Turning Obligation into Opportunity

BY GIANLUCA GARBELLOTTO

Those of us with children may remember a time when our children had an almost endless supply of something dear to them (such as toys or candy) but were unwilling to share even a little bit with someone else. That simple act of obligation for a negligible amount of sharing blinded them to the vast amount they still had for themselves. In the same way, the recent XBRL-related mandates for external reporting may be a new obligation, but they shouldn't hide the great value that can come from exploiting XBRL for other purposes.

If you were required to use the Internet to file your income tax return, would you ever limit your use of the Internet to only that purpose? The question sounds ridiculous, but it's similar to how some people are thinking about XBRL these days. In a few years, the question "Should XBRL only be used to fulfill regulatory mandates?" will sound just as pointless, but as more and more regulators make its use required, the answer to this question makes all the difference between strategizing how to absorb an additional compliance cost vs. leveraging the power of a different approach to both internal and external reporting that enables process changes and substantial cost savings.

The release of a proposed rule by the Securities & Exchange Commission (SEC) calling for the gradual introduction of mandatory filings in XBRL starting later this year is the most recent milestone in a global market adoption process. If you are the CFO of a company that's affected by the SEC mandate, you're probably wondering, "How much will this cost?" That's a fair question: The value proposition of XBRL is clear for regulators and analysts, who receive and process business information from a great number of different parties, but it's less clear for the producers of those data. To them, XBRL probably looks like yet another format to which financial reports have to be converted, similar to other formats already in use (such as Excel or PDF). Yet if you realize that XBRL isn't limited to financial reporting, then you are more likely to be asking, "How much can we save with this?"

XBRL is an additional cost only when the decision is made to limit its use to the end of the business reporting supply chain—converting end reports to XBRL when they are ready to be submitted to regulators. All the costs and burdens of gathering the information to generate that report have already been sustained, and XBRL doesn't bring any cost reduction in the report preparation process to your organization.

But XBRL is designed for much more than just financial reporting. With the right approach to its implementation within your entity, you can leverage it for many crucial internal processes, achieve compelling gains in terms of lower costs and greater efficiencies, and fulfill your regulatory obligations along the way.

The most significant gains for data producers can be achieved by representing the operational data underlying end reports with XBRL Global Ledger (XBRL GL). Sustainability reporting, taxes, key performance indicators (KPIs), and statistics are other areas in which XBRL plays an important role. I've written frequently in this column about the value of XBRL for internal use (for example, see the October 2006 column, "Broaden Your View on XBRL's Representational Capabilities"). Rather than go through the list of use cases again, however, I'd like to focus on one that has particular significance for CFOs today—International Financial Reporting Standards (IFRS) convergence—and describe the different value and implications of using XBRL throughout the whole process of generating end reports instead of merely converting the reports to XBRL after they are built.

Consider the case of a U.S.-based company that will need to file its latest 2008 financial statements in XBRL. The company will have to convert its financial statements to XBRL using the U.S. GAAP Taxonomy (www.xbrl.us/Pages/US-GAAP.aspx). This can be done by mapping the company's current financial statement format to the XBRL taxonomy, and it might involve the use of an Excel file built for the purpose or perhaps a complex ERP consolidation application or report writer that generates the financial statements. Using this option fulfills the requirement to file in XBRL, but that's all—nothing more, nothing less.

Now imagine that this company is also an early IFRS adopter. The International Accounting Standards Board (IASB) builds and maintains the IFRS XBRL taxonomy (www.iasb.org/xbrl/ifrs_taxonomy/latest_taxonomy/taxonomy_ifrs_2008.html) that can be used for generating IFRS financial statements. Mapping from the Excel file or ERP report is problematic because there are structural differences between the two sets of accounting principles. For the same reason, a direct mapping between U.S. GAAP and IFRS is impossible because there isn't a "one to one" correspondence between each financial statement line item in the two formats.

The only way to capture and reconcile the differences between the two reporting formats is by starting the conversion process at the trial balance level, where the differences between accounting principles and practices are reflected in the detail of accounts and balances. XBRL GL lets you represent each account in the trial balance and how it links to financial statement line items in one, two, or more financial reporting taxonomies. Accounts can be clearly identified if they are relevant only to one reporting method or the other. This approach not only enables the automatic reconciliation between those multiple financial reporting formats, such as U.S. GAAP and IFRS in the example, but also with other local GAAP or internal reporting representations. And, as promised, you get the XBRL representation of your financial statements for free.

Visit www.convergenceassistant.com for more information and for a free tool that allows you to generate and download the necessary XBRL GL and XBRL FR documents and provides a user interface for their navigation and reconciliation.

A common objection I have heard to a standards-based approach is: "Can't I just set up my ERP system, data warehouse, or consolidation application to generate two different end reports and convert each of them to the appropriate XBRL taxonomy? That way I can use the generating application for reconciliation purposes. Why do I need XBRL GL?"

The truth is that an integrated, XBRL-based approach has multiple advantages that go far beyond the immediate purpose of financial reporting reconciliation:

- XBRL GL lets you integrate all your data, not just what resides in your ERP or consolidation application. If a separate application is used in a specific process or department or if at least one manually created Excel file is used to incorporate data for reporting purposes, an XBRL-based solution would also address the related controls and risks.
- Once your trial balance is standardized with XBRL GL, it can be reused for multiple purposes, including internal and external auditing, consolidation, management reporting, data validation, analysis, and more.
- The trial balance is the ideal starting point for generating/reconciling end reports, and it's also the ideal plug-in to extend toward the underlying level of transactions, entries, and documents. XBRL GL standardizes all these and the links between the various levels of intermediate summarization along the business reporting supply chain. All this data becomes available in a standardized, holistic, application-independent format. This is where the greater benefits in terms of lower costs and greater efficiencies are realized.

Regulators and analysts know what the value of XBRL is to them. It's up to you to go beyond the most visible application to financial reporting and make XBRL work for you. ■

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