SEC Assessing XBRL: May Propose a Rule by Fall | by Neal Hannon

ON JULY 22, 2004, THE SECURITIES & EXCHANGE Commission announced that it is formally "assessing the benefits of tagged data and its potential for improving the timeliness and accuracy of financial disclosure and analysis of Commission filings." The Commission also said that it would seek public comment on alternative methods and the costs and benefits associated with tagged data.

ILLUSTRATION: DIGITALVISION

This is the first public acknowledgment that the SEC is actively considering XBRL as a format for required filings. SEC Chairman William H. Donaldson said, "This initiative is part of the Commission's broader effort to improve the quality of information available to investors and the marketplace. By working to enhance the Commission's filing and disclosure process through the use of new data formats, including tagged data, the Commission can improve how content is organized and analyzed—improvements that will benefit everyone who utilizes the SEC's public disclosure process."

Although a significant step forward, the SEC's cautious movement toward tagged data is still a step behind the Federal Deposit Insurance Corporation (FDIC), the Australian Prudential Regulatory Agency (ARPA), and the United Kingdom's Financial Services Authority (FSA), who each have active XBRL programs in place. ARPA has been using XBRL for governmental reporting since 2001. The FDIC will begin accepting XBRL-formatted reports in early 2005. And in the U.K., the insurance and banking community will be required to use the XBRL reporting format early in 2005.

Still, many observers of the XBRL movement are very pleased with the action taken by the SEC. For example, John O'Connor, vice chairman, Services for PricewaterhouseCoopers, said, "The SEC has taken a critical step in promoting greater quality, clarity, and relevance in corporate reporting and in restoring confidence in capital markets. The use of XBRL in corporate reporting is good for investors, companies, the financial markets, and the regulatory environment."

Mike Willis, founding chairman of XBRL International and partner, PricewaterhouseCoopers, added, "The

SEC test of XBRL will work to demonstrate the benefits that this more structured information format provides to companies, investors, and other market participants. It is time that we move beyond the electronic paper-based formats used today and provide information included in corporate reports to stakeholders in a more cost effective manner."

Willis also thinks that we will look back at this in a few years as a significant step—signaling the market to move corporate reporting onto the Internet and leveraging open, royalty free, Internet-oriented information standards.

John Connors, CFO of Microsoft, said, "Microsoft already voluntarily produces its quarterly and year-end financials in XBRL and is encouraged by the SEC proposal to accept these voluntary filings in XBRL format. XBRL will help ensure the integrity and quality of corporate financial data by removing the need for manual reentry throughout the process."

Denny Beresford, former FASB chairman and current University of Georgia accounting professor and IMA member, notes that the SEC action is very significant: "In the past year the FASB has added an XBRL Fellow to its staff to be sure it stays on the leading edge of this new technology. Management accountants and auditors need to become informed about what will soon become a key part of routine financial reporting to shareholders and others."

The First Step

The SEC's willingness to accept XBRL as a voluntary reporting format is a significant first step in the steady march to digital reporting. XBRL will become an enabler for everyone who uses financial information. In the supply chain of financial information, users will benefit from receiving information more quickly and in a friendly, reusable format. Because the format can include basic business reporting rules that must be followed by the preparer, the digital information also promises to come with fewer errors.

Mike Willis believes that information available in the XBRL format and its potential use in the financial information supply chain is far more significant than reporting data to the SEC. According to Willis, XBRL enables a reengineered business reporting process that allows for:

- Better information and more structure in corporate reporting documents. With XBRL, there's potential for adding structure to all nonfinancial reporting requirements for public corporations.
- Better guidance around the "what" is included in corporate reports. Digital reporting formats can provide detailed instructions embedded into required regulatory reporting.
- Reduced compliance—The regulatory leverage of this Internet standard is to focus on data received from corporations and eliminate redundant (and outdated) data provided. For example, the U.S. Federal Financial Industry Examinations Council's (FFIEC) use of XBRL will result in a reduction of bank reporting compliance from five agencies (FDIC, OCC, FRB, OTS, NCUA) to one (FFIEC). This will result from each agency's enhanced ability to share data collected in a computer-ready format.
- Proactive solutions—XBRL opens the potential for the market to develop a framework and to provide incremental guidance for further reporting enhancements.

According to XBRL-US, the SEC announcement is one of a series of XBRL initiatives being put in place by financial regulators around the world. Others include: the FFIEC, the Inland Revenue and Financial Services Authority in the U.K., Japan's National Tax Agency and Financial Services Authority, the Bank of Spain, and the Dutch Tax Authority.

XBRL is definitely on the radar and will be landing soon. Will you be ready to take advantage? ■

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