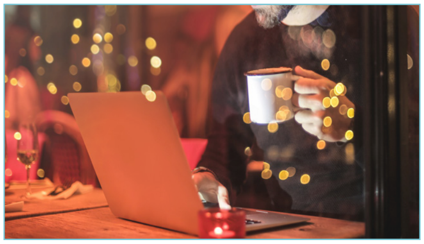
Vol. 2020, No. 4

DIMENSIONS

IN THIS ISSUE

Critical tipping point for XBRL: Usage by all SEC stakeholders expanding



COVID-19 infects M&A with complications

RECENT DEVELOPMENTS

View from the Big Four: XBRL gives your company a competitive advantage

TOPPAN
TOPPAN MERRILL

EXPAND POSSIBLE

Critical tipping point for XBRL: Usage by all SEC data stakeholders expanding

By *Dimensions* staff

The use of XBRL-tagged data in SEC financial disclosures is becoming the norm for the collection and analysis of financial data. During the last year, we have seen increasing use at the SEC, with several divisions incorporating XBRL data into their routine work, and at financial data consumers (e.g., Moody's, Goldman Sachs, CFA Institute, hedge funds) who are realizing value from these file feeds. It is time for companies to step up and fix any remaining problems with their XBRL tagging.

The importance of XBRL quality goes far beyond SEC compliance. Without quality data tagging, companies lose control of their public financial narratives—control that is more important now than ever in an online age of fast judgment and "cancel culture." Clumsy XBRL tagging may inadvertently prompt bad investment decisions by investors or their advisors, leading to lawsuits. Moreover, companies that do not have expertise in mining XBRL data about their industries may fall behind their peers who do.

These and other important observations are the theme of a recent Toppan Merrill webinar: *XBRL Use Reaches The Critical Tipping Point*. Three experts from different aspects of the XBRL sector spoke about the turning point that digital financial reporting has reached.

- **Leslie Seidman**, former chair of the Financial Accounting Standards Board (FASB) and now a board member at General Electric and Moody's. Ms. Seidman outlined why companies, for their own good, need to address lingering issues with XBRL quality.
- **Emily Huang**, CEO and co-founder of idaciti. Ms. Huang discussed how XBRL brings a company's financials to life and how companies and data users can employ XBRL to conduct robust disclosure research.
- **Mike Schlanger**, Vice President of Solution Sales at Toppan Merrill. Mr. Schlanger reviewed the history and progress of XBRL disclosure and explained why the use of XBRL data is now at a "critical tipping point."

XBRL financial reporting is at a "critical tipping point"

Mike Schlanger, Toppan Merrill's VP of Solution Sales, gave a brief history of XBRL use in the United States, where the SEC began mandating XBRL tagging in 2009. He covered the transition from paper filings to interactive structured data to Inline XBRL, which combines the benefits of human-readable and machine-readable formats.

"Each year since the XBRL mandate began in 2009, there have been signs of increasing XBRL usage," he observed. Now, "there are unmistakable signs that XBRL use is at or near a critical tipping point that can lead to a dramatic expansion of use in the marketplace." In other words, XBRL quality is not just a matter of compliance for companies but a necessity for being properly understood by investors and analysts in the market.

Of course, the compliance aspect of XBRL quality remains vital. "The SEC has 100% coverage of all SEC reporting companies, being able to access hundreds of metrics to slice and dice and mash and combine the information. Whether you are the smallest company or the largest company, they can see instant results of that data from the use of XBRL. They [fulfill] information requests from the IRS, the Treasury, and Congress."

He further noted that within the SEC, key divisions are realizing significant benefit from the XBRL filings. For example, several SEC professionals report that most financial disclosure fraud investigations at SEC Division of Enforcement begin with XBRL data. "It facilitates the organization of hundreds of metrics to conduct trend analysis research on company disclosures by size of company, by peer group, by individual values and metrics—looking for outliers, identifying required disclosures (or their absence), and much more."

With poor XBRL quality, everyone loses—especially the filers

Leslie Seidman has chaired the Financial Accounting Standards Board (FASB), which develops and maintains the US GAAP taxonomy, and now sits on the board of directors at GE and Moody's. She presented a sobering reality check on XBRL quality, warning that companies must step up and fix remaining XBRL issues or risk losing control over their own financial narrative. "Companies are wrong if they think that their XBRL files are not being used today." Investors, analysts, and peer companies can search for XBRL-tagged financial data "almost as fast as you can think of it."

She suggested a "powerful analogy" to argue the case for XBRL quality: "When you are traveling on a highway, you almost never want to use the cash lane for tolls anymore. That is because the automated EZ Pass lane saves you time and money. But what if it frequently had problems? What if it often charged you the wrong amount? Or the toll gates got stuck? You might decide to stick with the cash lane even though it takes longer. Unfortunately, we still have some of those glitches with XBRL."

The key issue behind those XBRL glitches is insufficient data quality. "My key message today is that companies have to make it a priority to address

*

XBRL QUALITY IS NOT JUST A MATTER OF COMPLIANCE BUT A NECESSITY FOR BEING PROPERLY UNDERSTOOD BY INVESTORS AND ANALYSTS IN THE MARKET

the remaining data-quality issues. We do not tolerate mistakes in our traditional financial statements. Now, with Inline XBRL, your traditional financial statements and your XBRL financials are one and the same. The accuracy of your financial information has to be consistent, no matter how it is being provided to the marketplace." Mistakes in XBRL disclosures, whether standard or Inline, carry the same liability as in other disclosures in filings.

The risks of poor-quality XBRL data, she concluded, fall mostly on the filing companies themselves. She urged filers to address errors in their XBRL data "before they have a major problem with investors relying on inaccurate data, which then might lead to an enforcement action or lawsuits or both."

Her vision for the future of digital reporting is that everyone focuses on the accuracy of the machine-readable tagging. "If you add that to the great technology available to easily use and interpret XBRL data, then everyone will want to use it, like the EZ Pass lane. We will have a lot more time to focus on analysis and insights, rather than wasting time and money obtaining and processing data."

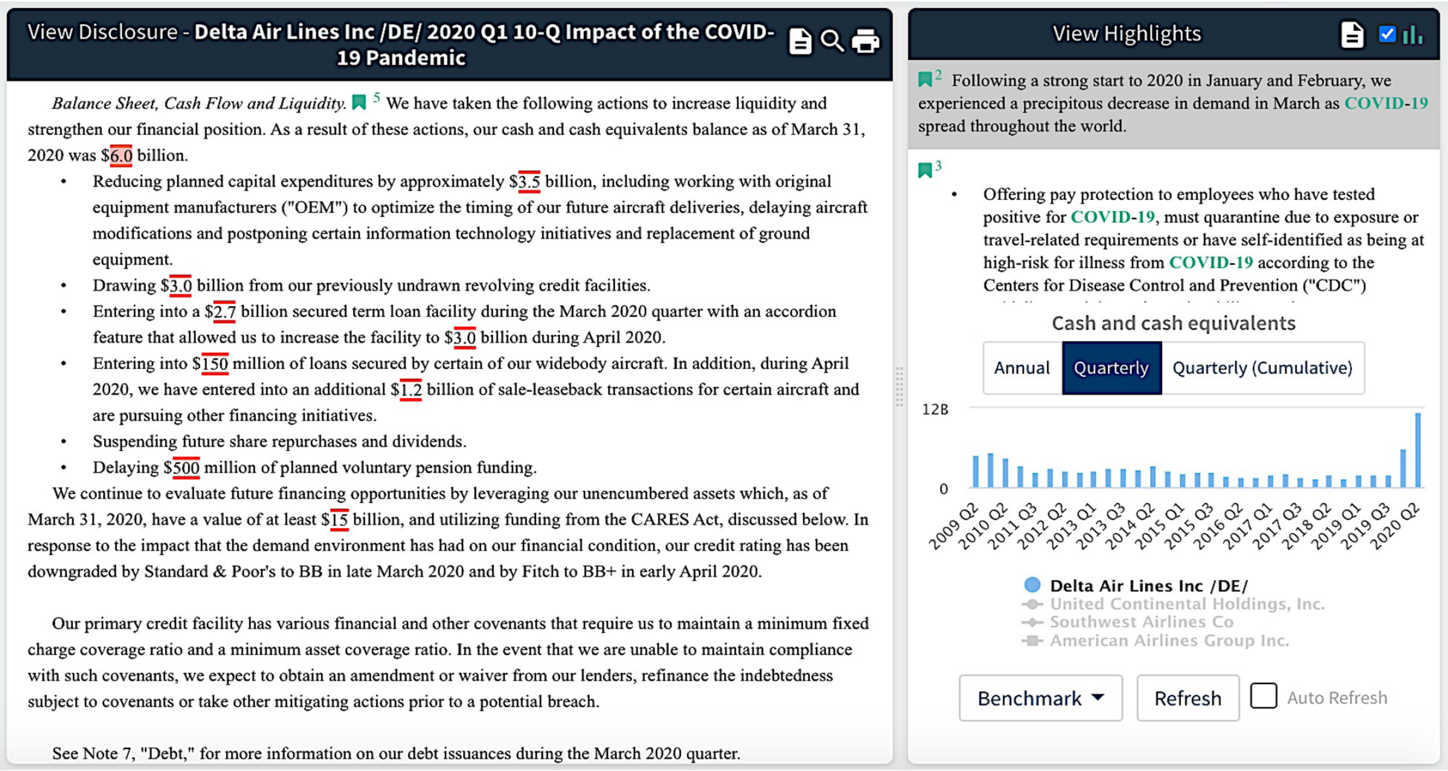
Using XBRL, following a peer's disclosures is "like checking social media"

Emily Huang is the CEO and co-founder of idaciti, which creates applications for analyzing structured data and which processes Inline XBRL filings from the SEC every 10 minutes. Ms. Huang illustrated how XBRL brings a company's financials to life in the platform that investors and analysts now use to research and analyze the information.

Companies, she observed, want to know what other companies are doing and how and where they disclose information. "XBRL data is a great way to follow the disclosure of your peers." With the speed and ease of its data access, Inline XBRL makes this vigilance quite convenient. "I can check it just like social media."

XBRL-related information on peers—how many other companies use that data point, what the labels are, and what the definitions are—is available immediately, directly from SEC.gov. With XBRL data, the ability to benchmark and compare financial information across a sector is extremely valuable. A screenshare of Inline XBRL demonstrates how you can immediately compare a company's financials to others in its industry.

The following graphic shows Delta's COVID-19 cash position. Ms. Huang calls this "connecting the dots" and notes that a "mere click on one iXBRL tagged value provides the viewer an 11-year time series view, along with instant benchmarking with its peers — all directly from SEC.gov."



View Disclosure - **Delta Air Lines Inc /DE/ 2020 Q1 10-Q Impact of the COVID-19 Pandemic**

Balance Sheet, Cash Flow and Liquidity. [5] We have taken the following actions to increase liquidity and strengthen our financial position. As a result of these actions, our cash and cash equivalents balance as of March 31, 2020 was $6.0 billion.

- Reducing planned capital expenditures by approximately $3.5 billion, including working with original equipment manufacturers ("OEM") to optimize the timing of our future aircraft deliveries, delaying aircraft modifications and postponing certain information technology initiatives and replacement of ground equipment.
- Drawing $3.0 billion from our previously undrawn revolving credit facilities.
- Entering into a $2.7 billion secured term loan facility during the March 2020 quarter with an accordion feature that allowed us to increase the facility to $3.0 billion during April 2020.
- Entering into $150 million of loans secured by certain of our widebody aircraft. In addition, during April 2020, we have entered into an additional $1.2 billion of sale-leaseback transactions for certain aircraft and are pursuing other financing initiatives.
- Suspending future share repurchases and dividends.
- Delaying $500 million of planned voluntary pension funding.

We continue to evaluate future financing opportunities by leveraging our unencumbered assets which, as of March 31, 2020, have a value of at least $15 billion, and utilizing funding from the CARES Act, discussed below. In response to the impact that the demand environment has had on our financial condition, our credit rating has been downgraded by Standard & Poor's to BB in late March 2020 and by Fitch to BB+ in early April 2020.

Our primary credit facility has various financial and other covenants that require us to maintain a minimum fixed charge coverage ratio and a minimum asset coverage ratio. In the event that we are unable to maintain compliance with such covenants, we expect to obtain an amendment or waiver from our lenders, refinance the indebtedness subject to covenants or take other mitigating actions prior to a potential breach.

See Note 7, "Debt," for more information on our debt issuances during the March 2020 quarter.

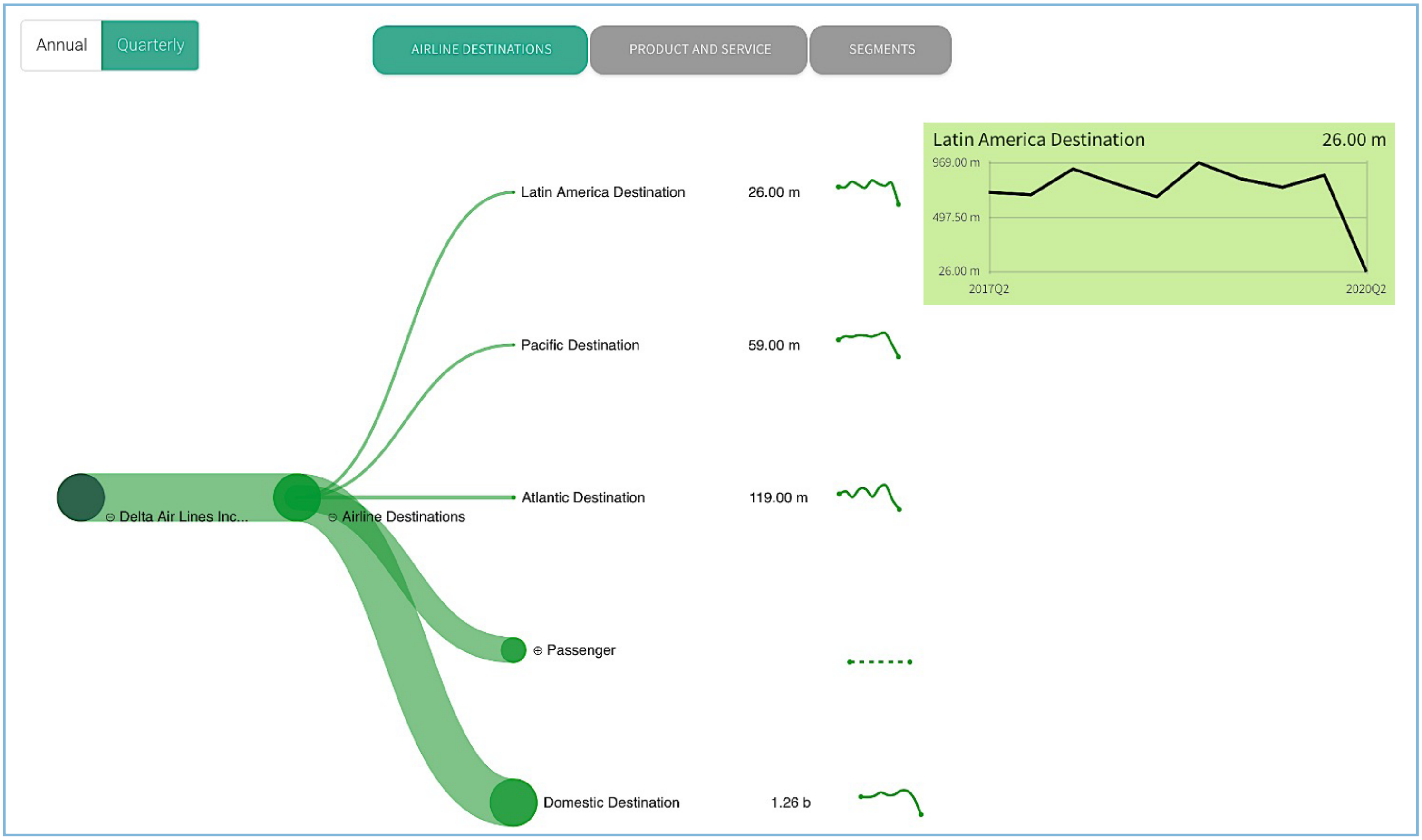
View Highlights

[2] Following a strong start to 2020 in January and February, we experienced a precipitous decrease in demand in March as COVID-19 spread throughout the world.

[3]

- Offering pay protection to employees who have tested positive for COVID-19, must quarantine due to exposure or travel-related requirements or have self-identified as being at high-risk for illness from COVID-19 according to the Centers for Disease Control and Prevention ("CDC")

Another use of XBRL-tagged data in a search is this graphic showing Delta's revenue by destination.



Ms. Huang also used examples from her firm's Inline XBRL viewer to show how clear a bad XBRL tag or extension is to investors and analysts. "I do believe corporate issuers really care about the quality of their filing," she said. "But sometimes they do not even know problems exist. The good news is that XBRL validation is available from any of the vendors out there supporting XBRL filings."

"...YOU HAVE TO RECOGNIZE THAT NOT ALL DATA IN FILINGS CAN BE COMPUTER-VALIDATED."

Validate, but verify

Mr. Schlanger explained the validation resource made available to filers by the XBRL US Data Quality Committee. This tool is free and has effectively been sanctioned by the SEC (the Data Quality Committee rules are being embedded into the US GAAP Taxonomy).

"However," he cautioned, "you have to recognize that not all data in filings can be computer-validated. Human inspection using accounting knowledge and an understanding of how XBRL is properly constructed is critical."

The question of whether or not to use an extension, for example, is often too subjective for adjudication by a computer. "You need human intelligence. So work with vendors or your team to make sure that you are conscious of what the computer can and cannot do. Have your filing reviewed by human experts who can catch any other tagging errors or needless extensions and suggest improvements."

Citing, as an example, one common type of XBRL error—wrong signage, Mr. Schlanger noted that the instances of that error detected by the Data Quality Committee's validation tool has shrunk from some 23,000 to around 5,000. Yet that figure has stubbornly remained at 5,000. "This means a number of companies are still not using the validation tool, or they do not know how to clear the errors."

He reminded filers that they are liable for errors in SEC-filed XBRL financial data—and that a much bigger concern is also at stake. "The larger issue is how XBRL errors throw sand in the data-consumption engine. You do not want inaccurate financial reporting in your professional position. But if you are making errors in XBRL tagging, that is the consequence. Those errors could lead to bad investment decisions."

"Additionally, the SEC has emphasized that they view repeat XBRL-quality offenders as possibly having insufficient controls in place, which can lead to SEC professionals conducting a deeper review of a company's process and controls." He reiterated the importance of having a team that has your back with expertise in both accounting and XBRL.

Key conditions for realizing XBRL's full potential

The webinar closed with some hard-hitting truths that must be acted upon for XBRL to achieve its full potential. First, Ms. Seidman said, is lingering poor data quality. "If we do not have accurate data, people will be reluctant to use it—and for good reason. It is a 'garbage in, garbage out' situation. If your tags are not correct, you are going to have misleading conclusions coming out of all that beautiful technology."

She called upon corporate accountants and other filing professionals to deepen their XBRL proficiency. In her view, it is essential for accounting and XBRL knowledge to be integrated so that the people who are doing the tagging know GAAP. "I am very well aware that XBRL tagging is not one of the core competencies of most accountants, including me, and that really does need to change with more training."

She pointed out the imperatives—compliance, communication, and company reputation—for investing company staff time to ensure that XBRL disclosures are right, instead of solely relying on an outside vendor.

All of this comes down to everyday decisions by filers. "When you use a nonstandard tag or an extension when an appropriate standard tag exists, what you are doing is complicating the analytical process for users—as Mike Schlanger said, throwing sand in the gears."

"The result is that similar things do not look similar between companies, meaning a user can reach the wrong conclusion about one or both of you. This can also signal that your company has poor controls or processes. It may even raise questions about whether you are intentionally mis-tagging."

"IT MAY EVEN RAISE QUESTIONS ABOUT WHETHER YOU ARE INTENTIONALLY MIS-TAGGING."

COVID-19 infects M&A with complications

Abstracted from: *M&A Amid The Coronavirus Crisis*
By: Mark Director, John Pollack, George Stamas, and Pavel Shaitanoff
Gibson Dunn & Crutcher, Washington DC and New York NY
Insights: Corporate & Securities Law Advisor
Vol. 34, No. 4, Pgs. 22-25

COVID-19 nervous breakdown. The swiftly spreading coronavirus has greatly disrupted the M&A market. Nevertheless, observe attorneys Mark Director, John Pollack, George Stamas, and Pavel Shaitanoff, strategy, opportunity, and urgency are still driving deals, albeit with many new concerns. Purchasers and sellers should carefully negotiate material-adverse effect or material-adverse change (MAE/MAC) clauses that expressly allocate COVID-19 risks. The clauses could exclude those risks altogether or state quantitative or qualitative impacts of the disease—monetary, operational, or both—that would constitute an MAE/MAC.

Pre-pandemic clauses, which would naturally be silent on COVID-19, might generate serious disputes. Termination rights and fees have always been—and now should be even more—intensely negotiated. A termination provision with an "outside date" ceases to be routine, since such closing conditions as consents from third parties, agreements with lenders, and approvals by government agencies (particularly the SEC) could be much harder or take much longer to obtain than before the pandemic. For example, the early-termination alternative for antitrust review under the Hart-Scott-Rodino Act is on hold. The parties must decide who assumes the risk of delay and for how long.

You can't always vet what you want. COVID-19 has also made due diligence problematic. Some data that purchasers look for, including how the target has withstood comparable past troubles, might not exist. Projections have invariably been hard to make and evaluate, and they are now even more difficult. With coronavirus precautions, the authors warn, on-site visits and face-to-face meetings, particularly in cross-border deals, might be imprudent or illegal. Pandemic-specific representations and warranties could provide more certainty but would be difficult to draft in such an unstable atmosphere, as would remedies for violations. Purchasers usually demand covenants requiring that sellers operate the target in the "ordinary course" from signing to closing so as to protect its value, although not to preserve its financial condition. The covenants should spell out the seller's obligations to maintain liquidity, refinance loans, and manage working capital during the pandemic. The parties should, however, be aware that the seller's fiduciary duties might compel the violation of covenants to deal with emergencies that the pandemic creates.

No satisfaction with insurance. Either party could shop for post-deal indemnification in the form of representation-and-warranty insurance, note the authors, but they should anticipate that carriers will refuse coverage of losses related to COVID-19, now a known risk. For unconsummated deals signed before the pandemic, carriers will exclude COVID-19's effects when the parties bring down to the closing date those representations and warranties they made as of the signing date. While insurance for "business interruptions," if affordable, might be worthwhile too, a satisfactory definition of that term is crucial. The pandemic might force the parties to diverge from the usual adjustments to the purchase price. Sellers who fear having to take drastic steps to preserve the target's liquidity will try to sidestep excessive penalties by limiting adjustment clauses, while purchasers will naturally want to be comfortable with the liquidity parameters.

Abstracted from ***Insights: Corporate & Securities Law Advisor***, published by Wolters Kluwer Law & Business, 4025 W. Peterson Avenue, Chicago IL 60646. To subscribe, call (800) 638-8437; or visit the online store. For more on the impact of COVID-19 on M&A deals, see articles by various law firms, including Hogan Lovells, Morrison Foerster, Norton Rose Fulbright, WilmerHale.

RECENT DEVELOPMENTS

View from the Big Four: XBRL quality gives your company a competitive advantage

By *Dimensions* staff

As the use of XBRL financial data in the market accelerates, the quality of XBRL tagging in disclosures is no longer solely an SEC compliance issue. It is an integral part of a company's ability to tell its financial story, attract investment, raise capital, protect its reputation, and keep a sharp competitive edge. Eleven years into the SEC's XBRL mandate, as financial data is increasingly consumed in structured format, the ever-impatient capital markets are signaling that the grace period is over. Companies risk being left behind if they fail to get their XBRL right.

At the very least, errors in financial statements that reflect poor XBRL quality make the company's financial data difficult or impossible to analyze—discouraging busy analysts and investors with no time to waste. At the worst, errors raise serious red flags about the company as an investment. Investors and analysts may wonder whether sloppy XBRL mistakes in basic financial reporting are the tip of a much bigger and uglier iceberg in the company's management and internal controls over financial reporting (ICFR).

Companies materially benefit from high-quality tagging

Despite the clear incentives for getting XBRL tagging right, mistakes continue to plague XBRL data in financial reporting. In a July 15th analysis, *The Competitive Advantage of Quality XBRL Data*, PwC observes that a whopping 46% of Form 10-K and 10-Q filings filed during the first two weeks of July 2020 had XBRL errors, according to the XBRL US Data Quality Committee.

PwC draws a compelling conclusion from this: XBRL problems at other companies present a competitive opportunity for yours. "XBRL data is used by analysts, credit-risk agencies, industry researchers, investors, regulators, academics, and others to gain insights that influence key decisions. A company that consistently provides high-quality XBRL data can differentiate itself in a crowded marketplace with the credibility gained from high-quality XBRL data."

In other words, companies can materially benefit from high-quality XBRL tagging. Moreover, an XBRL arms race among companies striving to tag XBRL better than their peers could finally elevate XBRL quality to where it needs to be. In that case, everyone wins. As PwC points out, XBRL data does "benefit the capital markets more broadly because it may result in more efficient and effective decisionmaking."

How does bad XBRL hurt decisionmaking? PwC succinctly conveys a few ways:

COMMON XBRL DATA QUALITY ISSUE	POTENTIAL IMPACT
Unnecessary company-specific extensions when an appropriate US GAAP or IFRS tag exists	XBRL data users may be unable to compare your financial results to your peers
Incorrect sign (e.g., tagging a gain as a loss or vice- versa)	XBRL data users may misinterpret the reporting of a particular accounting concept
Incorrect XBRL table structure (e.g., XBRL table axis)	XBRL data users may not be able to consume certain data from the financial statements or disclosures in an automated way
Incorrect unit of measure (e.g., reflected as US dollar when the unit should be shares)	XBRL data users may misinterpret the meaning of a reported accounting concept

(table reproduced from the article)

Getting XBRL right requires specialized expertise

PwC emphasizes that companies should take ownership of their XBRL with dedicated, specialized expertise, not just a cursory review by a data aggregator. “Because only certain data-quality issues are identified by the aggregators,” the firm cautions, “the responsibility for the quality and usability of XBRL submissions rests with financial statement preparers.” Obtaining expert review, whether in-house or from a service provider, is no small matter. PwC warns that “preparers who rely on data vendors to identify and correct errors within their XBRL submissions may unintentionally cede control of the narrative analysts and investors use for decision-making.”

Filers now need both accounting and XBRL knowledge

Another Big Four accounting firm focuses on both the detailed 2020 updates to the complex US GAAP taxonomy and the ongoing demands of the SEC’s Inline XBRL mandate. Jeff Naumann and Lou Rohman from Deloitte & Touche indicate (see *SEC Updates XBRL Rules for Digital Financial Reporting*) that the major changes to the 2020 GAAP taxonomy and the related SEC Reporting Taxonomy include 338 new tags and 324 deprecated tags that should not be used in filings; revisions to retirement benefits in multi-employer plans and to variable interest entities and equity method investments; and transition to ASUs and other accounting changes.

The hefty list of updates to the GAAP taxonomy calls for not only traditional accounting and financial-reporting expertise but also extensive XBRL knowledge. Deloitte warns that the risk of errors naturally rises when filers transition to a new version of the GAAP taxonomy, because “changes made in the new taxonomy may be overlooked.” SEC filers can now voluntarily anchor a custom tag to a base taxonomy tag. Anchoring can be useful for giving clarity to custom tags or more easily replacing unnecessary custom tags. (In the European Union, anchoring is mandatory; see further the reporting manual from the European Securities and Markets Authority, covering the preparation of annual financial reports in Inline XBRL.)

Deloitte agrees with PwC about the importance of seeking specialized expertise in structured data to ensure high XBRL quality. “SEC registrants may use third-party vendors, but they retain overall responsibility for their filings. It’s important for registrants to understand how adoption of iXBRL will affect the timing and nature of their filing preparation and review processes, and ensure that they have personnel with appropriate expertise to review the iXBRL formatting.”

TOPPAN
TOPPAN MERRILL

EXPAND POSSIBLE

About *Dimensions*

Dimensions is researched, written, and produced bi-monthly for clients of Toppan Merrill Corporation, including SEC disclosure, financial reporting, and legal professionals. For Toppan Merrill, the experts actively involved with the publication: Mike Schlanger and Jennifer Froberg. For Brumberg Publications Inc., the company that developed *Dimensions* and this issue's content: Bruce Brumberg Esq., editor; Susan Koffman Esq., executive editor; Howard Levenson Esq., contributing writer; Matt Simon, assistant editor. *Dimensions* is published by Toppan Merrill Corporation and may not be reproduced in whole or in part without written consent. It is distributed with the understanding that the publisher is not engaged in rendering financial, accounting, investment, or legal advice.

About Toppan Merrill

Toppan Merrill, a leader in financial printing and communication solutions, is part of the Toppan Printing Co., Ltd., the world's leading printing group, headquartered in Tokyo with approximately US$14 billion in annual sales. Toppan Merrill has been a pioneer and trusted partner to the financial, legal and corporate communities for five decades, providing secure, innovative solutions to complex content and communications requirements. Through proactive partnerships, unparalleled expertise, continuous innovation and unmatched service, Toppan Merrill delivers a hassle-free experience for mission-critical content for capital markets transactions, financial reporting and regulatory disclosure filings, and marketing and communications solutions for regulated and non-regulated industries.

Learn more at www.toppanmerrill.com

info@toppanmerrill.com

800.688.4400