The Global Ledger for Financial Services

BY GIANLUCA GARBELLOTTO

Picture a tent with a steel vault door. We know what's wrong with that image right away, yet that's exactly what banks are like when they have spreadsheets pulling together their financial and tax data. The financial services industry is a model for how XBRL—and XBRL Global Ledger, in particular—can integrate and formalize organizations categorized by multiple lines of service in an international environment.

In the past few months, I've written about the representational power of XBRL GL and the different uses that its versatility and flexible structure allow. XBRL GL can *represent*:

- Setup files, such as reporting calendars or mappings between subsidiary and headquarters charts of accounts for consolidation purposes;
- Master files, such as Chart of Accounts, Customer, Vendor, Employee, and Inventory;
- Transaction files and reports, such as sales or purchases journals, job costing reports, fixed assets journals, payroll journal;
- General Ledger entries; and
- Summary Reports, such as AR/AP aging, Inventory Stock status, Trial Balance, book/tax reconciliations.

XBRL GL can be *used* for:

- Operations, accounting, and tax reporting and for benchmarking purposes;
- Data integration/consolidation and to enhance interoperability between applications across companies and jurisdictions;
- Building and maintaining the audit trail;
- Automating the generation of summarized reporting—internal or external—represented with any XBRL taxonomy or XML schema and from detail-level data and transactions; and
- Reconciling between different types of end reporting based on the same detail data, such as reconciling between different GAAP or when reporting to different regulators.

As you can see, XBRL GL offers a widely varied representational spectrum and serves many different purposes, all of which are crucial to any business environment, public or private, and for any information-system architecture. This can be overwhelming when considering the adoption of XBRL GL in a specific entity: One of the greatest challenges in implementing XBRL GL is its flexibility; there's virtually no limit to the extent of which it can be used.

For this reason I thought that it may be useful to start looking at XBRL GL from a more focused perspective and examine its value proposition in particular contexts. This month's column is the first in a series in which I will explore the value of XBRL GL for specific industries. The purpose is to highlight how it can help companies face challenges typical to their industry. This will hopefully facilitate a better understanding of the practical ways in which XBRL GL can be used, both for players in the industry discussed and for others who will be able to relate to the situations discussed, which rarely affect only one industry.

This month I will take a closer look at the applications of XBRL GL in the financial services industry, the largest industry category in terms of earnings. Banks, investment banks, insurance companies, credit card companies, and stock brokerages are examples of the types of firms the industry comprises. These organizations provide a wide variety of money- and investment-related services. They typically run multiple, very diversified business lines under the same roof, which generates structural and organizational challenges that are conducive to the use of standards-based strategies and architectures. It's no coincidence that many standards are commonly used in the industry, such as SWIFT/ISO 15022, audit- and controls-related standardization efforts, and encryption.

There are various reasons why the financial services industry, more than any other industry, will benefit from the adoption of XBRL for internal use. Some are related to the specific activities performed, to its broad exposure to regulatory requirements, and to historical factors. Let's take a brief look at what I believe are the main challenges in the financial services industry to which XBRL GL can bring value and why.

Disparate systems, different jurisdictions. Running a complex business in a global environment is a challenge for any industry. Financial services organizations often have to deal with a wide variety of applications for different operational needs within the same entity and often in different subsidiaries and reporting units. They often operate in a multinational environment that forces them to deal with a high number of different regulations, GAAP, and local features of various kinds.

The reporting environment in these companies typically has numerous, often incompatible applications—with each one devoted to a particular area of activity. The "structural" differences in the various types of financial products, such as investment portfolio management, interbank treasury operations, and loans, make it very difficult to integrate their management within a single application or to find a vendor with specific expertise in more than one of those business lines.

Historically, the major financial services companies are present in multiple markets. The ease of distribution of products and services through electronic transactions and the tendency to enter new markets by means of acquisitions are two key factors in this phenomenon.

XBRL GL is a great tool to enable interoperability between applications and for standardized, cross-jurisdictional data consolidation and reporting for book, tax, and management purposes.

Exposure to different types of XBRL regulatory filing. XBRL for financial reporting is already in use in many countries around the world and for different kinds of regulatory filings. Depending on the location of its main offices and subsidiaries, a company may have to use XBRL to file with stock market regulators and tax authorities. Banking and financial services regulators are among the most active in requiring XBRL filings. The Federal Deposit Insurance Corporation (FDIC) in the United States has mandated the use of XBRL for the collection of call report data from more than 8,000 banks since October 2005, and 2007 marks the beginning of the new Basel II Capital Requirements regime—and European banking regulators have indicated that XBRL is the more appropriate technology for that implementation.

Regulatory reporting isn't the only reason why banks and financial institutions are more exposed to XBRL for financial reporting than others: Transparency to investors and analysts is obviously a crucial factor in the industry.

XBRL GL facilitates linking standard detail-level data with multiple end reporting XBRL taxonomies or XML schemas. This not only enables the automatic generation of multiple XBRL reports from the same underlying data, but it allows the automatic reconciliation of those multiple reports, which frequently include different representations of the same information.

Collecting data from customers. Some lines of business, typically asset-based lending for banks and factoring companies, require the collection of data about fixed assets, inventory items, and account receivables from customers. Without reusable data coming from banking customers, there are two primary choices—glancing at a paper document and hoping to catch trends (unlikely) or a bottom line, or retyping or scanning the detail into a more sophisticated analysis system that can analyze trends and otherwise compare across reports more efficiently.

With XBRL GL, you can check, analyze, and reuse the information more easily to help lower risk. XBRL GL is the perfect tool to pull in data in a standardized, consistent format no matter what application the customer uses to generate/store the information.

Mergers and acquisitions. Mergers and acquisitions are frequent in the financial services industry—both to achieve critical dimensions and as a way to penetrate new markets. Transparent data should make an acquisition candidate's information easier to analyze, helping with many aspects of the MD&A process, including better discovery of compatible tax policies. Merging the newly acquired company's results in with the acquirer then is simple due to standardized data.

XBRL GL facilitates the consolidation of data and the migration from one information system to another, offering important additional advantages in the process in terms of standardization and "ownership" of the data independent from the applications in use, which is particularly important in a transition process.

Stay tuned for the next episode of cross-industry analysis of the value and benefits of XBRL GL, the standardized Global Ledger. ■

Gianluca Garbellotto is an internationally known expert on both the business and the technical aspects of XBRL and XBRL Global Ledger and a member of the XBRL Standards Board. Gianluca can be contacted at gg@iphix.net.

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otherwise be allowable (under present law), determined without regard to the generally applicable percentage limitations. As noted in the Staff of the Joint Committee on Taxation committee report (JXC 38-06, August 3, 2006), if the deductible amount is reduced because of a benefit received in exchange or if a deduction isn't allowable because the donor didn't obtain sufficient substantiation, the exclusion isn't available with respect to any part of the IRA distribution.

In the case of a qualified charitable contribution coming from an IRA that has nondeductible contributions, the distribution is treated as consisting of income first, up to the aggregate amount that would be includible in gross income if the aggregate balance of all IRAs having the same owner were distributed during the same year. In determining the amount of subsequent IRA distributions includible in income, proper adjustments are to be made to reflect the amount treated as a qualified charitable distribution under the special rule.

Needless to say, if a person distributes more than the $100,000 maximum excludible amount, the excess amount would be included in gross income as a distribution. This rule is the opposite of the Roth IRA distribution rules, where the earnings are removed last.

For example: Sissy has a traditional IRA with a balance of $250,000, consisting of $50,000 of nondeductible contributions and $200,000 of deductible contributions and earnings. She has no other IRA. If Sissy makes a qualified charitable contribution of $100,000 in 2006, she would exclude the entire $100,000 transferred to the charitable organization. The remaining $150,000 would consist of $50,000 of nondeductible contributions and $100,000 of deductible contributions and earnings.

This isn't the end of the discussion on the changes to the rules applicable to charitable contribution deductions perpetrated by the Pension Protection Act of 2006. We will discuss more issues in future columns. ■

Janet Trewin, Ph.D., CMA, CPA, is an associate professor of accounting at the University of Nebraska at Kearney. She can be contacted at (308) 865-8107 or trewinj1@unk.edu.

Anthony P. Curatola is the Joseph F. Ford Professor of Accounting at Drexel University in Philadelphia, Pa. You can reach Tony at (215) 895-1453 or curatola@drexel.edu.

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register for a single day at many events instead of paying a full registration fee. And, as an absolute last resort, consider attending a conference that takes place over a weekend, and try to make it there on your day off. While you might think that's the last thing you want to be doing on your downtime, it's guaranteed to be time well invested.

While times have changed, conferences still remain an ideal center of networking, learning, and enjoyment. More important, they serve as a unique platform that allows for face-to-face communication, undoubtedly a key factor to continued business success. No matter if you're at the early stages of your career, a seasoned veteran, or somewhere in between, there are more than enough valuable reasons to make it to a conference this year.

To learn more, read my previous article titled "What Makes a Professional Conference Worth Attending?" in *Strategic Finance*, March 2007. ■