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Does XBRL Cost Too Much?

BY NEAL J. HANNON

Followers of the eXtensible Business Reporting Language (XBRL) have no doubt heard the claim that XBRL will increase costs for companies who prepare Securities & Exchange Commission (SEC) filings in XBRL. Critics complain that additional costs will be required to convert normal filings into the SEC Voluntary Filing Program format. I'd like to discuss how they

are right and how they are wrong.

Companies are right about increased costs for using XBRL if the following assumptions are true:

- They treat XBRL as an afterthought,
- They hire consultants to prepare SEC filings only,
- No attempt is made to examine the benefits of "interactive data" within the company, and
- No one in the organization understands XBRL.

By understanding XBRL, I don't mean knowing the mechanics of applying XML angle brackets to words and numbers to create an XBRL instance document. What I mean is that the company has an understanding of how it can reorganize data streams to take advantage

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of the recent developments in Web services and service-oriented architecture (SOA). Web services and SOA break down information silos and the dependence on spreadsheets

while freeing up data to perform multiple business reporting tasks inside and outside the organization. XBRL can play a strong role in providing organizations with higher levels of data accessibility, accuracy, and reportability.

Achieving XBRL Cost Savings

Companies need to look beyond financial reporting to bring additional benefits internally from having greater data accessibility. By using financial data as another piece of interactive data in a corporate-wide movement to free up data—a typical outcome for companies that adopt Web services and SOA—companies will experience cost savings with XBRL.

Companies that need to attract additional coverage by brokerage firms will find that providing data in the XBRL format will dramatically increase their ability to be heard in the marketplace. Brokerage firms can significantly increase the number of companies they cover if the data arrives in a format that is ready for analysis. This will be especially true for small to mid-cap companies that aren't presently covered by financial analysts. Companies can

look forward to lower cost of capital as the financial community perceives lower risks due to higher transparency.

Internally, companies will lower their costs of data preparation and Sarbanes-Oxley compliance because information feeding their systems will contain metadata that identifies the source. Typical companies that need to enhance or supplement their normal reporting by using spreadsheets often destroy the data audit trail and introduce higher levels of error.

Another way companies will save money is by marking up financial information with XBRL tags early in the accounting process using XBRL GL and using this data to proceed straight through the organization feeding both internal reporting and external financial reporting. XBRL GL, the journal taxonomy, is royalty free and can interface directly with XBRL for financial reporting.

Companies using XBRL will see a reduction in the costs to implement new Statements of Financial Accounting Standards (SFAS) provided a set of XBRL tags is also released with the new rule. Companies that use XBRL as a normal part of processing financial information can work through the discovery process for the impact of new pronouncements and achieve compliance quickly.

Finally, for the Financial Accounting Standards Board (FASB), the comment period for new regulation is likely to yield richer comments relative to the implications to corporate entities when the affected companies can plug the proposed change directly into their XBRL reporting models.

XBRL Is Essential

What if the financial reporting peo-

ple of the world started to think, "Financial Reporting is XBRL. There is no difference between the two because XBRL is an essential part of how we do financial reporting. It's not only a required step, but it gives me more control on how other participants in the capital markets see my company. Besides, the FASB provides guidance in proper XBRL reporting, so my financial reporting experts have the straight scoop from day one"?

XBRL is a positive development that is vital to CFOs and U.S. capital markets as well. Peter J. Wallison of the American Enterprise Institute recently wrote:

"What we have is a competition in two distinct areas, all revolving around the development of XBRL. The first is competition between the U.S. and EU securities markets for dominance in the global financial markets of the future. The EU, which has now put in place the XBRL taxonomies that are necessary to make financial reports stated in IFRS more accessible to investors and analysts than those stated in U.S. GAAP, is in a position to take advantage of this resource in attracting new listings and encouraging the use of IFRS. But the second area of competition may be even more important in the long run. Unless the XBRL taxonomies can be completed soon, U.S. companies that report in U.S. GAAP may find themselves at a disadvantage in attracting capital vis-à-vis foreign competitors that use IFRS. The long-run consequences for the competitiveness of the U.S. economy as a whole could thus be adversely affected." (From "XBRL: Give Them the Tools and They Will Finish the Job," http://us1.institutionalriskanalytics.com/www/WWS_XBRL.asp.)

The message for the U.S. market is

clear. Developing robust XBRL taxonomies, or lists of XBRL tags that mirror SEC requirements for reporting corporate financial information, is critical to our long-term success. The dominance of the U.S. capital market system in world financial markets is at stake along with the opportunity to improve both the accuracy and the delivery of information from our major institutions.

Now is the time for the financial community to get involved in XBRL. Taxonomies that reflect the richness and depth of specific industry groups are needed now more than ever. SEC filings are becoming longer and more complex. What's needed is a robust set of taxonomies that cover the depth and breadth of financial reporting. Companies that tag their data with a world-class taxonomy have the advantage of lowering the error rate for SEC filings and a better chance of having their financial information reported correctly and analyzed by the financial marketplace.

Software for quickly translating industry-specific financial reporting techniques into good XBRL is here today. In other words, financial reporting experts can participate with very little XBRL technical knowledge. Now is the time for action. Repeat after me, "We need quality taxonomies, and I am willing to help." ■

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