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SEC Adopts Mandatory Inline XBRL

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The SEC has adopted **new rules** mandating the use of Inline XBRL (eXtensible Business Reporting Language) for the submission of financial statement information. Part of the SEC's disclosure modernization initiative, the amendments are expected to "reduce the time and effort associated with preparing XBRL filings, simplify the review process for filers, and improve the quality and usability of XBRL data for investors, market participants, and other data users."

Currently, companies are required to provide the financial statements and schedules accompanying their Exchange Act reports and Securities Act registration statements in "structured" format using XBRL. Information is "structured" (or made machine-readable) by labeling (or "tagging") the information using XBRL so that it can be processed by software for comparison and analysis. Currently, companies submit their XBRL data in Interactive Data Files that are included as exhibits to their reports and must post these data files on their websites and keep them posted for at least 12 months. Inline XBRL allows data tagging to be embedded directly in the text of an HTML document and is both human- and machine-readable for purposes of validation, aggregation and analysis. Under the new rules, because the XBRL information is embedded in the filing, the exhibit would comprise only additional contextual information about the XBRL tags. Moreover, the SEC has eliminated the website-posting requirement, a change that the SEC estimates will, by itself, decrease the aggregate average yearly burden on operating company filers by a surprising 33,260 hours. (Note that this change regarding the elimination of the website posting has also occasioned the need for a change to the cover pages of periodic reports.).

In June 2016, the SEC began a voluntary program allowing companies to file structured financial statement data using Inline XBRL. Under that program, as of May 21, 2018, over 500 filings had been submitted by more than 100 filers. The progress of this sample suggested that a wider use was feasible. The SEC expects Inline XBRL will help issuers by reducing preparation time and effort, eliminating the duplication involved in creating a separate exhibit, giving the preparer "full control" over the presentation, reducing inconsistencies and improving quality as a result of the integrated process and, over time, reducing the cost of compliance. Nevertheless, the SEC recognizes that the initial costs may be higher, particularly for the few companies that currently file their reports using the ASCII format and will need to switch to the HTML format. For viewers of the data, Inline XBRL is expected to enhance usability through greater accessibility and transparency, as well as improved capabilities, allowing users to make broad comparisons and discern patterns among filers. For example, the SEC contends that because "Inline XBRL filers will have less of an incentive to create custom XBRL tags solely to mimic the appearance of an HTML filing, Inline XBRL could increase the ability of investors, other market participants, and other data users to compare information across filers for those filers that currently engage in such tagging practices." In addition, tools such as the open source Inline XBRL Viewer are available to help filers more readily filter and identify errors and to help the public review and analyze XBRL data more efficiently.

The new rules for Inline XBRL, which become effective 30 days after publication in the *Federal Register*, will have a three-year phase-in:

- For large accelerated filers that use US GAAP, compliance will be required beginning with fiscal periods ending on or after June 15, 2019 (for calendar year-end domestic filers, the Form 10-Q for the quarter ending June 30, 2019).
- For accelerated filers that use US GAAP, compliance will be required beginning with fiscal periods ending on or after June 15, 2020 (for calendar year-end domestic filers, the Form 10-Q for the quarter ending June 30, 2020).
- For all other filers, including foreign private issuers, compliance will be required beginning with fiscal periods ending on or after

June 15, 2021 (for calendar year-end domestic filers, the Form 10-Q for the quarter ending June 30, 2021).

To ease the transition, companies will be required to comply beginning with their first Form 10-Q filed for a fiscal period ending on or after the applicable compliance date. In other words, a company that files Forms 10-Q will not become subject to the Inline XBRL requirements with respect to Form 10-K or any other form until the company has been required to comply with the Inline XBRL requirements for its first Form 10-Q for a fiscal period that ends on or after the applicable compliance date shown above. Early compliance is permitted; however, EDGAR is not expected to be ready to process Inline XBRL until March 2019. As a result, filers that want to comply before then may need to look to an earlier **exemptive order**. (Note that the new rules also require the use of XBRL for mutual funds, not addressed in this Alert.)

The amendments do not change the categories of filers or scope of disclosures subject to XBRL requirements. Similarly, while Inline XBRL is subject to disclosure controls, the XBRL data continues to be excluded from officer certifications and audit assurance. Although not required, companies would be permitted to indicate in the financial statements the level of auditor involvement (or absence of involvement) related to the financial statement information XBRL data.

Observations and commentary

- The SEC acknowledged that some companies may "incur an increased burden" if their filings contain a "major technical error in the XBRL data." Currently, if filings contain a major technical error in the XBRL data submitted in an exhibit, EDGAR causes the exhibit to be removed from the submission, but the submission as a whole is not suspended. With Inline XBRL, the EDGAR validation system would suspend a filing that contains a major technical error in embedded XBRL data, which would require the filing to be revised before it could be accepted by EDGAR. However, the staff believes that, with available tools to help identify and correct technical errors, these types of errors would be rare.
- The SEC recognized that, since the XBRL requirements were initially adopted in 2009, observers have expressed concerns "regarding the quality of, extent of use of, and cost to create XBRL data." For example, the proposing release identified several recurring errors – such as errors related to the characterization of a number as negative when it is positive, incorrect scaling of a number (e.g., in billions rather than in millions), unnecessary taxonomy extensions ("custom tags"), incomplete tagging (e.g., a failure to tag numbers in parentheses) and missing calculations that show relationships between data (e.g., how subtracting cost of revenue from revenue equals gross profit) – that have affected the quality of the data and its potential use by the public and SEC staff. While the SEC acknowledges that changes resulting from the use of Inline XBRL "will not resolve all XBRL data quality issues," the SEC believes "that the benefits of potential reduction in certain errors from Inline XBRL, although incremental, may generally contribute to future improvements in XBRL data quality, especially when used in conjunction with tools such as the Inline XBRL Viewer." For example, the SEC believes that elimination of the need to create and "re-key" a separate exhibit with tagged information may mitigate some of these quality errors.
- The SEC has observed that, with the commencement of the voluntary Inline XBRL pilot, "not only is the public using the Inline XBRL data, but some data users have also made enhancements to the [SEC's] open source Inline XBRL Viewer. These enhancements, such as creating instantly human-readable time series charting, may help to make the XBRL data even more useful. For example, using these enhancements, a user can hover over the revenues element of a filing and instantly view the latest two years of reported revenues for that filer, or hover over a narrative element and instantly view the latest two years of text reported for that element by that filer."
- Some commenters and studies have indicated that use of XBRL data has been limited, in part due to data quality concerns. However, the SEC contends that XBRL has been widely used by investors, financial analysts, economic research firms, data aggregators, academic researchers, SEC staff and companies seeking information on their peers for benchmarking purposes. The SEC reports that, during the second quarter of 2017, individual XBRL exhibits were accessed on EDGAR approximately 53.1 million times (including approximately 13.7 million unique filing views by approximately 149,000 unique IP addresses, which, the SEC claims, is the approximate equivalent of 287 exhibit views and 74 unique filing views for each filing with financial statement information XBRL data during the quarter).
- At the open meeting to consider adoption of the new amendments, Commissioners Kara Stein and Michael Piwowar expressed almost unbridled enthusiasm for these new rules. Commissioner Stein observed that the change would not only modernize data

collection and improve transparency and accessibility, but also shift the focus "from documents to data." Commissioner Piwowar asserted that the new rules should not add appreciably to compliance burdens and expected that this rulemaking would result in further cost reductions. Commissioner Robert Jackson indicated that he appreciated that the use of this technology would make more accessible the type of information that was "public, but hidden," that is, public information that is otherwise accessible only to a select few. The only naysayer in the bunch was Commissioner Hester Peirce. She disapproved of "privileging" one form of technology over competitors. She also noted that the uptake in the voluntary program had been minimal, leading her to question the wisdom of making it mandatory for all. In particular, she was not convinced that either this tool or this timeline were appropriate across the board and argued that the SEC should have made Inline XBRL voluntary for smaller companies. That view is consistent with concerns expressed by others about the costs associated with XBRL requirements generally, particularly for smaller filers. For example, the SEC Advisory Committee on Small and Emerging Companies has previously recommended that the SEC provide an exemption for smaller reporting companies from the XBRL requirement in light of the disproportionate cost and time burden that compliance with financial statement information XBRL requirements imposes on smaller filers.

On the horizon

The SEC has advised that it expects to continue to monitor industry practices and market developments in disclosure technologies. If the SEC identifies a more efficient or less costly standard or technology that would provide comparable benefits, the SEC indicated that it would evaluate whether changes "are appropriate, including, without limitation, designating another reporting standard as an alternative to Inline XBRL for some or all aspects of the rule."

If you have any questions about this Alert, please contact one of your Cooley team members or one of the attorneys identified here.

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