XBRL

By Kristine Brands, CMA

XBRL SEC Filings Are Hampered By Errors

Since the Securities & Exchange Commission (SEC) issued its XBRL Reporting Mandate in 2009, more than 9,500 publicly traded companies have submitted approximately 78,000 filings. Despite these impressive numbers, the error rate in these filings is undermining the accuracy of the reports. More than 1.4 million errors had been reported as of August 2013. As Trevor Harris and Suzanne Morsfield said in their December 2012 report, *An Evaluation of the Current State and Future of XBRL and Interactive Data for Investors and Analysts*, some companies are reluctant to use the mandate's XBRL-tagged data because "the reliability of the data is poor and this is a potentially fatal shortcoming of the SEC's mandate, if not addressed quickly and meaningfully." This column takes a look at the causes of the error rates, the implications for filers and investors, and potential solutions.

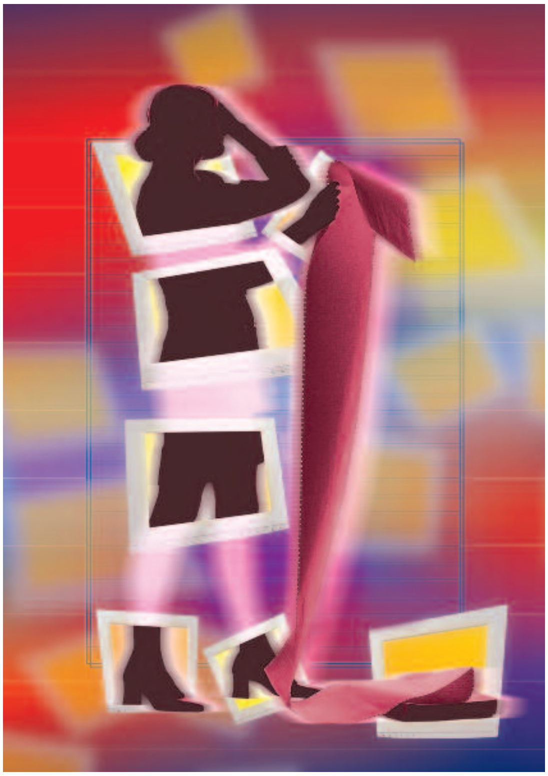
Common Tagging Errors

Several factors affected the accuracy of the mandate's initial filings. While the initial 2009 U.S. GAAP taxonomy (UGT) had approximately 15,000 accounting elements, many common elements used in financial reporting were missing. The learning curve for the 2009 UGT was steep, and the taxonomy was difficult to use. This caused filers to create extensions (custom elements) if they couldn't find what they were looking for or if the tag didn't exist. For example, a large pizza chain couldn't find the reporting elements it used on its financial statements and instead created 80% of the extension element tags for its filings. The company didn't understand that, by choosing the correct element, they could modify the element's description to agree with their account description. In another case, a large airline couldn't find a fuel cost element, which is a material cost for an airline, and had to add an extension element. Since 2009, the number of extension elements has dropped. The UGT has more than 18,000 elements that meet filers' needs, and filers have more experience with the tagging process.

Despite the progress made in reducing extension elements, XBRL US has identified other issues causing high error rates: reporting a negative value for an account that was expected to have a positive value (29%) and assigning an account element that doesn't fit in the account's hierarchy, such as an invalid axis member value combination (29%). For example, a complex fair value disclosure can only include the fair value elements that are related to the disclosure. Other common errors include using an incorrect calculation weight (5%), missing calculations (3%), values reported that should be zero or empty (3%), and values that seem unreasonably large or small (3%).

XBRL-Tagging-Error Implications

Since a major goal of the 2009 mandate was to provide transparency in financial reporting, the presence of errors undermines that objective. Performing a comparison of a company's peer group using XBRL data is compromised if the underlying data contains errors. The limited liability provision for XBRL filings expired June 30, 2013, so the filings are now subject to the same penalties as regular filings under the securities laws. The impending rollout



of the SEC's Accounting Quality Model (AQM) at the end of 2013 means that tagging errors will trigger comment letters—letters from the SEC to filers asking for clarification about XBRL tagging and other disclosures. The power and sophistication of the AQM could mean the issuance of substantially more complex comment letters requiring considerable time and effort for a company to resolve. The AQM's analytical tools provide the SEC with the capability to identify more comment letter issues.

Another important exposure to companies is that since tagging information is readily accessible by investors and analysts through SEC and company filing viewers—a simple tool that can download a company's XBRL filings—anyone will be able to analyze a company's filings. Companies may perceive that no one is using XBRL data, but once the data becomes part of the SEC's XBRL database, regardless of its accuracy, a company can't erase it. Companies that don't think that anyone is using XBRL data may get a rude wake-up call. A worst-case scenario that happened recently is that an analyst found an error and notified the company's general counsel and the SEC.

Recommendations

The 2009 XBRL mandate is here to stay, so the ease of access to and analysis of XBRL-tagged data is only going to get easier as more sophisticated data analysis tools are developed. If your company hasn't adopted XBRL filing for internal controls, policies, and procedures, you need to do so immediately. If XBRL-tagging software is used in the process, be sure to use a product that includes rigorous validation processes to identify errors so you can correct them before submitting your XBRL filing. This applies to companies that prepare filings in-house or outsource the function. The internal controls need to include a review and sign-off process to ensure that the filings are accurate and complete. Consider engaging your auditors to review your XBRL-tagged data for accuracy. Companies that don't focus on XBRL filing quality will be sorry. The myth that no one is using your XBRL data is no longer true—the SEC, analysts, and investors are using your XBRL data. Make sure that it's correct. **SF**

Kristine Brands, CMA, is an assistant professor at Regis University in Colorado Springs, Colo., and is a member of IMA's Global Board of Directors and the Pikes Peak Chapter. You can reach her at kmbrands@yahoo.com.

ILLUSTRATION: DIGITAL VISION