



March 31, 2008

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Ms. Nancy M. Morris  
Federal Advisory Committee Management Officer  
Securities and Exchange Commission  
100 F Street N.E.  
Washington, DC 20549-1090

**RE: Progress Report of the Advisory Committee on Improvements to  
Financial Reporting, Release No. 33-8896; File No. 265-24**

Dear Ms. Morris:

The Center for Audit Quality (CAQ or Center) is an autonomous public policy organization serving investors, public company auditors and the capital markets and is affiliated with the American Institute of Certified Public Accountants (AICPA). The CAQ's mission is to foster confidence in the audit process and to aid investors and the markets by advancing constructive suggestions for change rooted in the profession's core values of integrity, objectivity, honesty and trust. Based in Washington, D.C., the CAQ has approximately 800 member firms representing thousands of men and women dedicated to quality public company auditing. We appreciate the opportunity to share our views on the *Progress Report of the Advisory Committee on Improvements to Financial Reporting*.

At the request of Subcommittee 1 of the Advisory Committee on Improvements to Financial Reporting (CIFiR or the Committee), the CAQ previously submitted a letter, dated November 20, 2007, which addresses substantive complexity and related issues, and Mr. Sam Ranzilla, Chairman of the CAQ Professional Practice Executive Committee, appeared before the December 3<sup>rd</sup> session of that subcommittee. We believe the contents of our prior letter and Mr. Ranzilla's statements before the subcommittee remain relevant to CIFiR's deliberations and, although we have summarized several of those points below, we encourage all members of the CIFiR to review our prior letter in its entirety.

Because many of our comments may relate to more than one developed proposal or conceptual approach, we have structured the discussion in our letter by Chapter headings in the Progress Report and by topics rather than by individual proposals.

### ***Executive Overview and Introduction***

The CAQ's comments on issues highlighted in the Executive Overview and Introduction of the Progress Report appear below under the relevant Chapters.

In general, we agree with the direction of the Progress Report as summarized in the Overview and Introduction. In particular, we agree with the acknowledgment that there is avoidable complexity and unavoidable complexity. As discussed in the CAQ's prior letter, unavoidable complexity may be a function of the underlying complexity of the transaction being accounted for. Avoidable complexity, on the other hand, comes from other sources and creates uncertainties in, among other things, interpreting and applying generally accepted accounting principles (GAAP), evaluating the information necessary to apply GAAP, and using professional judgment when applying GAAP.

The Executive Overview briefly mentions a proposed change in the format of the income statement into two groupings, such as separating cash or accrued earnings from changes in income resulting from fluctuations in the fair value of assets. As noted in our prior letter, if the income statement were disaggregated into various categories, such that certain sources of volatility were separately displayed from the company's core earnings, standard setters might be under less pressure to grant exceptions that contribute to complexity. Accordingly, we believe that the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) should accelerate their joint project on financial statement presentation.

### ***Chapter 1: Substantive Complexity***

#### ***Avoidable Complexity***

Our prior letter notes that avoidable complexity affects all participants in the financial reporting process – preparers, auditors, investors, regulators, and others. For example, avoidable complexity increases the costs of financial reporting by increasing the time and resources necessary to maintain knowledge of overly burdensome detailed rules, perform unnecessarily difficult computations, promulgate standards and interpretations, analyze and understand financial statements, and regulate compliance with GAAP. We also note that avoidable complexity adds to the volume of guidance that must be considered in preparing financial statements and, therefore, increases the risk that there may be a failure to identify potentially applicable guidance, which could result in, among other things, increasing the risk of a material error in the financial statements.

Our prior letter also notes that some causes of avoidable complexity are not subject to a “quick fix,” such as the risk of litigation that fosters a desire for explicit accounting guidance; regulatory

practices that may result in unequal access to all required accounting guidance; self-interest lobbying in the standards-setting process; the lack of acceptance of differences in professional judgment; a short-term market focus that encourages a desire to “smooth” accounting effects to reduce volatility; and the cycle of new standards designed to address perceived abuses in financially structured transactions, which in turn leads to more financial engineering of transactions. Some of these factors may not be within the scope of CIFIIR’s mission, or may not be given thorough consideration due to the relatively short duration of CIFIIR’s charter. We believe, however, that they should continue to be addressed and the CAQ will continue to participate in those efforts.

As articulated in greater detail in our letter of November 20, 2007, standards that are written to anticipate specific details of transactions contribute to complexity. We believe that at least some complexity in financial reporting could be avoided by focusing standards on an articulation of the objectives of the standard without promulgating provisions intended to address anticipated abuses. Instead, any potentially unacceptable applications of a standard and its objectives should be identified by preparers, auditors, users and regulators during the implementation and application of that standard. The CAQ stands ready to assist CIFIIR and the Securities and Exchange Commission (SEC or Commission) in finding ways to bring more transparency, fairness and consistent due process to the identification and remediation of inappropriate accounting practices.

#### *Elimination of Exceptions, Bright Lines, Alternatives*

In the short term, our prior letter encourages accounting standard setters to write standards in plain English, with a clear explanation as to the underlying principle, and appropriate examples to illustrate the link between any detailed requirements and the principle. We also note that it is imperative to reexamine and change as necessary the scope exceptions, bright lines, and smoothing provisions that artificially mask real economic volatility or otherwise impede investor understanding of underlying transactions and events.

Another topic in our prior letter that may be addressed in the short term is the patchwork of standards created by several sources, which has resulted in ambiguity and inconsistency within GAAP. The FASB’s project to codify GAAP into a single reference source will be a valuable step forward. We encourage the FASB and the SEC, and the SEC staff, to continue efforts to eliminate any unnecessary or conflicting financial reporting rules or staff guidance.

#### *Basing GAAP on Business Activities Rather than Industries*

Our prior letter states, “We would support elimination of industry specific guidance once ‘activities based’ standards have been developed.” We agree that industry specific guidance is a source of complexity and that GAAP based on business activities may be more appropriate, particularly when the activities of a particular industry are not dissimilar from activities engaged in by other industries.

However, determining when similarities exist is a significant challenge in reducing complexity. After all, industries are defined largely by their activities. Solely organizing accounting guidance by

activity instead of industry will not change the need to distinguish whether activities are sufficiently similar to warrant the same accounting model. For example, is the sale of software sufficiently similar to the sale of airplanes to warrant the same revenue recognition model? Or, are those activities sufficiently different that different revenue recognition criteria should apply? We believe CIFI should acknowledge that this challenge will remain even if GAAP is based solely on business activities.

## ***Chapter 2: Standards-Setting Process***

### ***Balanced Representation***

We agree that investors, as a primary beneficiary of the standards applicable to public companies and public interest entities, must be represented adequately on all standards-setting bodies. Investors' representatives help define the information that would be useful in making investment decisions. However, we note the Committee's use of the term "pre-eminence" when referring to investor representation appears to be a misnomer based upon the balanced approach to representation articulated in the detailed discussion of the report. We embrace the balanced approach as we believe that preparers may recognize cost issues and practical problems that impact the feasibility of a standard, and auditors often have experiences with a cross-section of clients and may assess not only how a standard would impact a variety of companies in a variety of situations but also the "auditability" of a potential standard. Bodies with a well balanced membership would have the greatest chance of establishing the most effective and efficient standards.

### ***FASB Agenda Advisory Group***

Given the Financial Accounting Foundation's (FAF) recent decision to change the FASB's agenda-setting process to vest the FASB chair with the authority, following appropriate consultation, to set the FASB project plans, agenda and priority of projects, we agree it is important to reassess the process for the FASB Chair to receive input on agenda decisions. We observe that the Financial Accounting Standards Advisory Council (FASAC) was designed to provide input to the FASB on its agenda, but with over thirty members, FASAC is not sufficiently nimble to provide timely and regular agenda input to the FASB chair.

Instead of the proposed Agenda Advisory Group, we suggest that FAF create a FASAC executive committee to serve the proposed function. In our view, the FASAC executive committee should include at least one representative from each of the preparer, auditor and user communities, and include a representative of the SEC. Regardless of the structure of the advisory input, the process should be transparent and allow public access to the workings of the group.

### Investor Pre-reviews

The recommendation is made in the Progress Report that a panel of investors pre-review proposed accounting standards to assure that, if adopted, those standards are decision-useful. While we applaud the goal of early investor involvement in the standards-setting process, in our experience it has been particularly difficult to engage in this process those who make actual investment decisions for either institutions or individuals. As a result, we believe that the FASB may find implementation of this proposal particularly challenging. We suggest that prior to the adoption of such a process, the FASB or FAF research whether they would be able to obtain adequate participation by buy- and sell-side analysts, investment officers at institutional investors, and knowledgeable individual investors.

Nevertheless, we would support the adoption of more robust pre-adoption reviews of new accounting standards. Notwithstanding the often time-consuming, deliberative process required to adopt a new accounting standard, preparers and auditors must be given sufficient time to plan for the orderly implementation of that standard. In our view, a formal field test of each significant new standard by preparers and auditors would better identify implementation issues and allow them to be addressed prior to widespread implementation. FASB should consider the extent to which investors may play a meaningful role in that field testing.

### Post-Adoption Review and Periodic Assessment of Standards

We support the concept of post-adoption reviews to evaluate whether new standards are achieving their purposes. Formalized reviews of new and existing standards that include the views of a broad range of FASB's constituents would allow the FASB and SEC to evaluate whether standards are generating relevant and useful information and have not led to unintended consequences. They also would guide the FASB in determining whether modifications to a standard may be necessary to achieve its objectives.

### Interpretive Implementation Guidance

The Progress Report indicates that actions by the SEC and FASB “have not sufficiently curbed the creation of other non-authoritative interpretive implementation guidance, such as that from audit firms, preparer and industry groups, academia, the Center for Audit Quality (CAQ), and other regulators.”

We are concerned that some readers of the Progress Report might consider this assertion to imply that the FASB and SEC possess and should exercise the authority to restrain the views of other constituents to the financial reporting process. We certainly agree that documents issued by the CAQ are non-authoritative. Although the CAQ has issued relatively few discussion papers to our membership, we believe that such papers fill a void in the existing regulatory framework. Our papers, such as the three white papers issued last year on credit issues, bring existing relevant accounting or auditing guidance into one place, focus our members' attention on the application and

understanding of that guidance, and, to the extent feasible, relate other professionals' experiences in dealing with that guidance. In our view, our efforts, as well as those of the AICPA and other professional organizations, audit firms, preparers and academia, provide a healthy discourse that ultimately improves the quality of financial reporting. We acknowledge that others may hold different but reasonable views on accounting matters and that the right to exercise reasonable professional judgment and to hold such views should be respected.

### *SEC Staff Discussion of Registrant-Specific Matters*

The Progress Report indicates that CIFIIR is considering recommending that the SEC communicate only broadly applicable interpretive guidance that it considers authoritative and not publicly discuss registrant-specific matters. While we agree that SEC staff positions on registrant-specific matters generally are not intended to be authoritative, many issuers have an interest in knowing how the SEC staff handled situations similar to their situation. So long as the SEC staff takes positions on accounting issues with registrants, others will be interested in knowing the content and context of any discussions that may be relevant to their filings. Further, it could be deemed unprofessional by an auditing firm to treat an SEC position on a single registrant as applicable to only that registrant.

Implementation of the Committee's recommendation requires recognition of the fact that the expressed views of the SEC staff obtain wide circulation and high credibility regardless of whether they are intended to be addressed to a specific registrant or class of registrants. Further, the fact that an SEC staff member issues a comment to a specific registrant or class of registrants is understood to signal that the SEC has developed an informed position on a particular matter. For these reasons it is important that SEC staff comments, speeches, announcements in public forums including EITF meetings, as well as interpretive guidance should be based on appropriate interpretations of GAAP and, where necessary, consultation with the primary accounting standard setter. Further, we recommend that the SEC staff practice prudence and discretion when issuing informal guidance or making any public comments that are likely to be interpreted as new or unprecedented interpretations of GAAP.

To implement CIFIIR's recommendation would require changes in the SEC staff review process and in staff awareness of the likely effects of their public comments, including comments issued to individual registrants.

### *Optimal Standards*

As noted above, our prior letter encourages accounting standard setters to write standards in plain English, with a clear explanation as to the underlying principle, and appropriate examples to illustrate the link between any detailed requirements and the principle.

As discussed in the Progress Report, the white paper published in January 2008 by the Chief Executive Officers of the world's six largest audit networks provides criteria for developing optimal

accounting standards. Under those criteria, an optimal accounting standard would have the following characteristics: faithful presentation of economic reality; responsive to investors' needs for clarity and transparency; consistency with a clear conceptual framework; based on an appropriately defined scope that addresses a broad area of accounting; written in clear, concise, and plain language; and allow for the use of reasonable judgment.

### ***Chapter 3: Audit Process and Compliance***

#### ***Materiality***

The CAQ appreciates the invitation we received to testify before CIFIIR on March 13, 2008, on issues related to materiality and the correction of errors. Consistent with Stephen Meisel's remarks at that meeting, we would support guidance that incorporates the three key themes to materiality and error correction articulated in the Progress Report. We believe such guidance would benefit investors and reduce the number of unnecessary restatements. These themes are:

1. All errors need to be corrected, yet not all need to result in a restatement;
2. The materiality of an error should be evaluated from the perspective of a reasonable investor and should consider all surrounding facts and circumstances; and
3. Transparent disclosures are essential to communicating material errors to investors.

The Committee's recommended enhancements to existing SEC materiality guidance should not be viewed as facilitating the obfuscation of material errors or permitting material errors to remain uncorrected under the guise of qualitative judgments. In fact, all errors need to be corrected so that a company's underlying financial records are complete. It is determining what constitutes a material error and how the error should be corrected and disclosed that warrants enhancement.

#### ***Materiality Assessments***

It is important to align materiality judgments with investor needs. The materiality of any one piece of information should be judged based on the total mix of information. As such, there may be instances when an amount that might appear to be relatively large would be unimportant to a reasonable investor when viewed within the context of all of the surrounding facts and circumstances. Likewise, there may be instances when an amount that might appear to be relatively small would be important to a reasonable investor given the surrounding facts and circumstances.

We agree with the Committee's recommendation that the SEC direct its staff to conduct education sessions internally as well as for auditors and financial statement preparers that focus on raising awareness of these issues and promoting a more consistent application of the concept of materiality. We encourage the Commission, in addition, to consider extending this education program to investors and other financial statement users, not just auditors and preparers, as they also stand to benefit from a better understanding of materiality.



### Correction and Disclosure of an Error

We agree that the determination of whether a material error in previously issued financial statements exists should be made from the perspective of a reasonable investor that has relied on the previously issued financial statements to make an investment decision. And we agree that the decision process for determining how to address the error should be based on its relevance to current investment decisions, in other words from the perspective of investors who currently hold, or are contemplating buying or selling, securities. However, because the separation of these two tasks is not currently contemplated in the existing accounting or auditing literature, an amendment to existing guidance likely would be required.

The Committee should clarify its position regarding application of the "dual method" under SAB 108. The Committee should explicitly request that the SEC staff amend SAB 108 so that the "iron curtain" method of quantifying errors is applied only to previously unissued financial statements. This would effectively reduce the number of restatements that are required when the restated financial statements would not be materially different from the previously filed financial statements. Furthermore, we believe that the SEC should address how out-of-period errors should be corrected when they will not be reflected through a restatement of the prior periods.

The Committee also suggested that there may not be a need to amend previously filed annual or interim reports to reflect restated financial statements, if the next annual or interim period report will be filed in the near future and will contain all of the relevant information. The Committee should clarify that this concept applies only to correcting the misstated financial statements when they are presented for comparative purposes in the current filing.

### Errors Related to Interim Periods

We agree with the Committee's recommendations on how an error in an interim period should be evaluated and corrected. An interim period represents part of a larger mix of information available to a reasonable investor and not simply a discrete period separate and distinct from annual and other information. Evaluating the impact of an error in interim period financial statements on the total mix of information available to investors, therefore, requires consideration of information being disclosed in the interim report, related information in other interim reports, and information that has been disclosed in connection with annual filings. That is not to suggest that interim financial statements are unimportant. Rather, it is an acknowledgement that certain factors may be evaluated differently and in a broader context in the materiality analysis relating to interim financial statements. In assessing materiality for an interim period, robust qualitative analysis should be performed on the error.

The Committee should clarify that the preparer should include disclosure in its next Form 10-K that clearly explains that a mathematical discrepancy could result in situations where a prior interim





period is restated for a material error even when the prior annual period is not restated. We also encourage the Committee to recommend that the SEC consider allowing registrants to revise the financial statements for subsequent filings so that financial information remains comparable for errors that are not material.

### Professional Judgment Framework

The CAQ also appreciates the invitation we received to testify before CIFIr on March 13, 2008, on issues related to the proposed professional judgment framework. As indicated by Randy Fletchall at that meeting, we support the development of an effective professional judgment framework that would lead to better decision-making and to more informative disclosures.

We agree with CIFIr that there should be more respect among market participants for professional judgments. We agree that unnecessary regulatory challenges to and overturning of good faith, reasonable decisions by preparers and auditors, and the risk of such challenges to and overturning of decisions, have caused numerous restatements, which have created confusion in the markets and lowered confidence in publicly issued financial statements without an equal benefit for investors. Further, when real-time judgments of preparers and auditors acting in ultimate good faith can be characterized with hindsight as failures to properly apply GAAP, preparers and auditors have strong incentives to request specific detailed interpretive and other guidance as a precaution against potential accusations of either misapplication of GAAP or, in the most severe situations, of wrongdoing. We agree that a rigorous professional judgment framework that promotes respect among preparers, auditors, regulators and others and reduces unwarranted restatements, would be a benefit to everyone. Such a framework may enhance the application of judgments.

As some CIFIr members are aware, certain investor groups have been wary that such a framework for preparers and auditors (should the PCAOB or SEC adopt a professional judgment framework for auditors) may make it easier for wrongdoers to publish misleading financial information. They have indicated that these efforts to strengthen the auditing profession instead might immunize auditors from liability and leave them with few countervailing pressures in the face of pressure from preparers seeking agreement with their accounting.<sup>1</sup>

We believe these concerns are unwarranted. A well-designed framework should require that, in order to be respected, a professional judgment must be reasonable, exercised in good faith, well-documented, and consistent with applicable accounting standards. Notwithstanding such a framework, regulators and investors would – and should – continue to insist that auditors adhere to high standards of professional conduct. But a framework also would mean that in areas of financial

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<sup>1</sup> See e.g., Letter dated February 10, 2008 addressed to Ms. Nancy M. Morris, Federal Advisory Committee Management Officer, from Damon A. Silvers, Associate General Counsel, American Federation of Labor and Congress of Industrial Organizations.

statement reporting where reasonable people can differ, deference would be given to the well-documented, good faith decision-making of preparers and their independent auditors.

In that respect, we note that, on several occasions, the Progress Report discusses the roles of “auditors and regulators in evaluating judgments” as if they were similar functions and serve the same purpose. We believe that the final CIFIr report should recognize the unique role performed by auditors. Only auditors issue a public opinion on whether the company’s financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the company in conformity with accounting principles generally accepted in the United States. To provide that opinion, auditors must follow audit standards promulgated by the PCAOB. These standards require that the auditor have a “questioning mind” and thoroughly examine the preparation of the company’s accounting records and financial statements. The nature and the true value of the audit process require that the auditor not subjugate his or her opinion to the opinions of others. Thus, a preparer’s decisions should not and cannot be “protected” from the independent auditor. The auditor’s role in reaching an independent view of the financial statements’ compliance with accounting standards is much different than the role of regulators, which focuses on misconduct that constitutes substantive noncompliance with laws, regulations and professional standards, and, in abusive situations, on enforcement.

Auditors also may work contemporaneously with management accountants and audit committees as financial statements are being prepared, so management knows the auditors’ views as early as possible in the process, particularly in complicated situations that may lead to difficult applications of accounting principles. Here too, in order to provide the best advice possible, auditors must be free to question management’s approach and judgments. Nothing in the final CIFIr report should deter this timely and healthy “give and take” process, which we believe improves the quality of financial reporting. We encourage CIFIr to include in its final report appropriate language that promotes the value of frequent, proactive, and candid dialogue among management, the audit committee, and the independent auditors. To this end, we believe that the Committee also should emphasize that the professional judgment frameworks for auditors and for preparers must be developed together, or at least concurrently, in order to ensure that they are consistent, complementary and put in place at the same time.

We also believe that financial statements should disclose more transparently the role that professional judgment plays in connection with material matters. In recent years, in response to calls by the SEC, there have been improvements in disclosures about critical accounting policies and estimates, the key assumptions underlying key accounting estimates, the susceptibility of those key assumptions to change, and other reasonable judgments that might have materially affected the financial statements. Nevertheless, as CIFIr notes in Conceptual Approach 1.F with respect to fair value, additional effort is needed to find better ways to communicate the uncertainties and imprecision inherent in financial statement amounts. While there may be additional data (e.g., statistical confidence intervals) that would assist a sophisticated user, we also believe that

disclosures about uncertainties and imprecision should be simple, straightforward and prominent to help communicate to a broad audience of users and stakeholders.<sup>2</sup>

#### ***Chapter 4: Delivering Financial Information***

##### *Phase-in of XBRL-Tagged Financial Information*

The CAQ also appreciates the invitation to testify before the CIFIr on March 14, 2008, on issues related to the proposed implementation of XBRL. As indicated by Randy Fletchall at that meeting, we support the objectives of enhanced electronic financial reporting to provide better, faster, cheaper and more consistent financial information in order to support more informed business and investing decisions. To facilitate collection and sharing of financial information in a transparent and reliable manner, data tagging appears to be a logical enhancement to financial reporting.

Therefore, we generally agree with CIFIr's proposal regarding XBRL, in particular:

- Mandatory data tagging should be a long-term goal of the SEC.
- The XBRL US GAAP Taxonomy must be validated before the SEC mandates data tagging.
- There should be a phase-in of mandatory data tagging, on a 'furnished' rather than 'filed' basis, beginning with the largest public companies that have sufficient resources to undertake such a mandate and the breadth of investor interest to optimize the benefits of tagged data.<sup>3</sup>
- Notes to the financial statements should only be required to be tagged as block text, but only initially.
- Auditor assurance regarding XBRL tagged data should not be required during the phase-in of mandatory data tagging.
- During the phase-in, the SEC should monitor and seek input from (1) preparers about their experiences and the related costs and (2) investors about their experiences and the related benefits. This would allow the SEC to make an informed decision about whether broadly mandating XBRL is likely to generate benefits in excess of costs.

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<sup>2</sup> The December 11, 2007 letter from the FASB Investors Technical Advisory Committee to Mr. Robert Herz, Chairman, FASB, contains interesting recommendations for disclosures that CIFIr may wish to consider.

<sup>3</sup> In this regard, the Commission may wish to consider assuring that non-accelerated filers are not subject to the concurrent initial implementation of requirements for auditor attestation of XBRL tagged information and for auditor attest requirements under section 404(b) of the Sarbanes-Oxley Act.

The SEC Staff should continue to seek the views of preparers and users regarding the potential mandate, consider this recommendation and other alternatives, and coordinate and align this effort with the IFRS convergence initiative.

Consistent with the implementation of other new technologies and standards, there will be certain challenges associated with implementing and using XBRL for financial reporting. Accordingly, the initial implementation and use of XBRL for financial reporting might not be as effective and efficient as it could become in the future. In order to minimize these inefficiencies and to improve consistency and comparability, it will be important to improve the scope and quality of the guidance available to preparers sufficiently in advance of any mandatory adoption date.

We urge the Commission to provide adequate notice and transition periods before the implementation of any mandatory data tagging within SEC filings. For companies that have not participated in the Voluntary Program, data tagging still might represent an untested technology. Consequently, their personnel will require training; software will need to be created, adapted or purchased to perform the tagging; and consultants or internal financial reporting professionals will be needed to tag the financial information. Accordingly, the transition period should allow companies to make test submissions of tagged data before any mandatory compliance date. In addition, companies should be allowed, but not required, to provide tagged data with respect to filings of prior periods, so as to facilitate research and trend analysis by market participants. Also, we recommend that the SEC require an issuer's first mandatory XBRL submission be its interim financial statements in Form 10-Q, rather than its annual financial statements in Form 10-K, which would require a more extensive effort to tag.

CIFiR has proposed that, during the initial phase-in periods, issuers should be required to furnish only XBRL tagged financial statements, with the financial statement notes each tagged only as block text (e.g., one tag per note). While we appreciate that such an approach would lower the implementation costs of the initial phase-in group, we are concerned that limiting the scope of mandatory data tagging also would limit its benefits to users. Accordingly, even if not initially required, we believe the SEC should encourage registrants to use the XBRL US GAAP Taxonomy to tag information in the notes to the financial statements at a more granular level than block-tagging. In addition, the SEC should consider limiting the block tagging of financial statement notes to the initial year of compliance for each issuer. Such a phase-in of detailed tagging of financial statement notes would spread the implementation costs over two years, while providing market participants more useful information in a relatively short time.

#### Auditor Assurance

We fundamentally believe that independent assurance on XBRL documents would add value by increasing reliability and enhancing public confidence in financial reporting, as it does today. However, we also acknowledge that some, including CIFiR, are concerned that the cost and time incurred to obtain such assurance might outweigh the benefits to preparers and users. While the

extent and subject matter of potential auditor assurance still need to be determined, as discussed further below, concerns that the cost of periodic auditor assurance related to XBRL financial statements might mirror the costs of implementing Section 404 are unfounded and exaggerated. On the other hand, it does not seem likely that the costs of auditor assurance with respect to data tagging, particularly assurance that would provide any meaningful value, would be trivial, as others have suggested. The profession stands ready to engage in a collaborative process with the SEC and the PCAOB to help define an appropriate assurance framework that provides meaningful value to investors.

We do not believe that the Commission should mandate auditor attestation during the phase-in of mandatory XBRL data tagging. Instead, issuers should be able to choose whether or not to engage their auditor to provide assurance of their XBRL submissions. In this manner, the Commission could evaluate the market demand for, and the related costs and benefits of, auditor attestation to XBRL-tagged information. Therefore, we agree with CIFI<sup>R</sup>'s suggestion that the SEC and PCAOB seek input from companies, investors, and other market participants as to the type, timing, and extent of assurance that should be provided after the initial phase-in periods. In addition, the SEC should monitor error rates during the initial phase-in periods in order to assess the reliability of XBRL submissions without independent assurance. During the initial phase-in, disclosures in submissions of tagged data should clearly set forth the issuer's responsibility for the accuracy of the data tagging and the extent of auditor assurance thereon, if any.

At this early stage in XBRL's development and use, the term "assurance" is often used as if auditor assurance would be absolute and undifferentiated. In fact, auditor assurance could take a number of forms and there are several assertions on which an auditor might be able to provide assurance, including but not limited to: whether the data in the XBRL instance document is the same as, or not inconsistent with, in all material respects, the data in the underlying financial statements; whether tags were applied appropriately to elements of the financial statements; whether tags were applied consistently with prior XBRL submissions; and whether any extensions used were reasonable. Of necessity, the level of assurance, the nature of the assertions on which assurance is given, the company process for developing the XBRL documents, and the application of materiality concepts will affect the nature and extent of the auditor's procedures and the associated costs.

In addition, we recognize the possibility of an "expectation gap" regarding the extent of any assurance provided by the auditor with respect to tagged financial statements. Currently, the auditor expresses an opinion on the financial statements "taken as a whole," and not the fair presentation of any individual elements of those financial statements to which tags will be applied. Assurance on XBRL-tagged information could be misinterpreted by investors or the courts as providing assurance not only as to the proper selection and application of the tags but also as to the accuracy and completeness of each tagged item. Notwithstanding the language of the auditor attestation reports regarding the scope, nature and limitations of the assurance provided, it will be important for the SEC and PCAOB to encourage investors to become familiar with the nature and limitations of any

auditor assurance with respect to tagged financial statements in order to effectively manage any potential expectations gap and to prevent any inappropriate liability arising from such assurance.

Improved Corporate Web Site Use

We concur that the SEC should issue guidance to promote the expanded use of corporate websites. As noted in the Progress Report, the role of technology and corporate websites has evolved greatly in recent years and continues to evolve. We believe that companies should be encouraged to enhance information available on their websites and should be provided with guidance that will encourage best practices as well as relieve unnecessary anxiety and inhibitions about potential legal exposure.

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The CAQ appreciates the opportunity to comment on the Progress Report and we would welcome the opportunity to meet with you to clarify any of our comments.

Sincerely,



Cynthia M. Fornelli  
Executive Director  
Center for Audit Quality

Cc: SEC  
Chairman Christopher Cox  
Commissioner Paul S. Atkins  
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