

SEC Wants XBRL Filers

by Neal Hannon

EARLY NEXT YEAR, THE SECURITIES & EXCHANGE Commission (SEC) will be preparing a new most wanted list. But the list won't consist of SEC regulation violators—it will be a list of honor. Companies making the prestigious list will be corporations participating in the SEC's voluntary XBRL filing program.

In a September 24, 2004, press release, the SEC pointed to the benefits of using tagged data:

“Data tagging is gaining prominence as a format for enhancing financial reporting data using eXtensible Markup Language (XML) derivatives, such as XBRL. Tagging provides greater context to data through standard definitions that turn text-based information, such as the filings currently contained in the Commission's EDGAR system, into documents that can be retrieved, searched, and analyzed through automated means. Data tags describe information such as items included in financial statements. This enables investors and other marketplace participants to analyze data from different sources and allows for the automatic exchange of financial information across various software platforms, including web services.”

When asked which companies would be ideal for the SEC's voluntary XBRL filing program, Louis Matherne, president of XBRL International and director of XBRL operations with the AICPA, said, “We are looking for broad-based participation from a large number of SEC filing companies. The ideal profile would be larger companies willing to demonstrate their thought leadership and commitment to transparency in the capital markets. However, registrants of all sizes can benefit from partici-

pation, particularly those that are covered by the initial taxonomies released in the U.S. Financial Reporting Taxonomy Framework.”

Long-time XBRL observers believe companies that participate in the voluntary program will receive welcomed attention to their companies and their financial information. The SEC will make sure the XBRL data can reach as many audiences as possible. From the SEC's proposed rule website:

“We plan to develop an application, such as a style sheet, for volunteers so that users can view XBRL data in a rendered or human readable format via our website.

This application would convert XBRL files into a document that would look similar to traditional financial information such as a balance sheet or income statement. The volunteer would be required to reflect in the rendered document the

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same financial information included in the corresponding portion of the official HTML or ASCII version.”

The first filing in the voluntary XBRL program is expected in March 2005 and will cover the annual report filings for the year 2004. The first quarter of 2005, however, is already shaping up to be a traumatic period of time for company CFOs. Section 404 audits under the Sarbanes-Oxley Act of 2002 will occupy large amounts of time and resources. Companies considered accelerated filers (seasoned U.S. companies with public float exceeding \$75 million) are required to comply with the internal control reporting and disclosure requirements of Section 404 of SOX for fiscal years ending on or after June 15, 2004. The compliance activities for SOX could put many XBRL

projects on hold until after the requirements of the law are met.

SEC Calls for Comments

On September 27, 2004, the SEC issued proposal 33-8496: XBRL Voluntary Financial Reporting Program on the EDGAR System. The proposal is a series of amendments to enable registrants to submit supplemental tagged financial information voluntarily using the XBRL format as exhibits to specified EDGAR filings under the Securities Exchange Act of 1934 and the Investment Company Act of 1940. The SEC requested that comments be received on or before November 1, 2004, but readers should still look at the material. The full request is located on the SEC website (www.sec.gov/rules/proposed/33-8496.htm).

The request, including background information and the detailed questions, runs more than 15,300 words, includes 109 footnotes, and is 41 printed pages. The site contains interesting background information about the state of XBRL and its potential impact on SEC filing companies. For example, the following quote appears on the proposal website:

“The standard taxonomies and related linkbases would be housed on our website at www.sec.gov, and volunteers would link their XBRL files to these taxonomies. Users of EDGAR data on www.sec.gov would be able to download the XBRL instance document...to perform their own financial analysis. We plan to develop an application, such as a style sheet, for volunteers so that users can view XBRL data in a rendered or human readable format via our website.”

This means that the SEC is not

only going to have the XBRL instance documents available for the public, but it will also expose the underlying taxonomies, or sets of tags, that form the basis of the instance documents.

One group that will be submitting a comment to the proposal is the American Accounting Association (AAA), an association of individuals with worldwide education, research, and accounting practice interests. Roger Debrecey, chair of a special committee formed by the Information Systems and Artificial Intelligence/Emerging Technologies Sections of the AAA to provide the SEC the benefit of the academic world's unique perspective on using XBRL for SEC filings, said, “We have brought together 15 top academics from USA, Canada, and the U.K. to consider these questions.” Continued Debrecey, “The objective here is to bring the collected experience to bear on considering not only the big picture but also the technical and accounting details of the SEC call for comments. This is an example of how the academic community can, with an independent perspective, assist the SEC in their decision making.”

Commit to Improve Transparency

Companies that join the ranks of early XBRL adopters, such as Microsoft, Morgan Stanley, and Reuters, by participating in the SEC's voluntary program will receive several benefits. First, they will be participating in an SEC initiative to improve financial reporting transparency. Investors respond positively to clear financial reporting. Second, given the worldwide momentum that XBRL is currently experiencing, a successful voluntary

program will soon lead to more permanent action. Companies that learn how to file using XBRL today will be in a better position to leverage the technology for future potential applications. Third, internal and external audit functions will be pleased with XBRL. Debrecey says that producing XBRL files that mirror financial statements will create a relationship between a company's financial reports and an external reference point, i.e., the XBRL taxonomy.

Liv Watson, vice president of XBRL development for EDGAR-Online, recently commented on who should participate in the SEC's voluntary XBRL program, saying, “This is a golden opportunity for companies to communicate to the marketplace that they are truly transparent in their reporting. XBRL facilitates the quick transfer of precise financial data to shareholders, investors, and financial analysts. Small companies seeking financial analyst coverage should participate in the program, as well as large to small companies who want to prove that they are committed to bringing value to their stakeholders.”

XBRL-US, the national organization formed to promote XBRL in the U.S., will soon be posting complete information on how to participate in the program. Watch www.xbrl.org for more details. ■

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