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New IDEA to Replace EDGAR: SEC HOPES FOR FASTER, MORE ACCURATE AND USEFUL PUBLIC COMPANY DATA

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On August 19, 2008, the Securities and Exchange Commission announced further progress towards its goal of modernizing the current EDGAR reporting system – by moving away from a form-based filing system to a more interactive system with enhanced real-time search tools. The Commission unveiled the new system under the name IDEA, or Interactive Data Electronic Applications. The IDEA system will be designed to take advantage of the electronic data “tags” that the SEC has proposed be included in future filings by public companies and mutual funds. By using these electronic tags, the IDEA system will enable its users to more easily and quickly manipulate, sort and search through filed information.

The SEC has described the new system as a move from the current form or document-based reporting system to a system based on data reporting. On May 30, 2008, the SEC issued proposed rules that will require reporting companies to include a new exhibit containing electronically “tagged” financial data with certain registration statements (that contain financial statements) and periodic reports. The rules as currently proposed would be limited to such filings and would not require tagged data in other types of filings such as financial statements filed on Form 8-K in the context of acquisitions or dispositions of businesses.

These exhibits will form the base data for the new IDEA system by allowing users not only to review the traditional “form” filings but also easier access and search capabilities with the underlying financial data. The proposed rules also would require reporting companies to post such tagged data on their websites.

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As described by the SEC, the new system would enable users to “instantly collate information from thousands of companies and forms, and create reports and analysis on the fly, in any way they choose” and, according to SEC Chairman Cox, it will “...give investors far faster, more accurate, and more meaningful information about the companies and the mutual funds they own.”

The IDEA system is a reaction to the current limitations of EDGAR which, while enabling some advanced search capabilities, can result in users having to search for information on filers on an individual document basis. Sophisticated third party services have been developed to overcome some of these current limitations, and such tools are useful in the M&A context to aid business, financial and legal participants in transactions. While the IDEA system effectively will provide similar types of added-value services to all users, albeit designed for furthering disclosure to investors generally, the prospect of enhanced real-time, more accurate and more readily comparable data on public companies will undoubtedly lead to ever more sophisticated and useful transaction and information tools being developed by third parties.

The SEC has been running a voluntary program since 2005 allowing certain disclosure filings to contain interactive data and has provided several prototype or beta web tools to demonstrate the capabilities that the move to interactive data would allow. While the focus of the new system is on disclosure to investors, the SEC expects that over time the IDEA system will actually reduce compliance costs for public companies by reducing filing preparation times and increasing accuracy of data.

The proposed rules, as issued on May 30, 2008, contain a three-year phase-in period for compliance with the requirement to include tagged financial data. Broadly speaking, the proposed rules would require the largest public companies (those with a public float over \$5 billion) to start complying for fiscal periods ending after December 15, 2008, other large accelerated filers from December 15, 2009 and most other filers from December 15, 2010.

During this phase-in or transitional period, the current EDGAR system will be supplemented with add-on capabilities from the new IDEA system, until the transition is fully complete. At such time the SEC expects that the new IDEA system will replace EDGAR entirely, but that the EDGAR system would be retained as an archive service.

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