



"turning data into dollars"

Tom's Ten Data Tips – June 2008

XBRL

XBRL, an acronym for eXtensible Business Reporting Language, will permanently transform the creation, exchange and comparison of financial information. XBRL is an extension of XML (eXtensible Markup Language) and was 'invented' by Charles Hoffman, CPA, in April 1998. The first official specifications for XML were released in February 1998 by the World Wide Web Consortium (W3C). Although at the moment mainly used for exchange of *financial* information, it offers the possibility to break down "language barriers" for *any* kind of business data exchange.

XBRL is relatively new, and many organizations have been slow to embrace it. It offers many potential applications which can result in significant cost savings. Cost savings come from less data entry, and avoiding non-value added keying in of information. More importantly, gains are available from increased exposure, strengthening of internal controls, enhancing financial statement comparability, etc. Few companies, at present, have a clear vision on how they will employ XBRL, as well as when and how they expect to benefit from its introduction.

1. XBRL Decouples Structure And Content

XML based language tags are automatically and transparently added with an identification code or marker. The *content* of a financial report still needs to comply to existing accounting standards which is in no way affected by the choice to represent the data in XBRL format nor is the disclosure policy. So whether a report is displayed in "traditional" paper format, or in electronic XBRL format, exactly the same information is disclosed. The format or *structure* of the XBRL representation merely makes it easier to share and access.

2. An XBRL Taxonomy Defines The Dictionary Of Tags

The set of descriptor tags that are possible and relevant, as well as the way they relate to each other is derived from the (domain specific) taxonomy. Because business within a jurisdiction (in a specific industry) *share* this taxonomy, their reporting becomes instantly comparable and meaningful. In technical terms, a taxonomy

represents an XML schema. Conceptually, a taxonomy defines the set of relevant and permissible terms. Like a thesaurus it explicates structure and relations between terms within the domain. A dictionary is necessary to understand language, a taxonomy is required to convey information through XBRL. This is how data is upgraded to information.

Standardization of tags as they follow from the taxonomy gives the user assurance that his interpretation is accurate. Also, figures become instantly comparable. These “tags” allow information to be freely shared and reused across companies, auditors, tax preparers and filers, regulators, analysts, investors, or any other stakeholder who may get access to your data.

3. Tagging Generates (Additional) Exposure

One of the (main?) objections against an XBRL introduction is the anticipated cost or drain on resources. However, this doesn't appear a valid obstacle, quite apart from the potential for downstream savings. User-friendly and inexpensive tagging software is available (see e.g.: <http://xbrl.us/vendors/>) which requires nor presupposes *any* technical knowledge of XBRL. It only requires clarifying what each line on a statement represents. All the technical labeling is then automatically generated.

The good news is that after a statement has been rendered in electronic (XBRL) format, it then instantly becomes readable and available across the globe, and across language barriers. This may well have been one of the driving forces behind Japan's (and Israel's etc.) rapid push to require all public companies to report via XBRL. Their traditional “paper” statements aren't nearly as accessible to people who don't read Japanese (or Hebrew)...

4. Minimize Definition Extensions

XBRL is an extension of XML. And XBRL *itself* can be extended, too, without loss of standardization. The purpose of an XBRL extension is to cater to terminology of data that are particular to a specific business domain. These XBRL “tags” are the descriptors that you apply to a data item, to turn it into meaningful information by providing additional context. For example, if a line item in a statement is “gross margin”, the tag will signify this, along with its definition, the currency, accuracy, what time period it pertains to, and for which company.

Taxonomies for XBRL are business specific. So for instance there's a special purpose taxonomy for Financial Statements, Management Reporting, General Ledger, Tax Returns, EDGAR filings, Administrative Reporting, Assurance Services Schedules, etc. But even *within* a taxonomy, businesses may feel the need to extend XBRL. This can be easily done, provided that the relation with the business specific taxonomy and the overarching XBRL specifications are preserved. This allows for company specific details to be included in their reporting.

The drawback of these extensions is twofold:

- company specific lines have no basis for comparison with other companies, and the hallmark of financial reporting is that we reduce our view of the business to *one* dimension for maximum comparability: \$ (or €, £, etc.)
- Any XBRL extension carries the same drawbacks that customization of standard software does: sharing of results becomes more tricky, and upgrading to a newer version of the taxonomy is likely to entail additional effort to include the custom tag development again (at least in part).

5. Accuracy Might Drive XBRL Adoption More Than Cost Savings

Many people have wondered why adoption of XBRL has been relatively slow so far, especially given the potential for considerable cost savings (estimated 350M/yr for just a tiny country like the Netherlands). One explanation *might* be "ordinary" resistance to change. The accounting profession is not known for its progressive attitude towards change.

Besides 'mere' cost savings there is another powerful driver for adoption of XBRL. It is estimated (in the US) that 20% of the time spent reporting goes to non-value added activities of proofing, reading, checking and footnoting of financial statements. What is worse, it is this manual aspect of the process that has the most potential for errors. If financial professionals could use this 20% of time for value *added* activity, and at the same time benefit from more accurate data, you get a powerful double whammy. And because various reporting purposes can be served by just one instance of XBRL data, problems with keeping multiple sources in sync evaporate. This improves consistency and integrity of data across reporting environments.

6. An XBRL Launch Requires Multi-Disciplinary Input

It is a grave mistake to assign introduction of XBRL to *either* Finance *or* IT. Not to mention that you need both accounting as well as financial reporting acumen. In fact, because of the widespread opportunities for information sharing that XBRL offers, even the two of them together will miss out on a lot of opportunities. To fully benefit from everything XBRL has to offer, a truly multi disciplinary introduction is required. For decisions on scoping of the XBRL project, but also as a 'referee' to handle inter departmental issues, the direct involvement of the CFO is probably mandated.

7. More Staff Do *Not* Solve The (Reporting) Problem

Information demands have been increasing as a result of regulatory pressure like Basel II, Sarbanes-Oxley, etc. In general, business are increasingly driven "by numbers", and this too puts increased pressure on (financial) reporting.

Oftentimes the short-term reflex is to add more staff. Adding resources in the reporting chain temporarily alleviates the stress, but misses the bigger point: this is not a one off trend, but is part of an incoming tide. A strategic response acknowledges this, and seeks to structurally alleviate this pressure, by making reporting an integral and largely automated output of primary processes. Contemporary vendors of financial software can support this, provided that taxonomies are integrated in "standard" business processes, and drive primary reporting.

8. A Taxonomy Needs To Fully Support The Reporting *Goal*

Taxonomies are developed for different industries because each industry has its own terminology. The concept of "inventory" is meaningful for manufacturing and process industries but not for financial services. The way inventory is reported in manufacturing is quite different from a chemical plant. Needless to say that relevant sub-concepts will be different, too. Therefore, different industries require different taxonomies.

But even *within* an industry there will be separate taxonomies required, depending on the reporting purpose. XBRL can support the annual statement of results, website information, tax offices, regulatory purposes, but also *internal* reporting to the CFO. Often the reporting goal will bring with it some special purpose terminology that may require a proprietary taxonomy.

9. XBRL Makes Capital Markets More Efficient

XBRL allows investors to spend less time on translation and data entry. Therefore, they can devote more time to analysis, and potentially screen far more companies for investment opportunities they offer. Also, because benchmark comparisons within their respective peer groups are available with XBRL, investment decisions become much better grounded in numerical (financial) facts. Investors get the information they need in a form that makes it easy and efficient to use. As a result they can follow more businesses and better compare their financials. Searching for undervalued stocks can be automated and take place in real time.

10. XBRL Will Change Financial Reporting Forever

Although acceptance has been gradual and sometimes slow, XBRL is being adopted in virtually all important capital markets. Since it isn't tied to any software application, is open and royalty free, and isn't linked in any way to an accounting standard, there are no "structural" obstacles to prevent equally universal application as for instance HTML. Both GAAP and IFRS taxonomies are available, for instance.

Legislative and regulatory changes have significantly increased the pressure on financial professionals without leading to commensurate value for investors and analysts. XBRL however, induces a paradigm shift: traditional paper is outdated as soon as it's printed (the same holds for pdf's of course). Electronic (=XBRL) reports aren't only interactive, they allow for uninterrupted real time feeds so that numbers are always current or at least the latest that are available (hyperlinked syntax of the internet). All this will dramatically reduce response times and make capital markets more efficient.