

Why the SEC Is Bullish on XBRL

BY NEAL J. HANNON

Christopher Cox, chairman of the Securities & Exchange Commission (SEC), is a strong advocate of interactive data and XBRL. On three recent occasions, Cox has voiced support for modernizing SEC-reported data. Within a span of one month, the SEC issued a formal request for information and Cox delivered two

public addresses to the financial community. The clear message is that the SEC is very interested in interactive data, especially XBRL.

In an October 4, 2005, Request for Information (RFI) titled "SEC Solicits Software Industry's Input for Helping Manage Interactive Financial Data" and directed to the software industry, Cox said, "The use of interactive data, if widely adopted, may dramatically enhance the usefulness of reported financial information. Consumers of the data may be able to use it more easily and effectively. Potentially, computer-tagged data could provide real-time operational information for business managers. And its instant availability would dramatically streamline and accelerate the collection and reporting of that same financial information to the Commission and the public."

The purpose of the SEC's request is "to assist the Commission's staff in identifying ways to receive, store, view, and analyze interactive financial data." (See the SEC's press release at www.sec.gov/news/press/2005-141.htm.) The present system of data collection, EDGAR (Electronic Data Gathering and Reporting), needs to be replaced. Although there have been several upgrades to the EDGAR system since its debut in the late 1980s, the underlying technology is still based on programming developed in the early 1980s. The recent improvements have added Internet filing capability but, until now, haven't addressed the issue of providing data to the SEC and the investing public in a more useful format.

In remarks to the 12th XBRL International Conference held in Tokyo on November 7, 2005, and in

remarks delivered to the Securities Information Association on November 11, Cox advocated a sea-change approach to receiving and distributing regulatory financial data. Touting the benefits of interactive data, he said, "Once data in SEC-mandated reports is made interactive, the numbers in financial reports will jump off the page. They'll not only be instantly searchable and retrievable, but you'll also be able to immediately download them into spreadsheets and an unlimited number of software applications."

Cox specifically mentions XBRL as the technology of choice for the SEC to move to the new world of interactive data. The SEC is currently in the middle of the XBRL Voluntary Filing Program, which will help test and assess the readiness of XBRL for use in further filings. The SEC chairman is clearly looking forward to a future enhanced by the addition of interactive data and what it can do for the SEC and for the investing public as well. To watch a video of Cox's speech, see www.sec.gov/news/speech/spch110705cc-wmvs.wmv.

Back in March 2005, the SEC launched the XBRL Voluntary Filing

Program for submitting supplemental information to the SEC that mirrored required submissions such as 10-Qs and 10-Ks. The program, although broadly supported in the financial community by organizations like IMA, Financial Executives International, the AICPA, and the Institute of Internal Auditors, had only 12 filers as of the end of November 2005. In his November 11 speech, Cox said, "Earlier this year, the SEC started down this road with a purely voluntary filing program. Issuers can now submit interactive documents in the XBRL computer language, which is an adaptation of XML. As many of you know—at least the tech mavens among us—XML is already in use throughout our economy. And the good news is, anything you can do in XML, you can do in XBRL."

The movement to interactive filing is further enhanced by SOX Section 408, which requires an enhanced review of periodic disclosures. All disclosures must be reviewed a minimum of once every three years. With interactive data, the SEC will have the ability to quickly access the data, validate the disclosures against business rules, and analyze the results within the specified time frame. The result will be higher-quality reported data that will be more useful to the SEC and the investing public.

Significance of the Chairman's Support

The former chairman of the SEC, William Donaldson, established a reputation within the business community of no-nonsense enforcement of the securities laws of the nation. He established the Public Company Accounting Oversight Board (PCAOB) while significantly increasing the staff and budget of the SEC.

Cox's reputation among business leaders prior to joining the SEC was as someone who was business-friendly, spurring concerns about whether he would continue the aggressive anti-corporate-fraud campaign of his predecessor. In 1995, Cox sponsored a law that would limit investors' ability to sue their company if it were suspected of securities fraud. It was one of two laws that survived a President Clinton veto. In 2000, Cox and Representative Cal Dooley (D.-Calif.) introduced a bill that would have delayed the implementation of accounting standards established by the Financial Accounting Standards Board (FASB) regarding the accounting for mergers.

On numerous occasions, however, Cox has stated his intention to be a champion of the investor. For example, at a meeting of the Securities Industry Association on November 17, 2005, Cox said, "That's why, when I took the helm of the SEC 100 days ago, I made enforcement our number one priority. Prior to my confirmation, some had wondered whether the SEC's direction would change in this regard. It will not. We are, first and foremost, the investor's advocate. And rigorous enforcement of the nation's securities laws is the essential tool in our arsenal."

His support of securities law enforcement and his drive to modernize the collection, processing, and distribution of regulatory data indicate that the agency will continue to champion the needs of the investor.

Other Voices

Mike Willis, PricewaterhouseCoopers partner and founding chairman of XBRL International, the 350-member not-for-profit consortium, thinks the U.S. effort is a great step but recog-

nizes that other countries have also moved quickly to enhance their markets. In a recent address to the XBRL Canada organization in Toronto, Willis cited the example of the Netherlands, which is transforming the way all companies report to the government, "annually removing an estimated €500 million in compliance costs from Dutch companies." He also pointed to the securities regulators in China, Korea, and Japan who are likewise aggressively modifying their market processes to leverage the Internet and XBRL to provide all stakeholders with significantly greater access and reuse of the reported information.

Financial data aggregators that provide value-added services to businesses and financial information for global companies would greatly benefit from such enhancement. According to Liv Watson, vice president of Global Strategies for EDGAR-Online, Inc., the world of financial data aggregation is about to change. "Our company spends a tremendous amount of time just on the mechanics of getting manual data into an electronic format. As more of the world's financial data is coded in a universally accepted format such as XBRL, our ability to add value to the data will skyrocket."

Walter Hamscher, past chair of XBRL International, said, "Chairman Cox's position on interactive data and XBRL, and the implications of an RFP to modernize EDGAR, are the logical consequences of forward-thinking leadership about the SEC's role in keeping U.S. markets the most dynamic and attractive to all capital market participants. The technical viability of XBRL taxonomies have certainly been proven in other countries and here at home at the [Federal Financial Institutions

Examination Council]; participants in the Voluntary Filing Program are blazing a new trail to more timely, efficient, and effective reporting; and all of them realize they are participating in defining what reporting will look like in the 21st Century.”

Companies considering participating in the XBRL Voluntary Filing Program can find more information about the program, including how to participate, at www.xbrl.org/us/secvfp. Given the SEC’s track record for incorporating advances in technology into the filing process, the movement to interactive data isn’t a question of if, but simply a question of when. Will your company be ready? ■

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