Over 83 years of existence, the Securities and Exchange Commission (SEC) has come a long way in its use of technology. In 1984, the Commission first began building an “electronic library” of company information – the precursor to EDGAR. Five years later, it awarded the first contract to begin building the EDGAR database. In the current era of big data and fintech, the SEC is taking steps to make structured financial data more widely available. A key milestone in that process was the adoption in 2009 of the eXtensible Business Reporting Language (XBRL) filing program, which requires companies to assign machine-readable tags to each part of their financial filings.

The value of XBRL continues to rise for investors and companies, with demand for structured data higher than ever before. As a result, the Commission recently put out a proposal to require so-called Inline XBRL (iXBRL), which unifies companies’ XBRL tags into a single document. It also passed a separate rule this year requiring filers to include hyperlinks to their exhibits on EDGAR.

What will be the impact of these changes? And how could the EDGAR system be improved? We spoke with five industry experts to find out.

The rise of digital tools and fintech is rapidly transforming the financial industry. Gradually, the industry's main regulator, the SEC, is also taking advantage of these new technologies, both for its own benefit and for filers.
The promise of iXBRL

In May, the comment period closed for the SEC’s proposal to make Inline XBRL (iXBRL) mandatory for filers. What do you think would be the main benefits of mandatory iXBRL? Do you think they justify the costs?

We think Inline XBRL would have a multitude of benefits. The first is that with iXBRL, you only have to file one document. Today the human-readable document (HTML) is separate from the computer-readable (XBRL) document. An Inline XBRL document is a single combined HTML and XBRL document. So the Inline system standardizes everything around one set of information.

That eliminates the risk of having differences between the documents, which brings transparency back into the base numbers. So, if I have a number and I’m looking at it on Yahoo! or another service,
and that number has been generated from XBRL, it makes it much easier to go back to the original file to check it. You can always have a link back to the source. I think this is pretty important in an environment where no one is going to read a paper document anymore.

Another benefit is global consistency in reporting. Regulators around the world are moving to Inline XBRL. The European Securities and Market Authority (ESMA) just announced that they’re going to mandate the use of Inline XBRL for securities issued in Europe. It’s already required in Japan. So there is a move toward it worldwide, and that’s a good thing. So if I’m a filer and I’m filing in Inline XBRL in Europe, some of these foreign private issuers also report in the US. It’s nice if they are all using the same filing format.

M. Singh ● We are huge supporters of mandatory use of Inline XBRL, and there are a number of reasons why. We think it will benefit companies and it will benefit users – so we think it will be good for everybody involved. Companies currently have dual filings, so reducing that to a single filing will become beneficial to them. They also have to review both their PDF and their structured data filing currently, and there can be inconsistencies between the two. All of that will be eliminated by having the single filing, so the whole proofing and reviewing process should be greatly diminished.

For investors, obviously it’s going to be very beneficial, because you’ll have reduced inconsistencies between the PDF and XBRL format. That helps our constituency. There are currently quite a few errors, such as the incorrect use of negative values – that’s a big one. There are also scaling errors and the incorrect use of dates. This is low-hanging fruit that I believe Inline can get rid of, to a large extent. Also, having just a single document that is both computer- and human-readable eliminates the need for a viewer, which saves on expenses for users.

E. Huang ● I believe the main benefit of Inline XBRL is to provide a “single version of truth” and could actually reduce filing cost. Filers wouldn’t need to focus on the presentation, since it would be handled by the HTML file itself. I also believe iXBRL could improve data quality and consistency, since the metadata now actually reside side-by-side with the data reported.

Investors don’t care so much about the technical details of XBRL – they want to be able to do trend analysis and peer group comparisons while viewing the HTML filing. I believe the
iXBRL viewer is the perfect place to overlay the trending data and other interesting analytics to get investors to “interact” with the embedded XBRL data. For example, we at idaciti have enhanced the iXBRL viewer to offer trending data. It’s a simple enhancement but provides great value for investors and corporate users.

Mergermarket ● What do you expect will be the biggest costs or stumbling blocks, both for the SEC and filers, if the Inline XBRL requirement is passed?

C. Pryde ● The costs really depend on how you prepare your filings. For a lot of companies, the cost is not going to change at all. As you’ve probably seen, a number of companies have already reported in Inline XBRL during the voluntary time period with the SEC.

So for a lot of companies, the cost is really not going to change at all. They’re already doing it and the requirement just gives them the ability to do it in a different way. There are a number of companies that could have filed in Inline XBRL and just have chosen not to yet.

As for potential stumbling blocks, the SEC wants to know whether companies are prepared to file in this format. So I suppose the main stumbling block would be if there’s a lack of market readiness on the part of vendors. And then once the vendors are ready, filers still need to get up the learning curve and do their own testing.

M. Singh ● When you speak with companies, initially some may be hesitant about Inline XBRL, because there’s always a transition period to something new. They will bear a cost initially, but I think over time, the benefits will hugely outweigh the costs. When I’ve spoken with some of the companies, they seemed to be hesitant about anything new because of their initial transition costs, without looking to the future.

The thing is, we’re treating iXBRL as if it’s something new, when in fact it’s not. As Campbell pointed out, Inline XBRL is being adopted in other countries around the world. It is already being used in the UK very efficiently; it’s being used by the Japanese regulators; and from 2020, it’s going to be used in the European Union as well.

Since most large solution providers already offer integrated disclosure management (single disclosure document that is capable of producing both XBRL and HTML) solutions for clients, I don’t see why this would increase the cost for using their platform/services to provide iXBRL filings. I think the market will again be
focused on cost. If some of the vendors increase their price for producing iXBRL, filers will need to bear those additional costs.

**Mergermarket**

**Beyond Inline XBRL, what do you see as the next major steps to advance the use of structured financial data? Are there any broad areas, or more specific niches, that you think could be improved to produce benefits? (E.g., SEC tools for analyzing the XBRL data)**

**C. Pryde**

There are a few areas under discussion by the SEC for additional reporting with XBRL. One is disclosures required in Industry Guide 3, which is for bank holding companies, and they’ve asked whether this information should be presented in an XBRL format. Two other areas that some would like to see have exportable formats are the quantitative data in the management discussion and analysis (MD&A) section and the proxy statement.

One of the things we’ve also commented to the SEC about on numerous occasions is the idea of having a central data model for all the data that’s collected. So if you’re requesting information from companies, all of which report to the SEC, the idea is that the format should be the same across forms. And that’s not the case today.

So we’d like to see that and have all the information that’s filed be standardized.

Ultimately, the end game is to get other government agencies, be it bank regulators or the Department of Labor or the Bureau of Economic Analysis, to use the same language when requesting information from companies. At the moment, everyone comes up with their own proprietary formats, which puts a lot of extra burden on all involved.

These things always move slowly, but what we’ve set out to do as an organization is to standardize data collection, not just so the SEC reporting will be more efficient, but to create more economies of scale, so that any regulatory reporting regime could be consolidated. A company should only have to report a number to a regulator once and it should be made available to everyone. They shouldn’t have to report it again to another agency.

This is something the Australian government has done, for example – they have something called Standardized Business Reporting, and they’ve basically gotten all the government agencies to agree to standardized terms. In 2014-15 alone, this system saved the government and business an estimated AUS$400m, and that savings was expected to have
“A company should only have to report a number to a regulator once and it should be made available to everyone.”

M. Singh • One section with a lot of useful information is the MD&A section, and if we could have that in a machine-readable format, that would be great. The fact is that an investor doesn’t usually pick up the annual report and read it from page 1 to page 300, right? We like to go in and pick up the bits of data that are relevant for us. If all of that becomes computer readable, it would become much more efficient for us to do our analysis.

Another area that iXBRL does not fix, unfortunately, is the inconsistency between companies when they tag their data. Many filers also overuse extensions, and for that I think you need to go beyond Inline. I am part of the Data Quality Committee established by XBRL US, and we have set up validation rules to pick up errors and inconsistencies, and we are also providing guidance on the use of tagging and extensions. If we really want to clean up the data, I think we need both Inline and the use of what the Data Quality Committee is developing.

E. Huang • I believe the biggest issues of XBRL adoption are (1) widespread non-standard tag usage in the US; and (2) not all critical, essential information is tagged. The extension issue can be resolved by providing additional metadata to link extensions back to base elements (the XBRL US Data Quality Committee is working on this, as Mohini mentioned). But the second issue is actually more prevalent based on what I have learned from corporate users and investment firms. The SEC XBRL only covers the 10-K and 10-Q, and has only mandated that the facing statements and footnotes be tagged. However, the MD&A section is where a lot of important data can be found and it is not tagged (even block-tagged MD&A would be helpful). Also, since the market moves based on earnings releases, they should really be tagged as well. I believe market adoption will happen if XBRL data is comparable and covers all the key areas.
If the SEC’s EDGAR system were a person, it would have reached an important milestone this year: turning 21. In May 1996, the SEC began requiring all public companies to file their financial reporting forms on the electronic database. It has become a widely used tool for investors, financial advisors, and corporate users alike.

In recent years, however, the system has begun to show its age. Beginning in 2014, the Commission kicked off a program to upgrade the database to meet the demands of the modern era, as part of its overall Disclosure Effectiveness project. The question is: What exactly would make EDGAR better?

The SEC’s Office of Strategic Initiatives is leading work on the project. But the Commission has mostly remained quiet about the specific kinds of upgrades in store for EDGAR. In a speech in October 2016, Commissioner Kara M. Stein said, “Our main information reporting system, EDGAR, was a huge leap forward 20 years ago, but it is ancient in tech years. With a limited budget and an ever-evolving market, we may never drive the latest model. We must, however, find a way to keep pace.”

Stakeholder takes
Other stakeholders have weighed in with more specificity. Their recommendations have been both broad and, in some cases, extremely narrow in scope.
A consortium of advocacy groups headed by the American Chamber of Commerce and the Center for Audit Quality wrote a letter to the SEC in May 2015 outlining their ideas for the new-look EDGAR. The groups called for changes that included consolidating the search page onto a single screen; expanding the form search options to have the ability to select multiple form types; and creating a navigation panel to allow users to move to various sections or exhibits in a company filing. The letter included a detailed six-page appendix with screenshots of how the proposed changes could look.

Last year, the SEC’s Investor Advisory Committee sent a letter to the Division of Corporation Finance that touched on EDGAR modernization as well. The Committee emphasized that changes to the system should focus on improving usability for investors.

“Data tagging, improved search functions, document dissemination, use of hyperlinks as cross-references, and incorporation of material from issuer websites are all areas worthy of focus,” the Committee wrote in June 2016. “We are generally supportive of a policy that avoids duplication of information and encourages the use of cross references.”

**What users say**

Industry professionals who regularly use EDGAR have relatively modest expectations for how the system could be changed. Like the Investor Advisory Committee, some emphasized the importance of making EDGAR more useable for retail investors.

“When it comes to investors who are not specialists, who don’t use the SEC website on a day-to-day basis, I think EDGAR is much more of a challenge for them,” said Taavi Annus, a St. Louis-based corporate partner at Bryan Cave. “There is a large online manual that explains it all, but is that really what we want investors to have to do?”

Mohini Singh, director of financial reporting policy at the CFA Institute, said that various improvements could be made to EDGAR, including to the search function. However, she said users should not expect the SEC to add highly sophisticated new tools such as those available from private companies. “We don’t expect them to become like the data providers, because that’s not their mandate,” Ms. Singh said. “We would like more granular information and to be able to search for information more clearly. But ultimately, they are regulators and not providers.”

Nonetheless, even some in the data provider community believe changes are warranted. Emily Huang, co-founder and CEO of business intelligence platform idaciti, said she thinks the user interface needs a “major overhaul” to make it useful for all interested parties.

**Staying online**

Perhaps the most significant issue faced recently by EDGAR is much more mundane: It hasn’t always been available to users at all. Jay Knight, a Nashville-based member of Bass Berry Sims who served for five years in the SEC’s Division of Corporation Finance, noted that the
system’s stability and accessibility should be a continued priority of the Commission.

“It seems EDGAR has been down on an increasing basis lately,” Mr. Knight said. “I think the EDGAR staff has always done a great job of keeping it secure and maintaining it, but given the prevalence of cybersecurity breaches in today’s environment, continued vigilance is needed to ensure the structure is active for both issuers and investors.”

“We would like more granular information and to be able to search for information more clearly. But ultimately, they are regulators and not [data] providers.”

● Mohini Singh, CFA Institute
On March 1, the SEC approved a new rule requiring registrants to include hyperlinks to each exhibit listed in the index of their filings. How impactful do you think this requirement is for investors? And what are the biggest challenges involved for filers?

I think it will be very user-friendly for investors to obtain the exhibits through hyperlinks. Currently, if investors use EDGAR at all, they have to click through various filings and be pretty familiar with the system’s structure to find what exhibits they’re looking for. So I think this is an easy tool to help investors if they’re looking for a particular agreement, or the charter or the bylaws. For some exhibits, like a registration statement or a Form 10, it will greatly facilitate investors’ ability to click on that directly instead of having to go find some document that’s been incorporated by reference to another filing.
As for the impact on filers, I think initially it will take time to figure out who is actually responsible for finding the web addresses and implementing the rule. Is it going to be the lawyers? The financial printer? Will it be the in-house counsel or finance director? I think it will just take a bit of time for each company to figure out how they would like to implement it. So there will be some upfront time involved, but I think once the structure is set in place, it should be relatively straightforward, because you’re just adding individual exhibits.

T. Annus

On the investor side, I don’t predict this having a huge impact. But I do think it will help on the margins. The reason is that there is no substantive additional information that is required to be disclosed. It is a technical rule to make it easier to access information – it will help to keep down the cost of finding information about companies that investors are interested in. Instead of trying to figure out where an exhibit is, the investors and their advisors can access those documents much more quickly. I’m certainly not saying hyperlinks are useless. However, I would say that the SEC’s plans regarding improving disclosure effectiveness, which should be much more substantive, are likely to have a bigger impact on investors.

On the company side, I also don’t expect there to be a major impact. The rules are clear that even if you don’t get the hyperlinks right, the filing is not deemed materially deficient and it does not impact the eligibility to file the Form S-3 short-form registration statement. That being said, every filer will now have to deal with certain challenges in connection to the hyperlinks rule. Someone will need to get familiar with how the hyperlinks work and how to quickly insert them, for example, if the filing needs a last-minute change. In order to proofread the filing, a second set of eyes should be able to make sure the hyperlink was inserted properly and check that they are correct.

One other issue companies will face is handling older documents. An exhibit needs to link to the document where the exhibit is filed initially. In older documents, exhibits often weren’t filed separately, but were just part of one large text file, and there isn’t really a good way to link to the exhibit other than to this very large file. Similarly, companies often file documents such as an equity incentive plan as an appendix to a proxy statement, which is not a standalone exhibit that can be easily linked to. But those are all technical matters. There is essentially no impact on what these companies substantively disclose.

“I think it will be very user-friendly for investors to obtain the exhibits through hyperlinks.”

Jay Knight, Partner, Bass Berry Sims
Do you think the final rule governing hyperlinks went far enough? Do you think other information in company filings should be required to be linked to electronic exhibits/source files?

I do think the use of additional hyperlinking should be explored further. There is a great deal of information that could be hyperlinked in a particular filing, whether or not it’s a Securities Act registration statement that’s incorporating Exchange Act filings such as the 10-K and Qs. And I do think there are more hyperlink opportunities for issuers that would not be a significant burden and could provide a lot of benefit to investors.

At the same time, I think we have to be careful not to make the documents so complex that the benefit to investors becomes outweighed by the cost of companies trying to hyperlink absolutely everything in the document. You don’t want it to become too complex, because documents can lose readability at times if the hyperlinking is taken to the extreme.

There is also this overlay of the disclosure reform project that the Commission has been undertaking in recent years to try to improve disclosures for investors. I think this idea would fall under that framework.

It has been discussed whether there are other parts of the filings that companies should add hyperlinks to. But the advantage of limiting hyperlinks to the exhibits is that any hyperlinks would be to another SEC filing, so they’re part of a closed system that does not change. If you start adding hyperlinks to any kind of outside sources, then there is a major risk that those hyperlinks will become out of date or inaccurate, or will be deleted and the hyperlink will take you nowhere. Thus, any hyperlinks outside this closed SEC system carry two types of risk for the companies.

The first is an investor-relations risk, if investors can’t find what they are looking for or if something is incorrect. But then there’s also liability risk. If something links to an updated page, a company could be making misleading disclosures. What could be done, as Jay mentions, is to add hyperlinks to other sections of the SEC filing that do not link to outside sources. The documents often have cross-references to other sections, for example, or the document may have references to other SEC-filed documents. That could potentially be a place where companies could add hyperlinks.
The average time burden for a registrant to hyperlink to exhibits for Forms 10-K and 20-F, according to an SEC estimate.

The percentage of HTML filers that included at least a partially hyperlinked exhibit index in their filings from October 2015 to September 2016.

The median number of exhibits listed in the index of Form 10-K, according to an SEC study of 146 random filings.

Source: “Exhibit Hyperlinks and HTML Format,” Securities and Exchange Commission
Capital Markets

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