

# XBRL <<<<<<<

By Kristine Brands, CMA

## XBRL and Corporate Actions Reporting

Every year, U.S. publicly listed companies make hundreds of thousands of corporate action announcements to disclose decisions, events, and activities announced by their boards of directors that affect a company's shareholders. The actions are classified into three categories: mandatory actions affecting all shareholders, such as a merger or acquisition; voluntary actions, such as a tender offer for a merger; and mandatory actions with choices, such as choosing between a cash or stock option with one choice designated as a default. The breaking news nature of corporate action announcements may have an immediate and material effect on a company's stock price and have the greatest value to investors when disseminated quickly and accurately. This column examines the challenges of the current corporate action reporting process and the initiatives under way to use eXtensible Business Reporting Language (XBRL) for corporate action disclosure to streamline the process to improve the quality and timeliness of the announcements.

### Issues and Challenges

Paper-based systems drive the current

corporate action reporting process. After an announcement is released, it may pass through data providers, investment analysts, custodians, and subcustodians (foreign and domestic) before reaching investors. The meaning of the information is at risk because corporate action users need to interpret the action message from form-based notifications such as press releases or PDF files that communicate the information. There is no standard format for the action notifications, leaving interpretation up to the users. The longer it takes to interpret an announcement's message, the faster its value drops. Accuracy is also jeopardized because the information is often rekeyed into another format or report, exposing it to risk of errors. Finally, there's cost risk because the information may need to be reformatted to meet users' needs. The bottom line is that there's a lot of distance between the issuer and the investor that prevents corporate action announcements from passing seamlessly from the issuer to the investor. Let's take a look at recent developments in XBRL corporate action reporting applications that are being developed to improve the process.

### The 2012 Corporate Actions Taxonomy

In May 2012, XBRL US published the second release of the Corporate Actions Taxonomy (CAT), a digital XBRL dictionary that defines more than 50 corporate action messages designed to facilitate corporate action reporting. This taxonomy is extendable, allowing users to add customized corporate action tags to meet unique reporting needs. It's a continuation of the 2009 collaboration between XBRL US, SWIFT (Society for Worldwide Interbank Financial Telecommunication), and DTCC's (the Depository Trust and Clearing Corporation) *Issuer to Investor: Corporate Actions* project to improve data quality and to reduce processing cost and time for corporate action reporting. The project's goals are to: "Reconnect the issuer to its investors by opening a direct and efficient channel of communication ensuring investors have certainty in the accuracy and transparency of immediately actionable corporate action data that have been sourced directly from the issuer."

The 2012 CAT is aligned with the corporate action messages defined by ISO 20022 (International Organization for

Standards for Financial Services) events and includes messages specific to the United States. ISO 20022 developed international standards for corporate action messages that define a single standardization approach for methodology, process, and repository design considerations for corporate action message applications.

Alignment with global corporate action standards provides transparency with global capital markets. Communicating corporate action information to the markets is faster because the announcements can be linked directly to an organization's corporate action processing system. This streamlined process eliminates the need for users to scrub corporate action information before using it. Tagging corporate action announcements with XBRL improves the efficiency, accuracy, and timeliness of corporate action reporting because the cast of middlemen—information handlers, processors, and interpreters—is reduced.

### ADR Pilot Project

Citigroup (Citi) participated in a Swift/DTCC XBRL corporate action pilot project for ADR (American Depositary Receipts) dividends. ADRs are receipts issued by

U.S. banks to U.S. investors as a substitute for ownership of shares of foreign stocks and are traded on U.S. stock exchanges instead of trading the actual foreign shares of stock. Under the old system, foreign issuers notified Citi, a depository bank, when ADR dividends were issued to ADR holders using a form-based system. Citi then notified its customers by e-mail or fax about the dividends. Now when Citi receives the information, it's converted to XBRL-based action notices that are delivered electronically to Citi's ADR customers. Citi was so pleased with the pilot project results that it is working on disseminating all ADR-related corporate actions using XBRL.

### No SEC Requirement—Yet

The Securities & Exchange Commission's (SEC) 2009 XBRL Reporting Mandate didn't include corporate action reporting for several reasons. The U.S. GAAP taxonomy developed to satisfy the mandate focuses on financial reporting standards concepts and isn't linked to the CAT. Regulatory fever heated up in 2010 when the Dodd-Frank Act was passed, raising concerns about overburdening

companies with additional compliance requirements. At this time, the SEC has no plans to include a corporate action XBRL reporting requirement.

### Happening Soon?

The tipping point for XBRL adoption in the U.S. occurred because of the SEC's 2009 XBRL Reporting Mandate. Without a similar regulatory push, it's unlikely that adoption of XBRL for U.S. corporate action reporting will occur voluntarily. The business case made for the mandate focused on the benefits of providing standardized, transparent, and accurate financial information for investors. The same business case can be made for using XBRL for corporate action reporting. Using XBRL applications to disseminate corporate action messages will result in faster, cheaper, and higher-quality disclosures benefitting investors. Let's hope we don't have to wait too long for this to happen. **SF**

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