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U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

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RE: File Number S7-11-08 Interactive Data to Improve Financial Reporting

The Center for Audit Quality (the 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 CPAs. 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 consists of approximately 800 member firms that audit or are interested in auditing public companies. We welcome the opportunity to share our views on the Securities and Exchange Commission's (the SEC or the Commission) proposing release, *Interactive Data to Improve Financial Reporting* (the SEC Proposal or the Release).

We support the objectives of enhanced electronic financial reporting to increase the speed and usability of financial disclosure. We agree that the use of interactive data has the potential to cost effectively provide more consistent financial statement information for business and investment decision-making. In addition, the use of interactive data may improve the ability of management and the investing community to effectively access and analyze company reported disclosures.

Mandate Readiness

While we believe the addition of financial reporting based on interactive data is a logical enhancement to financial reporting, and agree with mandatory data tagging, we recognize that there are likely to be some initial implementation challenges. Despite the fact that the SEC has been conducting a voluntary filing program (VFP) for the past three years, there

remains a need to create greater awareness, including a deeper understanding among preparers and users of the benefits and costs of using eXtensible Business Reporting Language (XBRL). A significant number of preparers and users lack familiarity with XBRL and its process implications, and will therefore have to adopt XBRL from a standing start.

The ability of companies to effectively and efficiently submit XBRL-formatted information in accordance with the SEC Proposal will depend upon a number of factors. These factors include, but are not limited to, the availability of user-friendly software solutions that 'enable' preparer efforts based on the recently-released US GAAP Taxonomy; third-party services to assist preparers in adopting XBRL and complying with the SEC Proposal; sufficient training and guidance for preparers; and development of broader capability among users to consume XBRL-formatted information. Preparers will also need to put in place the appropriate resources, processes, and technology. To minimize any implementation inefficiencies and improve consistency and comparability, the guidance available to preparers, such as the XBRL US Preparers Guide, needs to be improved to better address key issues such as company-specific extensions. In particular, the updated EDGAR Filer Manual described in the SEC Proposal should be released for comment in advance of the mandatory adoption dates.

The SEC Proposal states that the Commission plans to utilize validation software to check interactive data for compliance with many of the applicable technical requirements and to help the Commission identify data that may be problematic. The SEC's detailed validation criteria should be released for comment well in advance of the mandatory adoption dates. This would enhance the ability of preparers and other marketplace participants to understand expectations and would promote compliance and confidence in the XBRL-formatted information.

Monitoring During Phase-In

As with the implementation of any new technology and standards, there will be some challenges associated with implementing and using XBRL for financial reporting. Lessons can be learned from the first two phases to allow for modifications before requiring XBRL submissions by all reporting companies.

We believe the SEC should articulate its objectives for the phase-in period at both the preparer and user level. This would not only facilitate the SEC's monitoring efforts, but would also facilitate meaningful public comment, including any proposed adjustments to the implementation schedule, if deemed necessary, and establish criteria to assess costs and benefits in advance of extending the mandate in 'Year 2' and 'Year 3.'

In addition, we believe that the SEC's current cost estimates for submitting XBRL-formatted financial statements and other information may prove to be somewhat optimistic. At this time, there are limited data points and experience to draw upon. For example, detailed tagging, especially that



using the recently-released US GAAP Taxonomy, is largely untested in practice. We suggest that the SEC update the cost estimates as additional information becomes available.

Auditor Involvement

Under the SEC Proposal, there would be no required auditor involvement with the XBRL-formatted information (including 'viewable interactive data') at this time - neither auditor assurance on the XBRL Exhibit nor any consideration by the auditor of such information under AU Sections 550, 711, and 722 ('the AU Sections').

We agree with the SEC's view that the AU Sections are 'not applicable' to the proposed XBRL Exhibit and Viewable Interactive Data, and suggest that the SEC request that the PCAOB issue a communication or an interpretation to this effect. While the SEC Proposal discusses the phase-in and timeline for the required tagging of the financial statements, it is silent regarding the tagging of the auditor's report on the financial statements. We believe that the SEC should clarify that the auditor's report on the financial statements should be excluded from the XBRL Exhibit, consistent with the SEC Proposal which does not require any auditor involvement and to help avoid creating any 'expectation gap' for users.

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 the Commission and the SEC's Advisory Committee on Improvements to Financial Reporting (CIFiR), are concerned that the cost and time incurred to obtain such assurance might outweigh the benefits to preparers and users. The cost of periodic auditor assurance primarily would be a function of the nature of the assurance provided, the registrant's process for developing the XBRL-formatted information, and the nature and extent of the necessary procedures. We believe that periodic auditor assurance could be performed at a reasonable cost. However, we acknowledge concerns regarding the cost of assurance, particularly for smaller public companies. 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 to engage their auditor to provide assurance or other permitted services on their XBRL submissions. In this manner, the Commission could evaluate the market demand for, and the related costs and benefits of, voluntary assurance of XBRL-tagged information. We believe the SEC should monitor the quality and accuracy of the XBRL submissions. For example, the SEC could monitor incidences of validation errors, subsequent corrections of XBRL Exhibits, and inappropriate company-specific extensions during the initial phase-in periods in order to assess the reliability of XBRL submissions.

We expect that a number of issuers will voluntarily seek assurance or other permitted services on their XBRL submissions, and the profession stands ready to meet that demand. As a result, we believe it would be useful for the SEC to request that the PCAOB update the May 2005 PCAOB Staff Questions and Answers (Q&As), *Attest Engagements Regarding XBRL Financial Information Furnished Under the XBRL Voluntary Financial Reporting Program on the Edgar System*, for use beyond the VFP, which would be discontinued under the SEC Proposal. In addition, we believe it would be beneficial for the SEC to include in its final rule guidance and the appropriate protocol for the submission of the auditor's XBRL attestation report when a company chooses to obtain examination-level assurance. In addition, absent an engagement that results in the issuance of a such a general use report, we would expect that the SEC would specifically prohibit reference in the XBRL Exhibit to other forms of reports not intended for general use resulting from other services obtained voluntarily from an independent auditor, e.g., agreed-upon procedures engagements conducted in accordance with AT Section 201 or general advisory services.

Other Matters

Liability Provisions

We are concerned that the SEC Proposal's legal liability provisions, without further clarification, may create confusion and therefore unintended consequences in the marketplace. Absent very clear direction from the Commission in each of these areas, we believe that companies may experience unnecessary costs and delays in the implementation of XBRL.

While the Release provides the Commission's current views on various legal liability considerations associated with the XBRL Exhibit and Viewable Interactive Data, we suggest that the Commission, in the final release and final rule, state its positions as clearly and explicitly as possible, so there can be no confusion, as to: (1) whether or when the XBRL Exhibit and the Viewable Interactive Data would be considered "furnished" versus "filed" with the Commission, and the corresponding liability standards, (2) whether the preparation of an XBRL Exhibit would fall within the scope of "Disclosure Controls and Procedures" (DC&P), as defined in Regulations 13A and 15D under the Securities Exchange Act, (3) whether XBRL Exhibits would fall within the scope of the officer certifications with respect to DC&P as required under Item 601 of Regulation S-K, (4) whether the XBRL Exhibit falls outside the scope of internal control over financial reporting, as defined in Regulations 13A and 15D under the Securities Exchange Act, and outside the scope of the related management assessment and auditor attestation under Section 404 of the Sarbanes-Oxley Act of 2002, and (5) whether underwriters, officers, directors and any other named experts have any liability under Sections 11 or 12 of the Securities Act for XBRL Exhibits or Viewable Interactive Data furnished as part of a registration statement.

In this regard, it may be helpful for the Commission to clarify the interrelationship of 'rendering' and 'liability', and to consider that user-renderings are beyond the control of preparers while preparer-renderings (e.g. PDF format with embedded XBRL, the in-line specification, and others) are within

the control of preparers and therefore may be more akin to the traditional format for purposes of such liability considerations.

In light of the limited liability provisions related to the XBRL Exhibit, in contrast to traditional information that is filed, we strongly believe that the SEC should include a requirement that 'cautionary language' be included in the XBRL Exhibit (and for Viewable Interactive Data on the SEC Viewer) to make these matters clear to users. Such a requirement could be similar to the language used in the VFP (e.g., 'investors should not rely on the XBRL-Related Documents in making investment decisions').

Finally, the legal liability-related matters associated with any general-use XBRL attestation reports issued by auditors and provided voluntarily by preparers will need to be addressed.

IPO Registration Statements

The filing of an IPO registration statement can be a fluid process where an issuer may need to file multiple registration statement amendments or even withdraw the IPO before the filing process has been completed. Subject to the proposed phase-in, we recommend the Commission only require the XBRL Exhibit once the related registration statement becomes effective.

Financial Statement Requirements

We support the Commission's proposal to not require the interactive data submission for other financial statements that may be required of issuers, including those provided pursuant to Rules 3-05, 3-09, 3-10, 3-14 and 3-16 of Regulation S-X.

The Release provides guidance for furnishing an XBRL Exhibit in an amended periodic report in the event of a restatement of previously issued financial statements for the correction of an error. In addition, it indicates that companies would not be permitted to provide the interactive data as an exhibit to a Form 8-K. However, Form 8-K often is used to provide updated financial statements not caused by an error (e.g., a discontinued operation, change in reportable segments, retrospective accounting change). In these circumstances, we recommend that the Commission provide for furnishing an XBRL Exhibit within a Form 8-K that provides updated financial statements.

International Financial Reporting Standards (IFRS)

As part of the monitoring during the phase-in period, the SEC should be mindful of the need to coordinate and align the proposed adoption of XBRL in this instance with any Commission initiative to allow or require the use of IFRS by domestic issuers. In other words, in the event that such IFRS-related rulemaking occurs before a phase-in group of issuers begins mandatory tagging based on US GAAP, the SEC should reconsider the applicable mandatory adoption dates to permit those issuers to begin mandatory tagging based on IFRS.

Ongoing Maintenance of the US GAAP Taxonomy

We recognize the critical importance of the ongoing maintenance of the US GAAP Taxonomy for changes in GAAP and SEC requirements. The SEC's maintenance and support plan, including the mechanism to be used to communicate changes to the marketplace and the plan to fund related costs, should be exposed for comment.

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We appreciate the opportunity to comment on the SEC Proposal and 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:

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