

XBRL <<<<<<<

By Kristine Brands, CMA

The SEC and Interactive Data

>>> The Securities & Exchange Commission (SEC) is a global leader in its use of eXtensible Business Reporting Language (XBRL) to achieve regulatory compliance. Its 2009 XBRL Reporting Mandate requires all companies listed on U.S. stock exchanges to submit their regulatory filings (i.e., 10-Ks and 10-Qs) using XBRL-tagged data. But the SEC's use of structured data, like XBRL, for reporting goes beyond this example. Its Division of Risk, Strategy, and Financial Innovation (RiskFin), led by Craig M. Lewis, its director and the Commission's chief economist, has enhanced the analytical and reporting capabilities of the SEC through the use of structured data and XBRL. This column looks at some of these initiatives and Lewis's views on structured data and the SEC.

RiskFin and the Office of Risk Assessment and Interactive Data

The RiskFin division was formed in 2009 to combine the Office of Economic Analysis, the Office of Risk Assessment, and several other functions to provide the SEC with the capability to perform integrated analysis. Using an interdis-

plinary approach that includes the economics, financial, and legal disciplines, sophisticated analytical tools have been developed to examine risks and trends in financial markets because financial instruments, like hedge funds, have become more complex. The scope of

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RiskFin's activities include performing strategic and long-term analysis, identifying new developments in financial markets and systemic risk and their impact on the Commission's regulatory activities, as well as to educate other SEC divisions about these activities.

Within RiskFin, the Office of Risk Assessment and Interactive Data is responsible for developing risk assessment tools to support the Office of Compliance Inspections and Examinations by performing economic analysis of its rules and for supporting the Com-

mission's regulatory compliance interactive data requirements. Examples of structured data applications are a tool developed to evaluate hedge fund performance to identify outlier data and Form PF that requires SEC-registered investment advisors who manage private funds to report risk exposure statistics. The Office also identifies future uses of interactive data by the Commission. But the highest-profile use of structured data is the massive amount of XBRL data the SEC has collected since the 2009 mandate became effective.

What Is the SEC Doing with XBRL Data?

Lewis says that the SEC is in the process of developing an accounting quality model that's similar to its aberrational performance inquiry model used to identify outlier reporting. The API model is based on a proprietary risk assessment model to evaluate hedge fund risk that's used to identify funds for further review. The objective of the accounting quality model is to develop an audit tool prototype that the SEC's Division of Corporate Finance can use to confirm its examinations of 10-Ks and 10-Qs to support the

Sarbanes-Oxley Act's requirement that the SEC must examine a company's filings at least once every three years.

The model is based on a sophisticated regression analysis that measures accounting practices and disclosures and other factors. Examples are discretionary accruals and estimates such as depreciation expense. The results of the analysis are assigned a risk score and are ranked; then they can be used as criteria to decide which companies to examine. The model also allows comparison of a company to its industry peers. Lewis predicts that a stable version of the model will be available within the next 12 months.

The Impact on the Investor

Corporate finance and accounting executives are complaining about the SEC's 2009 XBRL Reporting Mandate because they feel their organizations aren't getting value from XBRL data because they aren't using the mandate data internally. They view the mandate as merely a compliance requirement. Lewis points out that the purpose of the mandate is to provide accurate and reliable informa-

tion to protect investors and to facilitate investors' decision making. The mandate meets the objectives of the SEC's 21st Century Disclosure Initiative to modernize disclosure and provides the Commission with the tools necessary to maintain stable markets to support capital formation. It also provides a level play-

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ing field for individual investors who don't have the resources to purchase private financial research. With XBRL's accessibility, ease of use, and transparency, individual investors can easily access public corporate financial information using tools such as an SEC XBRL viewer. An SEC XBRL viewer is a tool that reads an SEC XBRL filing's tagged data and renders it as a financial statement. Investors can either view the

financial information or download it for analysis. The SEC's XBRL viewer is found at www.sec.gov/spotlight/xbrl/viewers.shtml. Several companies have developed viewers, such as RR Donnelley's Interactive XBRL viewer (<http://xbrlviewer.bowne.com>).

The Future of XBRL at the SEC

Lewis would like to see broader use of XBRL in disclosures such as the proxy statement. Also, because the Dodd-Frank Act rules that are currently being written require the SEC to create report forms that are tagged with structured data, he hopes to see tools that pull structured data throughout the Web from different sources that can be used for analysis. And he would like to see the use of Inline XBRL (iXBRL) for the 2009 mandate to improve comparison to a company's HTML or PDF reports. **SF**

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