August 11, 2015

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

RE: Investment Company Reporting Modernization, File No. S7-08-15

We appreciate the opportunity to provide input to the U.S. Securities and Exchange Commission’s (SEC) recent rule proposal on Investment Company Reporting Modernization, File No. S7-08-15. XBRL US, a nonprofit consortium, is the national consortium for the business reporting standard and is a member-driven organization, representing accounting firms, software companies, other nonprofits, data intermediaries and service providers. The mission of XBRL US is to encourage the use of public business information in a standardized format, and of XBRL as a standard to improve reporting between business, government and the public.

We support the Commission’s actions to upgrade and improve the reporting and disclosure of information by registered investment companies; and in particular, the proposal that new form requirements be made in structured data format to enhance the ability of the Commission, as well as investors and other potential users, to analyze portfolio data both on an individual fund basis and also to compare across funds. We strongly disagree however, with the proposed requirement that new disclosures be made in XML, rather than XBRL format. This letter addresses this concern as well as specific requests for comment made in the proposal.

Benefits and Costs of Structured Data

The proposal asks the following questions on pages 333 and 334:

- **What are the benefits, costs, and other economic effects from funds providing portfolio investment information in a structured XML format?** Also, would the public reporting of portfolio investment information in an XML format result in a decrease in the costs to investors from obtaining the information?
- **What are the operational benefits and costs to investment companies to file Form N-PORT and Form N-CEN in a structured format?** What are the costs to funds from adapting systems to the new filing requirements? To what extent would the fund industry benefit from a standard format to report information?
Requiring funds to provide investment information in the appropriate structured data format will make that data computer-readable, consistent and comparable across different reporting entities. Data that can be unambiguously interpreted by a computer can be automatically extracted, consumed and analyzed. Automating this process substantially streamlines the process flow of information from the source (the investment company) to the end user (the investor) and in some cases, may even enable “straight through processing” which means the data can be delivered (and consumed) directly from creator through to user. The obvious benefits are dramatically increased timeliness, elimination of data rekeying and less need for validation and review of data before the investor can begin analysis. This, in turn, leads to 1) better, more timely information available to investors so they can make more informed decisions, and 2) cost savings, because labor-intensive resources to rekey, review and validate data extracted from HTML or text files are no longer needed. Checking the validity of data may still be required but with structured data, this process can be automated, thereby reducing the cost and at the same time, increasing the consistency of the data produced.

The cost of reporting in structured data format would be borne by the reporting funds and the savings would be recognized by data intermediaries in the form of lower processing costs initially. But ultimately this savings would be passed on to investors and other users of the data as competition in the data analytics market increases. As processing of investment fund information becomes easier and cheaper, barriers to entry will decline, enabling startup companies to more easily enter the commercial data business which today (without structured data) must rely on labor-intensive databasing and validation of content. Increased competition can be expected to drive down prices to all investors, freeing up funds for investment back into the markets, including money that could be invested in the very same funds that bear the cost of transforming their data into the structured format.

The commercial market for corporate public company data is dominated by a handful of organizations that have resources to rekey and validate information. Today, public company financial data is available in structured XBRL format, enabling the formation of startup data companies because they are able to build databases much more quickly with significantly fewer staff. The data and analytical tools they create are available to all investors at significantly lower prices than that which was historically available from large commercial providers that have a higher cost structure because of their labor-intensive processes. The large commercial data providers in turn, are also able to move to a lower cost structure, allowing them to offer more value-add analysis rather than just data creation, and at a lower cost.

**XBRL versus XML**

On page 93, the proposal requests comments on the following question: *Should the Commission allow or require the form to be provided in an XML Schema derived from existing XML based languages, such as Financial products Markup Language FpML)* or XBRL?
We believe that XBRL is a more appropriate standard for these reporting requirements than XML. Extensible Markup Language (XML) is a free, open standard, used to store, structure and transfer data. It provides the ability to “tag” data with contextual information that helps define each data point. In the example below, the figure “7” is meaningless on its own but when a description of “Number of Buildings” tags that figure, data consumers now understand what it represents. XML provides a means to tag information with metadata that describes the data.

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<Number of Buildings>  7  <Number of Buildings>
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XML is used as the basis for hundreds of document formats. One example of using XML is RSS\(^1\) feeds, to convey news headlines.

Financial data has a number of characteristics that are consistent across business reports including time period, entity name, units like reporting currencies and breakdowns of aggregate amounts often shown in tables. XBRL is an XML standard that has added these normalized features of business reports into an XML schema and called it XBRL. This means that when business data is communicated, creators of the data schemas do not have to reinvent ways to define characteristics such as time period in their XML schemas. These agreed-upon standards for a characteristic as simple as “time period”, must be established throughout the reporting supply chain or the data produced by multiple reporting entities cannot be compared and data users will not have a consistent way of extracting the data. XBRL provides a predefined structure for these critical characteristics of business data, to avoid a hodgepodge of XML schemas defined by the SEC in a scenario where every schema could define these characteristics in a slightly different way. Relying on an XML schema means that different data sets produced would require end users and filers to use different software and maintain multiple interfaces rather than a single one.

**XBRL (eXtensible Business Reporting Language) was created specifically for the purpose of reporting financial and business information.** XBRL is based on XML. XBRL uses the tagging features of XML to embed metadata into reported values but the XBRL specification also has built-in standards around the reporting of tables, units, time period, labels and other attributes of financial data. XBRL has a feature that allows the creator of the data to describe to the end user how each value is calculated. The diagram below illustrates the important features of a single reported value that are needed by the end user to understand what the value 105,893,000 truly means.

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\(^1\) *Really Simple Syndication*, uses a family of standard [web feed](http://example.com) formats to publish frequently updated information such as [blog](http://example.com) entries, news headlines, audio, and video.
Characteristics of this datapoint are defined by information provided in the “taxonomy” which is a predefined collection of reporting concepts, and by the “instance document” which describes the specific reporting situation, e.g., ACME’s 2012 financial statement.

Data reported in XML may have metadata describing these features but it does not have a single, standard method to do so. With XML, the method of determining the currency or the time period of the holding will need to be defined and may be defined in a manner inconsistent with other data collected by the SEC such as public company reporting data. Ideally, metadata describing financial data reported to the SEC for investment companies should be reported consistently with metadata reported to the SEC for public companies.

If XML is the standard selected for this reporting requirement, this level of structure, for consistent capturing of units, time period, labels, etc., will need to be created to establish a workable standard. The XBRL specification already has that structure.

**Using Validation with Structured Data**

On page 330 in the proposal, it is stated: *The technology used to structure the data could affect the benefits and costs associated with the proposed rules, and we have therefore considered alternative formats for structuring the data, such as XBRL. Sending a data file from a sender to a recipient requires many conditions to be satisfied, and one of crucial importance to regulatory data collection is the need for validation. XML provides for a built-in validation framework, and is supported in all modern programming languages. Other data formats can achieve validation but through custom software.*

The validation framework for XML referenced in the SEC proposal is schema validation only. It does not lend itself to checking the accuracy of the relationships between the data reported. While this form of validation is important, with XBRL, validation can be used to check reported data for conformance to specific business rules that must be met for accuracy and consistency. This is included as part of the XBRL specification unlike XML which needs custom tools to do this.
The proposal also states “Other data formats can achieve validation but through custom software.” This statement is true for the XML standard which requires custom software for forms of validation beyond XML schema validation. XBRL includes schema validation as well as standardized means to perform validations such as XBRL formula.

The FDIC, which implemented XBRL for financial institutions in 2005, effectively uses validation both when institutions prepare their quarterly financial data and through the submission process to the FDIC. When financial institutions submit Call report data each quarter, validation is used pre-submission to alert reporting entities if there appear to be mistakes in the data so corrections can be made immediately before submission. On receipt, the FDIC is able to perform validation checks on incoming financial data prior to the data being stored. If errors are discovered on receipt, a message is returned to the reporting entities stating that errors have been received and to correct any anomalies before the financial report can be accepted. Before reporting requirements were created in XBRL, banks submitted their quarterly financial data in text format to the FDIC without a pre-validation process resulting in FDIC analysts ‘calling’ financial institutions to clarify data anomalies received during the submission process. This manual process, prior to the use of XBRL, was time-intensive and costly for both the FDIC analysts and financial institutions.

The SEC’s XBRL program also presents a good example of effectively using validation. Companies filing in XBRL format are able to use “SEC validation” which is a set of rules that ensures that XBRL data submitted conforms to the SEC’s EDGAR system; and they use “XBRL validation” which ensures that data submitted conforms to the XBRL technical specification. XBRL validation is schema validation, performing the same function as XML schema validation. These two forms of rules or checks have been successfully incorporated into most XBRL-enabled software tools on the market. In addition, XBRL US, through its Center for Data Quality\(^2\) is developing validation rules that will be made freely available to all public companies which identify and resolve issues related to the US GAAP Taxonomy. These checks will also be open source, freely available and can be incorporated into any software tool for immediate use.

**Data Complexity**

On page 330, the proposal states: *The nature of the information we are collecting also lends itself to an XML format due to the non-complex requirements to structure the information, and does not necessitate the need for a more robust framework such as XBRL.*

XML schema is relatively easy to define and most software development tools support the creation and consumption of XML data. Because XBRL is based on XML these same tools can be used to create XBRL.

However XML has a number of hidden costs that occur later in the data collection cycle. This includes the need to create specific interfaces to create and consume the data. One of the advantages of XBRL is that once the XBRL schema (taxonomy) is defined, any XBRL enabled

\(^2\) Learn more about the XBRL US Center for Data Quality at http://xbrl.us/home/data-quality/center/
tool can load the taxonomy and render it as a form to collect data. XBRL aware databases can also read and store any XBRL document no matter what taxonomy was used to create it. This means any of the fund documents created in XBRL could be immediately loaded into existing XBRL databases without the need to create a new interface. With XML, data consumers would need to map the schema into their existing data store and line up reporting periods, entities, currencies etc.

Using Forms with Structured Data

The FDIC implementation of XBRL effectively takes a “forms-based” approach to collecting information from bank institutions. Software tools that are used by banks when submitting financial data provide standard forms for bank staff to key in required data each reporting period. These forms simplify the process for bank staff; the software tools automatically render the data produced through these forms into XBRL format. Creating data in XBRL format means that multiple existing software tools can extract, database and analyze the data consistently. And as noted earlier, the existing market of XBRL tools can be leveraged for data reported by banks, public companies and any other entities reporting in XBRL format. The same cannot be said for XML implementations where, again, the reporting of time period, units and other important characteristics of financial data can vary substantially. If the SEC is considering adopting a forms-based approach for investment company data, XBRL would be the most appropriate data standard to adopt.

Reduce Implementation Costs by Leveraging an Existing XBRL Taxonomy

Many of the concepts that are reported today on Form N-Q, such as the schedule of investments, are already available in the XBRL US GAAP Taxonomy which is managed by the Financial Accounting Standards Board (FASB). The image below shows the section within the current XBRL US GAAP Taxonomy that contains elements for the Schedule of Investments - the same elements needed for investment company reporting on new form N-PORT.
Form N-Q will serve as the basis for the new form N-PORT, therefore concepts from the US GAAP Taxonomy can form the basis of a taxonomy of terms needed for investment company reporting, significantly reducing development costs that must be borne by the Commission.

Below is a screenshot of a rendered XBRL instance document showing a Funds schedule of investment data. This is actual data that has been reported to the SEC using the Investment Schedule Schema defined in the US GAAP Taxonomy. The information filed by this Fund is available in XBRL databases and has been rendered by existing SEC software tools and collection mechanisms.
Because the US GAAP Taxonomy is already maintained and supported, there would be a built-in mechanism to manage and maintain the investment company taxonomy.

Because public companies have been reporting in XBRL format for six years, the market for tools developed to create, extract and analyze XBRL-formatted financial data is relatively mature. This competitive market for tools and services can be leveraged in the deployment of XBRL for investment companies as XBRL-enabled tools can be easily adapted to work with different taxonomies. These factors will serve to keep implementation costs low for the Commission itself in building out the taxonomy, for the funds that need to use tools to create structured data to comply and for the data consumers that can leverage existing tools to extract and analyze reported data.
Conclusion

We appreciate the opportunity to comment on the SEC’s proposed rule to modernize investment company reporting. We support the effort to transform critical investment information into computer-readable data through a structured data standard, but we believe that using only XML is not the right approach to help the SEC fulfill its mission of protecting investors, maintaining fair, orderly and efficient markets, and facilitating capital formation. Nor will it help investors and other users to make informed investment decisions. Utilizing XBRL as the structured data standard however, would meet the goals of the rule, efficiently and cost-effectively.

On behalf of XBRL US and its members, we thank the SEC for the opportunity to provide input to this important proposal and welcome any questions you have. Please contact me at campbell.pryde@xbrl.us or (917) 582-6159.

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