XBRL

By Gianluca Garbellotto

XBRL Implementation Strategies: The Bolt-on Approach

In March I discussed the reasons why companies that will have to submit XBRL filings to the U.S. Securities & Exchange Commission (SEC) over the next two years should be aware of (and carefully consider) three different strategies for the implementation of XBRL in their information systems: the bolt-on, built-in, and deeply embedded approaches. Starting this month, I'll take a closer look at each of these implementation choices.

The Bolt-on Approach

With the bolt-on approach, relevant filings are generated in a traditional format—typically Microsoft Word or Excel—and are created by following the same process already in use by the company. Once finalized, the filings are converted into XBRL either internally using an XBRL mapping tool or externally by outsourcing the conversion process.

There are a number of XBRL mapping tools that can be used for the conversion. Because Excel is the most frequent format for this kind of report, the mapping tools usually take the form of an Excel add-on that enables line items in the Excel report to be dragged-and-dropped onto the XBRL taxonomy elements, creating a one-to-one or many-to-one mapping. The tool then processes this mapping to create the XBRL filing, and it can be saved and reused.

A complete list of available tools can be found at www.xbrl.org/Tools. If your company is thinking about outsourcing this process, many companies and professionals are ready to provide this service. One website worth checking out to get a first-hand idea of how this may work is Try XBRL (http://tryxbrl.com), a joint effort of RR Donnelley and EDGAR Online.

Cost

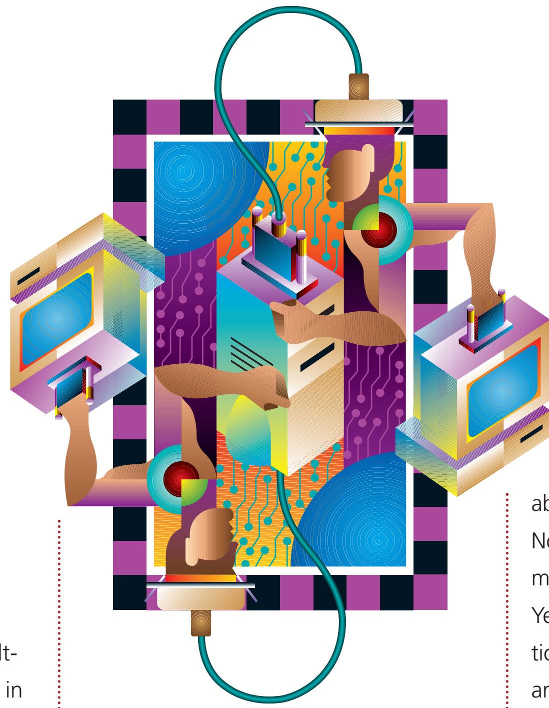
An XBRL mapping tool isn't expensive—you can typically get one for around $1,000—but purchasing a tool is only the beginning: You need to learn how to use it, find your way around the XBRL US GAAP taxonomy, and come up with a repeatable process to perform the mapping and the conversion.

"Interactive Data to Improve Financial Reporting," the SEC Proposed Rule issued on May 30, 2008, that became the final rule mandating the use of XBRL, includes an extensive analysis of the estimated direct cost related to XBRL filing. The analysis is based on the experience of participants in the SEC Voluntary Filing Program (VFP). In brief, the SEC indicates that the average cost of the first submission was $30,933, and the second submission averaged $9,060. The substantial drop for the second submission reflects the learning curve between the first and second filings. The SEC warns, however, that the VFP participants who provided information for these statistics operate in XBRL-related businesses. Taking that into account, it suggests raising the average costs by about 20%.

This estimate only includes direct costs. Indirect costs are mainly related to the efficiency of the approach, the implications in terms of maintenance and changes in requirements, and the return on investment (ROI) of the investment made in the XBRL technology.

Benefits

The primary benefit of the bolt-on approach is that it's a fast way to achieve the immediate goal of compliance with the SEC mandate. For the companies that have to start filing in mid-2009 and don't have a lot of time to get ready, the bolt-on approach can be a useful way to become familiar with the technology while buying time to consider the alternatives.



Limitations

The underlying assumption in the bolt-on approach is that nothing changes in the existing process that creates the filings. The only difference is an additional step at the end (the conversion) and an additional item to maintain (the mapping tool). In this respect, XBRL is just another format to represent reports, like Excel, Word, or PDF files. There's no additional value to the business apart from achieving compliance with the SEC requirement.

Additional limitations to the bolt-on approach lie mainly in two areas: change management and adjustment to evolving reporting requirements.

If a change occurs in the compliance requirements for a certain report, that change will have to be reflected in two different places: the process to generate the report and the mapping from the report to the XBRL taxonomy.

Evolving reporting requirements pose serious threats to the efficiency and the viability of the bolt-on approach in many respects. There are lost opportunities in terms of the internal benefits that can be achieved with the XBRL technology when using one of the alternative approaches. Additionally, new reporting requirements, such as convergence of U.S. GAAP with International Financial Reporting Standards (IFRS), will require the need to rethink any bolt-on process in place. Ways to deal with these factors will be discussed in the upcoming columns.

Even if a company decides these factors aren't immediately relevant, there are enough changes already embedded in the SEC rule for Year 2 of the mandate and beyond to cast a serious doubt on the scalability of the bolt-on approach. For example, the number of "data points" that will need to be mapped in Year 2 is about 10 times the number in Year 1. Not only is this cause to consider a more automated approach, but the Year 2 requirements also raise a question about the reusability of the process and mapping used in Year 1—regardless of whether it was performed internally or outsourced.

Resources spent on a bolt-on approach may be justified if an organization views it as a quick solution that buys time to consider a longer-term, more comprehensive strategy for XBRL implementation. In the next columns, I will discuss the built-in and deeply embedded approaches—alternatives that achieve the primary goal of compliance while also providing significant benefits for the filer. Stay tuned! **SF**

Gianluca Garbellotto is an internationally known expert on both the business and technical aspects of XBRL and XBRL GL. He is the current chair of the XBRL GL Working Group and a past member of the XBRL Standards Board. Gianluca can be contacted at gg@iphix.net.

ILLUSTRATION: AUGUST STEIN/ARTVILLE