

IMA Supports Voluntary XBRL Filing Program

by Neal Hannon

IN A LETTER TO JONATHAN G. KATZ, SECRETARY of the Securities & Exchange Commission (SEC), dated November 1, 2004, the Institute of Management Accountants indicated strong support for the SEC's voluntary XBRL filing program. IMA Chair Larry White, CMA, CFM, CPA, CGFM, signed the letter on behalf of the 70,000 IMA members worldwide.

The SEC has been moving to accept XBRL as a reporting format for company filings for the last several months. On September 27, 2004, it released a proposal for a voluntary filing program. For more detail see <http://www.sec.gov/spotlight/xbrl.htm>.

White's letter responds to several questions the SEC specifically requested comment on about XBRL as a reporting format. The complete set of questions and answers sent to the SEC can be seen at <http://www.sec.gov/rules/proposed/s73504.shtml>. Here are some excerpts:

SEC: Is the proposed rule permitting volunteer filers to furnish financial information in XBRL appropriate?

IMA: We strongly support the initiative by the Securities & Exchange Commission to allow volunteer filers to furnish financial information in the XBRL format. As an early supporter of XBRL, our members have served in leadership positions supporting the growth and adoption of XBRL. Our focus is to assist our members to add value to an organization through better business communications. We see XBRL as a step in the right direction.

With XBRL, business information—regardless of its format—can be identified, extracted, re-presented, and

utilized in whatever way the user requires. XBRL offers the opportunity to enhance fundamentally the way financial and business reporting is done and opens up countless opportunities for exchange of information to feed sophisticated and intelligent analytical applications.

SEC: We request comment on all aspects of this cost-benefit analysis, including identification of any additional costs or benefits of, or suggested alternatives to, the proposed rules. Commenters are requested to provide empirical data and other factual support for their views to the extent possible.

IMA: Costs. Prior to the actual launch of the program, the process of identifying costs of the program will be the best estimates of participants. Areas of potential cost are clear. Financial systems do not routinely generate XBRL as a normal system output. Although many software vendors recently indicated they have plans to incorporate XBRL in their products, to date most have not done so. XBRL prepared for the voluntary programs will need to be tagged using existing XBRL markup software. Potential filers will need to do one of the following:

- Hire a consulting company that can assist in preparing the XBRL portion of their SEC filing.
- Develop in-house expertise in XBRL, purchase XBRL software, and produce the voluntary filing internally.
- Hire an SEC filing company that has XBRL expertise and have that company file for them.

Obviously, some level of training about XBRL must

take place in all of the above situations. Training is currently available from several XBRL member organizations and from XBRL-US.

Benefits. The benefits from filing in the voluntary program will be many. First, the companies that participate will be looked upon as supporting a more transparent financial disclosure system. Studies have shown that if more information is available to capital markets, the risk associated with the company securities will be reduced. Second, the process of preparing a marked-up filing using XBRL tags requires a deep level of understanding about how the company puts financial information together. The benefit to the filing company will come from additional discovery that will happen during the filing process. This in

turn will increase the quality of both the official and the voluntary filing to the SEC. Third, the creation of financial data in an XML-based language will prepare the filing companies for the reuse of this data for internal reporting activities. These activities might help a company improve its internal controls, which would benefit compliance with Sarbanes-Oxley requirements.

Input from IMA's Financial Reporting Committee
IMA's Financial Reporting Committee (FRC), chaired by Teri List, is also preparing a response to the SEC as of this writing. Their comments will be added to those of the growing list of respondents to the SEC, which includes Microsoft, the New York State Bar Association, Financial Executives

International, the AICPA, the American Accounting Association, KPMG, Ernst & Young, Consortium of EDGAR Filing Agents and Software Developers, and EDGAR Online.

Here is an excerpt from the IMA Financial Reporting Committee's report to the SEC:

IMA: FRC supports the voluntary program that would allow registrants to furnish financial information tagged using XBRL so that the SEC can further evaluate the use of tagged data. We believe that data tagging, specifically with XBRL, provides the best method for searching, retrieving, and analyzing financial information through automated means. However, before proposing that XBRL-tagged data be required, it is imperative that the SEC perform an in-depth, objective analysis of the costs of preparing tagged information in relation to the perceived benefits.

Next Steps

Over the next few months, the SEC will continue to assess how they will proceed with the voluntary XBRL filing program. The first quarter of 2005—when new Sarbanes-Oxley filing requirements take hold—will be challenging for financial report filers. The voluntary XBRL filing program will certainly be of lower priority until the new required filings are taken care of. Stay tuned—this will be interesting. ■

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