XBRL IN AMERICA

Are We There Yet?

By Ramona Dzinkowski

Most of you are familiar with eXtensible Business Reporting Language (XBRL). To recap quickly, it was developed by XBRL International, a nonprofit worldwide consortium of more than 600 companies and agencies working together to build the XBRL language and promote and support its adoption as an information technology/knowledge management taxonomy for financial information, not unlike barcoding. It's a method by which companies take the financial information reported in a static format and make it interactive.

For external users, such as investors, analysts, bankers, auditors, tax agencies, academicians, and reporting authorities, XBRL allows financial information to be extracted from the financials and compared instantaneously, potentially saving considerable time while creating a level playing field in terms of information access. All tagged financial information is available for use by anyone as opposed to only certain individuals along the information supply chain.

Not unlike other barcoded information, the XBRL taxonomy enables unique identifying tags to be applied to items of financial data such as "net profit." The tags provide a range of information about the item, such as whether it's a monetary item, percentage, or fraction. XBRL can show how items are related to one another and can identify whether they fall into particular groupings for internal analytical purposes, such as budgetary line items. It also allows handling of business data by computer software. Such information is converted into XBRL by a mapping process or information generated in XBRL by software. The information can then be searched, selected, exchanged, or analyzed by computer, or it can be published for ordinary viewing.

Ultimately, it's a tool for collecting data in the financial information supply chain, which is often criticized as being unreliable and remarkably error prone. Mike Willis, chairman emeritus of XBRL International, notes that standardized reporting in this way will help eliminate the problem of "limited access…created by a range of [proprietary] information silos, manual report assembly processes, and disclosures reported in content-specific documents." According to the International Federation of Accountants (IFAC), "One of the major reasons for organizations to provide their information in XBRL is to take responsibility for their information supply chain. This allows them to provide information in an accessible way and to avoid distortion because users do not have to rekey information, which can create numerous errors and misinterpretations and increases costs."

Examples of XBRL Use Around the World

Although the primary function of XBRL is to improve business reporting and the electronic transfer of well-defined, verifiable business data, XBRL implementation has taken place in a number of ways over the last decade, including:

- Internal management reporting inside corporate groups;
- Reducing business reporting burdens through harmonization of business-to-government reporting, such as through standard business reporting (SBR) initiatives;
- Data sharing between regulatory services;
- Reporting by small and medium-sized enterprises (SMEs), as well as larger organizations, to government agencies and banks;
- Statistical reporting;
- Supporting internal audit and internal control functions within organizations;
- Supporting the integration of dispersed reporting and accounting systems;
- Consolidating financial statements;
- Reporting by banks, including central banks;
- Submitting credit risk reports to commercial banks;
- Reporting of financial statements to company offices, stock exchanges, and securities regulators;
- Convergence between different accounting principles, such as IFRS and local GAAP; and
- Corporate tax reporting.

Source: "Leveraging XBRL for Value in Organizations," ISACA and IFAC, 2011.

Where in the World?

XBRL taxonomies exist for many types of reporting, including U.S. Generally Accepted Accounting Principles (U.S. GAAP), International Financial Reporting Standards (IFRS), integrated reporting, and sustainability reporting, and the use of XBRL in filing annual and interim reports with securities regulators is gaining ground around the world. (See "Examples of XBRL Use Around the World" for additional uses.)

XBRL International reports that the XBRL business reporting standard is either mandated or used voluntarily in regulatory filing programs in more than 25 countries. In 2009, the U.S. Securities & Exchange Commission (SEC) issued final rules that required companies filing with it, including interlisted companies, to provide periodic financial statement information in XBRL format. This filing requirement began for fiscal periods ending on or after June 15, 2009, for larger companies and was phased in during 2010 and 2011 for all other SEC-reporting companies. Under the new rules, XBRL tagging is required for financial statements, notes, and financial schedules. Each company is also required to provide the same information on its corporate website that it files with the SEC. XBRL US says that more than 9,000 companies filed under XBRL in the United States in 2012. This year, large foreign companies that report under IFRS will also be submitting their financial returns to the SEC using XBRL.

Similarly, legislation that came into force in the U.K. on January 1, 2010, made it compulsory for companies to send their company tax returns to Her Majesty's Revenue and Customs (HMRC) online using XBRL for accounts and computations. In conjunction with HMRC, Companies House, the official U.K. government register of U.K. companies, also accepts company accounts in XBRL format. In 2012, the Chinese Ministry of Finance required 2011 annual financial reports to be filed in XBRL. Reportedly, 82 large and medium-sized local state-owned enterprises (SOE) in 17 provinces, autonomous regions, and municipalities; 18 financial institutions in the banking sector (including all of China's listed banks); and 14 large-scale central-administrated SOEs are filing using XBRL. In Canada, the Canadian Securities Administrators (CSA), who are responsible for the securities regulations of all provinces, launched a voluntary XBRL filing program in May 2007 and are expected to be moving forward in mandating XBRL for all listed companies.

Why XBRL?

It's clear that XBRL is here to stay, but the question remains, "Has XBRL delivered on its promises to industry?"

According to XBRL International, a plus for companies is that data from different company divisions with different accounting systems can be assembled quickly, cheaply, and efficiently if the sources of information have been upgraded to using XBRL. Once data is gathered in XBRL, different types of reports using varying subsets of the data can be produced with minimum effort. A company's finance division, for example, could quickly and reliably generate internal management reports, financial statements for publication, tax and other regulatory filings, as well as credit reports for lenders. Not only can data handling be automated, removing time-consuming, error-prone processes, but software can check the data for accuracy. XBRL International also suggests that "small businesses can benefit alongside large ones by standardizing and simplifying their assembly and filing of information to the authorities."

While this all sounds good, whether companies have captured the benefits of XBRL remains to be seen. For those like Wacoal, an apparel manufacturer and marketer based out of Kyoto, Japan, and one of the first companies to build XBRL into its financial information system environment, early reports show that, with the full integration of XBRL, the results were on the upside. Before Wacoal incorporated XBRL technology into its financial information systems, those systems were ad hoc and had no ability for consolidated accounting management. Integrating XBRL technology throughout the legacy systems involved linking together 32 independent systems and platforms. The intent was to ultimately streamline the financial management systems and achieve real-time cash management, provide decision support to the management accounting systems, reduce indirect costs, and integrate accounting systems that conform to worldwide standards. Once the company realized these goals, the new accounting system provided the backbone for consolidated financial reporting of 36 subsidiaries, shortened month-end closing time by two days, and provided a real-time environment for gathering financial performance information from purchasing, sales, materials, workflow, and inventory. Management could then receive interim financial data, improved data, and compatible information from other sources. (For more information, see the article "Breathing New Life into Old Systems" by Morikuni Haseqawa, Taiki Sakata, Nobuyuki Sambuichi, and Neal Hannon in the March 2004 issue of *Strategic Finance.*)

Fujitsu Group, a global multi-industry corporation with more than 167,000 employees and 430 companies, provides another example of how some companies have capitalized on XBRL data standardization. At the outset of its XBRL project, the company had 63 different reporting systems with more than one million product codes and 1,200 interfaces. This caused the company to rethink and reinvent its entire internal reporting environment. As a result, Fujitsu embarked on a project supervised by the joint efforts of the CEO and chief information officer (CIO) that involved seven functional units to (1) integrate dispersed systems, (2) increase visibility of the total cost of ownership, (3) implement standard reporting practices, and (4) enable performance verification and measurement. The XBRL General Ledger (now Global Ledger) allowed for data integration/consolidation, interoperability between applications, building and maintaining the audit trail, automated report generation, and reconciliation between different types of end reporting. Through implementation of common XBRL- and XBRL GL-based interfaces, Fujitsu ultimately achieved better data management, improved internal processes, and enhanced business data integrity. Use of open standards made it easier for various stakeholders to access relevant data sets and continuously improved the performance of business and financial processes. (For more information, see "Leveraging XBRL for Value in Organizations" by ISACA and IFAC, 2011, and www.fujitsu.com/downloads/INTSTG/webinars/How-XBRL-Transformed-Fujitsus-Internal-Financial-Reporting-Platform-March2009.pdf.)

But other evidence suggests that some companies are slow to build XBRL technology into their financial management information systems, and those that still tag data after the fact as an add-on aren't generally pleased.

A September 2012 survey by the Financial Executives Research Foundation (FERF) of Financial Executives International (FEI) titled "SEC Reporting and the Impact of XBRL" found that many U.S. companies were frustrated with the XBRL filing process and that, at the end of the day, the benefits to them were questionable. More specifically, XBRL was reported as one of the biggest bottlenecks in the SEC reporting function, with 55% of companies saying that it slowed their filing process. Respondents said that the three most challenging aspects of XBRL were the final review and validation process (62% of large accelerated filers), mapping/tag selection (42%), and the internal team's level of competency (32%). At the same time, the most commonly cited concern over XBRL in general was around the costs vs. the benefits of XBRL filing, with 45% of large accelerated filers indicating that the cost/benefit proposition in general was an issue. This increased to roughly 50% among midsize accelerated filers and nonaccelerated filers and to 68% among smaller reporting companies.

Senior finance executives at a recent FEI conference echoed these sentiments as some questioned the value proposition of filing using the XBRL taxonomy. Nick Cyprus, VP, controller, and chief accounting officer (CAO) at GM, said with respect to XBRL filing, "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." Similarly, Stephen J. Cosgrove, corporate controller and CAO at Johnson & Johnson, comments, "The regulators thought that most companies would eventually use this data tagging internally. But we see absolutely no use for it. It's just redundant to what we already have."

For many others, adopting XBRL has meant not only an increase in resource requirements typically within the finance function, but it also has brought additional accounting expense to the table. According to the same FEI study, 13% of large accelerated filers expect to engage an external accounting firm to review their XBRL filings in 2013.

Getting the Most from XBRL

Given the debate over the value of XBRL to companies, what is the future use of XBRL technology beyond compliance and ad hoc tagging of data?

Going forward, it depends on companies' appetite to use XBRL as a financial management and information tool. To date, tagging has occurred mainly at the reporting level rather than at the transaction level, where it's considered to be more beneficial to most organizations. According to Mike Willis, the main "bang for the buck" will come when companies follow the example of Wacoal and Fujitsu and integrate XBRL into the financial information systems throughout the organization. "For companies using a cloud platform that doesn't actually connect to their consolidation app or their ERP [enterprise resource planning] systems, their businesses will remain unchanged," he says. "Only when you automate the financial data using standardized data tagging will you begin to see the benefit of the availability of seamless financial information throughout companies."

Why do many companies seem resistant to embedding XBRL into their systems? Do they think it will expand the purview of audit assurance, certification, and potentially lead to greater audit fees? At this time in the U.S., external

auditors aren't required to be involved with XBRL-tagged data and don't provide assurance on such data in the context of an audit of financial statements. But according to Deloitte, "As XBRL tools and technology improve, registrants may integrate XBRL technology into their business information processing. If this integration occurs, the preparation of financial statements may become interdependent with the XBRL tagging process, which may have implications regarding internal control over financial reporting that are no different [from] any other controls or procedures related to the preparation of financial statements."

Surely, adding a layer of examination to the audit of internal controls over financial reporting will add complexity and, hence, cost to the audit process. Mike Willis suggests that it doesn't. As he explains, "The level of rigor here is very similar to the level of rigor without XBRL. If you think of it, in a paper-based reporting process, we have to manually make these same kinds of assessments anyway. By standardizing the business reporting supply chain through XBRL, the process will eventually become more efficient, not more complicated."

What's Ahead?

At the moment, CFOs are rethinking how they want to proceed with XBRL. To date, the main process for XBRL tagging has been to outsource it to a third party, commonly referred to as a filing agent. Going forward, according to the 2012 FEI XBRL study, companies will be taking greater responsibility for their filings. In fact, the percentage of respondents who aren't planning to outsource XBRL this year increased by 16% over last year's numbers. The future also looks promising for accountants with XBRL experience. Companies projected increasing the size of their XBRL teams as well as improving the level of their XBRL competencies.

Also, the scope of XBRL has widened. As IFAC reports, the inherent ability of XBRL to communicate a wide array of types of data supports a range of key performance indicators (KPIs) for performance and sustainability reporting. This includes reporting under the guidelines of the Global Reporting Initiative and the Integrated Reporting Framework, which involves many different types of metrics that are often distinct for a particular industry. XBRL, IFAC says, will allow for the construction of interlocking sets of internal, industry, and global sustainability reporting taxonomies.

Finally, the U.S. federal government has come on board the data standardization bandwagon. For example, the Child and Family Services Improvement and Innovation Act, signed into law in September 2011, calls for data standardization and requires the secretary of the Department of Health and Human Services and the Office of Management and Budget to work to establish nonproprietary data standards, such as XBRL, for reporting of information for improved data matching. Also, H.R. 948, the Standard Data and Technology Advancement Act of 2013 (Standard DATA Act of 2013), introduced March 5, 2013, requires the Office of Management and Budget to establish an interagency work group to designate nonproprietary data standards such as XBRL for any information reported under a number of health and human services programs.

Meanwhile, the global XBRL community is looking for hard evidence to demonstrate how XBRL has improved financial management in companies around the globe. XBRL International is in the process of collecting and evaluating case studies of how XBRL has been incorporated in companies' information systems and is seeking to present the insights of CFOs on how they have achieved cost efficiencies by fully integrating XBRL in their internal financial reporting systems.

We'll keep you posted as the XBRL story continues to unfold. **SF**

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