that is collected as part of the disclosure system. However, we believe the Commission can pursue this goal within existing resource constraints if it defines clear long-term objectives and pursues them incrementally.

The Commission’s indispensable first step will be to declare that it does, indeed, intend to transform its entire disclosure system from a document-based one to one focused on structured data. By providing certainty, the Commission will give investors, markets, companies, and the technology industry serving them sufficient confidence to invest early in solutions that will deliver the benefits of the transformation. Without certainty, the necessary technologies will not continue to develop.

Second, following a clear policy statement in favor of a comprehensive structured data transformation, the Commission should address the shortcomings of its existing XBRL rule. As concluded by Congressional leaders and academic observers, the quality of the structured financial data the Commission currently collects, while improving, has been too poor for full use by investors and markets. The Commission should adopt the iXBRL format to eliminate duplication, fully enforce the quality of XBRL filings, and work with industry groups to set clearer quality standards.

In July 2014, the Division of Corporation Finance announced it had sent letters to certain companies whose XBRL financial statements had failed to include necessary data. Coinciding with the SEC’s action, a few public companies announced corrections to previously filed open data versions of their financial statements. In the previous five years since the start of open data reporting, only one company had ever amended an XBRL financial statement. This action was a positive step towards better data quality. We urge the Commission to treat the open data version of each financial statement with the same care that it applies to the document version. Ultimately, however, the only long-term solution to XBRL quality and cost concerns is for the Commission to eliminate the current duplication and collect a single version of each financial statement from public companies—one that is both human-readable and machine-readable.

Third, before the Commission undertakes to transform entire disclosure forms into structured data, it should seek opportunities to deliver immediate improved searchability by adopting key data tags within disclosure documents before the rest of the content is transformed. The Commission should, for example, consider a commitment to adopt the Legal Entity Identifier (LEI), endorsed by the G20 as an authoritative, unique, and common identifier for entities subject to financial regulators, throughout existing forms. The Commission has already

55 See Warner and Crapo Letter.

proposed requiring the LEI to be included in security-based swap reports where available, but has not yet committed to use the LEI in its corporate disclosure system.

Item 15 of Form 10-K, “Exhibits, Financial Statement Schedules,” provides an example of a place where adopting the LEI could have a huge impact and require only a small change. Among the many exhibits required by Item 15 on Form 10-K is a list of the company’s subsidiaries. The list is currently expressed as text. If the Commission required issuers to disclose each subsidiary’s LEI, the exhibit would immediately become more useful to investors.57

Fourth, the Commission should prioritize disclosures for conversion from documents into structured data. As recommended by the Investor Advisory Committee,58 the Commission should prioritize certain disclosures of greatest value to investors for early conversion from documents into data, while still making clear its intent to ultimately transform its entire disclosure system. For example, the Commission might prioritize filings under the 1933 and 1934 securities laws by first adopting a structured data format for all periodic and current reports, next converting proxy and consent solicitation materials, and finally transforming registration statements and prospectuses included in registration statements.

As it converts particular disclosures into structured data, the Commission need not change the underlying content of those disclosures. For instance, narrative disclosures can remain free-form text, with block tags identifying them.59 In addition, the Commission should incorporate commonly-used data fields wherever applicable, starting with the LEI and eventually including identifiers for individuals, transactions, and other concepts reaching across multiple filings.

Finally, the Commission should build and implement a vision of the company file and make plans to replace existing disclosure forms with an obligation to update that company file.60

VII. Conclusion

We appreciate the opportunity to comment on the Commission’s disclosure effectiveness initiative. We believe that a comprehensive transformation of the Commission’s corporate disclosure system from documents to structured data will deliver benefits to investors, companies, and the Commission itself that are disproportionate to the resources invested. We stand ready to support the transformation through advocacy, education, and collaboration.

Sincerely,

57 See Kara Stein April 2015 Remarks.

58 See Investor Advisory Committee Recommendations.

59 “Even without a consensus around any particular method of detail tagging for concepts within narrative disclosures, a modernized disclosure system could begin by requiring that narrative disclosures be block-tagged. This would be an important step because it would improve comparability over periods of time or across companies.” 21st Century Disclosure Initiative at 14.

60 Id. at 15-17.
/s/ Hudson Hollister

Hudson Hollister
Executive Director
Data Transparency Coalition