The Case for SEC Use of XBRL

CONVENTIONAL WISDOM IN THE EXTENSIBLE Business Reporting Language (XBRL) circles is that the Securities & Exchange Commission (SEC) will wait for the marketplace to adopt XBRL before requiring companies to send their SEC filings in the XBRL format. It's thought that the SEC would rather let market forces drive the widespread acceptance of XBRL than impose what may be undue compliance burdens on the financial community. What now seems a possibility, however, is that the SEC may be willing to look into the savings it could potentially realize in both time and money by adopting XBRL.

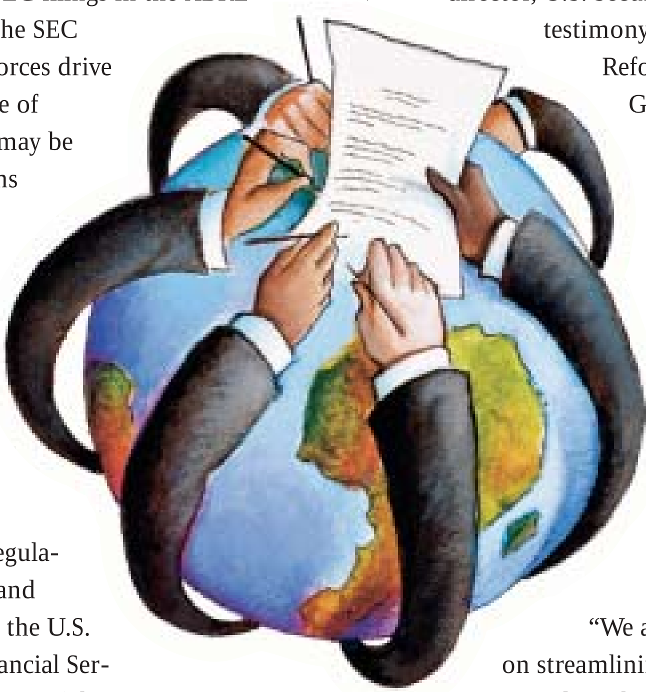

IMAGE: EYEWIRE

Successful worldwide regulatory projects in Australia and new projects scheduled in the U.S. (FDIC) and the U.K. (Financial Services Authority, Inland Revenue) have given rise to optimism. With a close eye on the progress of major implementation projects worldwide, the SEC's wait-and-see attitude could soon be replaced by the strong incentives of improved filing accuracy, timeliness, and internal cost savings promised by XBRL.

Meanwhile, several supporters are lining up to sing the praises of "tagged" financial data. Here's a sample:

On April 20, 2004, James M. McConnell, executive director, U.S. Securities & Exchange Commission, in testimony before the House Government Reform Committee Subcommittee on Government Efficiency and Financial Management had some encouraging words for advocates of XBRL. In a wide-ranging talk about many issues facing the SEC, McConnell gave a strong indication that the SEC is giving serious consideration to major improvements in the way the SEC collects and analyzes company data. Here is an excerpt from his testimony:

"We also have continued to focus on streamlining our enterprise architecture and our business processes. Our IT and program staff are working to restructure Commission filings and forms to eliminate redundant data, particularly within the EDGAR filing system. We are actively pursuing a strategy for improving the filing and disclosure process, making it possible for investors and SEC staff to more easily analyze company data by using structured filings and 'tagged data' through tools such as XBRL."

SEC Executive Director McConnell isn't alone in his praise for XBRL. Rep. Richard H. Baker (R.-La.), chairman of the House of Representatives' capital markets subcommittee, also praised XBRL's potential in a paper published by the Cato Institute think tank, stating, "Too much damage has occurred because of the lack of timely and transparent financial information….I have confidence XBRL will eliminate those deficiencies." Rep. Baker also remarked that SEC Chairman William Donaldson "has endorsed the concept of using tagged reports."

In his annual report for the year 2003, Donald E. Powell, chairman of the Federal Deposit Insurance Corporation (FDIC), stated:

> "We reached an agreement with our Federal Financial Institutions Examination Council (FFIEC) partners to build and implement a new Internet-based Central Data Repository (CDR) for Call Reporting and other regulatory reports. The CDR will employ cutting-edge technology based on the XBRL (eXtensible Business Reporting Language) data standard. This system will reduce the reporting burden on the industry while simultaneously providing high-quality, more timely data to regulators, financial institutions, and the public."

A consensus for XBRL is clearly building in Washington. Is the SEC listening?

The FFIEC includes the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation, the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS). This powerful group will be watching the FDIC Call Reporting project with great interest, with an eye toward further adoption by the federal government. Implementation of the new CDR system is expected to start with the submission of Call Report data for September 30, 2004. See http://www.ffiec.gov/find/default.htm for more information on the CDR system.

Mike Willis, PricewaterhouseCoopers (PWC) partner and founding chair of XBRL, recently wrote that the FDIC project, with its $39 million budget over 10 years, is expected to produce a net savings of $26 million in processing costs starting in 2004. Reporting cycles are projected to decrease from over two weeks to less than five days for the reporting of consolidated information that the agency must send to other branches of the government. Similarly, the SEC should be able to achieve substantial internal savings and greatly decrease the time it takes to respond to reporting issues.

R.T. McNamar ("New Technology Can Help Avoid a Second Enron," *Regulation*, Fall 2003) makes a compelling Sarbanes-Oxley case for the use of XBRL by the SEC. Under Section 408 of the bill, "Enhanced Review of Periodic Disclosures By Issuers," SOX requires the SEC to use six specific criteria to review filings "on a regular and systematic basis." The use of XBRL for quarterly filings would significantly speed up the SEC's ability to conduct these mandated reviews.

A consensus for XBRL is clearly building in Washington. Is the SEC listening? They should be if they want to comply with recent regulations, improve timeliness and accuracy, and save a boatload of paper shoveling. ■

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