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Corporate &amp; Securities Practice

## **Mandatory Use of Interactive Financial Data Proposed for SEC Filings**

On May 14, 2008, the Securities and Exchange Commission proposed a requirement that corporate financial statement information be filed with the SEC in an interactive data format known as XBRL (short for extensible business reporting language). The purpose of XBRL is to tag financial data so that it is machine readable, permitting individual financial statement items to be searched on the Internet, downloaded into spreadsheets and reorganized in databases. This will enable investors, analysts and journalists to easily generate customized reports and comparisons containing just the financial data that interests them.

The proposal would phase in mandatory use of interactive financial data over three years. The first companies that would be required to use XBRL under the proposal would be companies using U.S. GAAP (generally accepted accounting principles) that have a worldwide public float over \$5 billion — approximately the 500 largest public companies. The proposed rule would apply to these large companies for financial periods ending in late 2008, which means that if the rule is adopted as proposed, the first mandatory interactive data in SEC filings would be made public in early 2009. In the second year of the phase in, all other domestic and foreign large accelerated filers using U.S. GAAP would be subject to interactive data reporting. In the third year of the phase in, all remaining filers using U.S. GAAP, including smaller reporting companies, and all foreign private issuers that prepare their financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, would be subject to the same interactive data reporting requirements.

Reporting companies would make XBRL disclosure by filing exhibits to their annual and quarterly reports and registration statements. Companies also would be required to post this information on their web sites. Companies would have to tag their primary financial statements, notes and financial statement schedules. At first, companies would be permitted to tag notes and schedules as blocks of text, but after a year would be required to tag the details within the notes and schedules.

The SEC has been experimenting with interactive financial data for several years. A voluntary pilot program began in 2005 covering the financial statements of corporate filers submitting their annual, quarterly and other reports with interactive data. The SEC began an interactive data filing program for mutual fund risk return information in August 2007. As an indicator of the importance it places on XBRL, the SEC has devoted a section of its web site to XBRL matters (<http://www.sec.gov/spotlight/xbrl.shtml>).

The SEC has launched some web-based applications called “viewers” that demonstrate how XBRL data can be used to generate customized reports. For example, the SEC created an executive compensation viewer that allows for a comparison of executive pay and benefits at 500 of the largest reporting companies (<http://216.12.130.224/compensation/action/main/list.action>). It did this by tagging the executive compensation data from the summary compensation tables and certain other data in the proxy statements of these companies. Similarly, the SEC created an Interactive Mutual Fund Viewer, which

allows users to interact with XBRL filings made as part of the SEC's voluntary XBRL filing program (<http://a.viewerprototype1.com/viewer>). This viewer allows a comparison of risk return information for up to three mutual funds.

Although the first mandatory XBRL use is not proposed to occur until early 2009, the SEC will be accepting test filings in advance. Later in May, test filings will be accepted on EDGAR using a February 11, 2008 version of the XBRL tags. The final version of the tags, issued April 28, 2008, is scheduled to become usable in June. The SEC has indicated that it expects to announce an interim system that will enable companies immediately to provide interactive data submissions to the SEC using the April 28 version of the XBRL tags.

The SEC issued a press release on May 14, 2008, announcing its action and containing a brief summary of the rule change requiring use of interactive financial data. See <http://www.sec.gov/news/press/2008/2008-85.htm>. The SEC has not yet issued its release containing the text of the proposal. When this becomes available, companies will be able to review the full details of the proposal. For example, it is expected that the proposing release will address issues such as grace periods for initial filings and the consequences of late filings on a company's eligibility to use a short form registration statement (i.e., Form S-3) and ability to satisfy the current public information requirements of Rule 144. Comments on the proposed rule will be due 60 days after the proposal is published in the Federal Register.

The SEC views XBRL as a major innovation and appears poised to finalize the rules in time for them to be effective for the next annual reports on Form 10-K that large companies with calendar year-ends will file with the SEC. Because XBRL, if adopted as proposed, will be mandatory, public companies need to familiarize themselves with the new requirements and develop a plan of action, sooner rather than later, to ensure their compliance.

If you have any questions about this information, please contact [Laura D. Richman](#) or any other member of our [Corporate & Securities practice](#).

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