XBRL

By Kristine Brands, CMA

Does the SEC XBRL Mandate Meet Investor Expectations?

One of the major forces shaping a business information reporting revolution that uses electronic data for financial reporting applications is eXtensible Business Reporting Language (XBRL). The most prevalent use of XBRL is compliance with global regulatory and government reporting mandates. In 2009, the U.S. Securities & Exchange Commission (SEC) issued its XBRL Reporting Mandate, one of the largest XBRL regulatory mandates in the world. Though it became effective almost four years ago, it continues to face criticism from investors and analysts who believe that it isn't living up to expectations. This column discusses issues about the mandate that were identified in a recent XBRL study and describes how those issues are being addressed to restore confidence in XBRL and the filing mandate.

XBRL's Bad Rap

Many statutory mandates get a bad rap when they're introduced, regardless of the good intentions behind the regulations. Remember the Sarbanes-Oxley Act of 2002 (SOX) and the frustration companies faced during its adoption? Corporate accountants were kicking and screaming during SOX implementation, yet it facilitated improvements in internal control and corporate governance. In the SEC's XBRL mandate case, U.S. corporate financial and accounting executives have been critical of the value of the mandate and XBRL. For example, Nick Cyprus, vice president, controller, and chief accounting officer (CAO) of General Motors, says, "I really just think it's a regulatory platform right now. This is something we need to comply with. This isn't something we find useful. This isn't something I've heard my analysts say is useful." (See "Finance Execs Find XBRL Useless," CFO.com, November 21, 2012). Comments like Cyprus's are shared by many and need to be addressed. They also discourage others from looking at the value of electronic data for their organizations. A Columbia University study released in December 2012 by Trevor Harris and Suzanne Morsfield described several issues that identify reasons why financial and accounting executives are unhappy with the mandate and XBRL. *An Evaluation of the Current State and Future of XBRL and Interactive Data for Investors and Analysts* (www4.gsb.columbia.edu/filemgr?&file_id=7313146) was based on the authors' interviews with analysts and investors to explore whether or not "XBRL has delivered on its promise to them."

Key Findings and Moving Forward

Harris and Morsfield's major findings included analysts' and investors' dissatisfaction with high tagging-error rates in the filings, excessive use of tagging extensions, the need for more detailed tagged data, lack of audit assurance of tagged data, and the lack of tools to receive the data and then integrate it into companies' workflows.

The high tagging-error rate has plagued the accuracy of XBRL filings since the mandate went into effect. During the mandate's initial filing phases, the U.S. GAAP Taxonomy (UGT) was underdeveloped, and filers were inexperienced in the tagging process, which caused the high error rate and the use of unnecessary extensions. Subsequent versions of the UGT added tags that better met filers' needs and reduced the need to create extensions, which improved the quality of the tagged financial statements. Because the mandate classified XBRL filings as *furnished* instead of *filed*, penalties aren't being assessed for filing errors. While the SEC hasn't announced the end of the *furnished* status that gave filers limited liability for filing errors, furnished status is probably not permanent. The SEC's Division of Risk, Strategy, and Financial Innovation (RSFI) is developing an Accounting Quality Model (AQM) that allows the Commission to use analytical tools to monitor public companies' financial filings to address risk, to protect investors, and to find errors. When the AQM is launched, filers will have plenty of incentive to improve filing accuracy to avoid filing penalties.

Another major factor affecting the accuracy of SEC XBRL filings is that there's no requirement to audit tagged data. If the Public Company Accounting Oversight Board (PCAOB) and the SEC want to ensure accurate data, an XBRL filing audit requirement must be enacted. Until that happens, companies should engage their auditors to review their filings for tagging accuracy. The Columbia study also found that users want *more* tagged data, including the Management Discussion and Analysis (MD&A) section of the filing and proxy statements, elements that aren't tagged at present.

Another concern is the lack of tools to receive XBRL-tagged data and integrate it into companies' workflows. For the majority of filing companies, preparation of XBRL SEC filings is an add-on activity that can't be generated directly from their enterprise resource planning (ERP) systems. As a result, companies can't use filing information or its details for analysis because ERP systems don't record the information in XBRL at the transaction level unless they use XBRL GL (Global Ledger). If major software vendors such as Oracle, SAP, and others enabled XBRL at the transaction level, then companies could build XBRL data into their workflows and generate their SEC filings automatically.

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Because the SEC's XBRL mandate is often the only exposure finance and accounting professionals have to XBRL, many business information users haven't looked beyond the statutory requirements to see how it can help them meet other business information needs, both internally and externally. Instead of viewing XBRL as a tool to leverage electronic data for their organizations, they view it as a burden. Until they perceive XBRL as a tool that's easy to use and meets their business information reporting needs, XBRL will continue to face criticism. **SF**

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