

- ▶ XBRL won't be the same as the upheaval caused by SOX
- ▶ Information that companies already have will be tagged
- ▶ First-time jitters are justified, but practice will make perfect
- ▶ Staggered phase-in gives small companies more time
- ▶ Questions remain regarding potential data-tagging quagmires

By Howard Berkenblit

# Nothing to fear in XBRL

When Congress passed the Sarbanes-Oxley Act six years ago, many corporate managers dreaded its approach, sure SOX would be costly and time-consuming. Now the SEC, which oversees SOX, has introduced another proposal to promote transparency of corporate finances. This time, however, any fears are probably unfounded.

The proposed SEC rule would require US-listed companies to provide financial information using interactive data formatted in extensible business reporting language (XBRL) starting in 2009. Companies would apply tags – similar in function to bar codes – to the data in their financial statements to make them more accessible to investors, analysts and others.

Unlike SOX, this won't require a massive overhaul impeded by regulatory hurdles. The SEC just wants information in filings to be more user-friendly.

But companies will have compliance costs – \$30,000, based on a pilot program of 70 companies going back to 2005 – and face a laborious process the first time they enter data, after which tagging should become routine.

Fortunately, the SEC is proposing a gradual phase-in. The approximately 500 largest companies – with a public float of over \$5 billion – would need to comply for fiscal periods ending in late 2008. The first interactive data would be disclosed in early 2009. Other large companies would need to comply in the second year, and mid- and small-cap companies the next year. Companies using international financial reporting standards (IFRS) would provide disclosure for fiscal periods ending in late 2010.

For now, the tags would only apply to primary financial statements, notes and schedules. The SEC expects to

add interactive data to other areas later on, like executive compensation. Companies should also have interactive information posted on websites.

The proposal, expected to be approved this fall, is a shift for the SEC, which has lately been focused on crafting rules in reaction to corporate abuses. With XBRL, it is taking a more proactive stance in bringing 21st century technology to outdated reporting mechanisms.

Preparations should begin early even though the proposal allows for a 30-day grace period the first time a company files. If it fails to submit data tags, its filings are considered incomplete. That restricts the company's ability to raise capital and shareholders' ability to liquidate investments. Incomplete filers are prohibited from using a Form S3 – the most efficient form for companies to raise public capital – until data tags are in.

SEC chairman Christopher Cox claims XBRL will 'revolutionize' corporate disclosures for investors. Perhaps, although it's unlikely the average individual investor will make much use of it.

Meanwhile, some important questions remain unanswered. What happens if a company tags its data incorrectly? After all, to enable apples-to-apples comparisons, the apples must be in the right place. And what about amendments and liability if tags are misplaced?

For now, companies should make their best attempts at data tagging and pay attention to XBRL's evolution.



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