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XBRL Will Enhance Corporate Disclosure and Corporate Performance Management

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Extensible Business Reporting Language (XBRL) is a new way to present core financial information, and is set to transform the way that publicly traded companies generate, report and analyze their financial results, moving to an interactive use of financial data. CFOs and CIOs of all types of organizations must assess this change and, where necessary, plan for its adoption.

Key Findings

- Interest in XBRL continues to grow as the Securities and Exchange Commission (SEC) and other regulatory bodies around the world further embrace it as a reporting standard. However, adoption by organizations is limited.
- Technology providers are gearing up for XBRL adoption by developing XBRL functionality or partnering with emerging XBRL reporting specialists.
- XBRL will affect financial reporting and disclosure, but visionary organizations also will use it to deliver real-time internal financial and management reporting to business managers.

Recommendations

- Closely monitor how XBRL is adopted by regulatory bodies around the world, such as the SEC, and plan your adoption accordingly.
- Evaluate the tools and technologies available from established and emerging vendors, along with free online XBRL tools.
- Consider how you can leverage XBRL to improve internal financial and management reporting. Visionary organizations will deliver significantly improved financial reporting by being early adopters of XBRL.

STRATEGIC PLANNING ASSUMPTION(S)

By 2011, the use of XBRL to deliver real-time financial information to business managers will be cited by CEOs in management surveys as a Top 5 contributor to their organization's success in managing the business.

ANALYSIS

XBRL is an XML-defined standard used for analyzing, exchanging and reporting financial and other business performance information. It defines the contents of financial reports and statements to make it easier to disseminate, access and compare financial information. XBRL is being developed by an international, nonprofit consortium of approximately 450 major companies, organizations and government agencies (www.xbrl.org). It is an open standard, free of license fees. XBRL provides an identifying tag for each item of financial data instead of treating financial information as a block of text, as in a standard Internet page or a printed document. For example, "net profit" has its own unique tag, so any report that needs to show net profit only needs to reference this tag. Perhaps more importantly, the XBRL specifications (called "taxonomies") handle the complex financial semantics (such as assets, liabilities, income, expenses, debits and credits) that cause problems when reporting financial data using business intelligence (BI) reporting tools. This means that it is easier to build sophisticated financial reports, such as a profit and loss statement, using XBRL. For example, it is estimated that the average Fortune 1000 company used more than 800 spreadsheets to prepare its financial statements for regulatory reporting. XBRL offers a solution to significantly reduce this number and improve internal controls over financial reporting.

These potential benefits have attracted interest in XBRL from the accounting industry, investors, public and private companies, market utilities (such as stock exchanges), and government regulatory and tax agencies around the world. XBRL has international applicability and is being implemented across many geographies. Regulators, in particular, see significant benefits in reducing the cost and complexity of financial statement filing by using XBRL, along with an increase in accuracy and timeliness of the data. However, adoption has been relatively limited so far. Some examples include:

- **The U.S.** The Federal Deposit Insurance Corporation (FDIC) mandated that U.S. banks submit their quarterly call reports using XBRL starting in the third quarter of 2006.
- **Europe.** The use of XBRL has been advised for common reporting (COREP) and financial reporting (FINREP) by the Committee of European Banking Supervisors. COREP and FINREP will help drive commonality across regulator reporting requirements, which will facilitate the use of a single instance of data for multiple regulatory submissions.
- **Singapore.** Mandated full or partial XBRL filing for financial statements ending on or after 30 April 2007.
- **Belgium.** Filing of annual accounts in XBRL format possible from April 2007 onward.
- **China.** Shanghai exchange mandated XBRL submissions for accounts from 2004 onward; Shenzhen exchange has a pilot project under way.
- **Japan.** Mandated XBRL for all financial statements for publicly traded companies starting with quarterly reporting in the second quarter of 2008.

- **Israel.** Mandated all financial reporting to be tagged with XBRL from the beginning of 2008.

Other countries, such as Canada and Korea, have established voluntary XBRL filing programs in their progression toward mandatory support. Several governments also are considering XBRL-based standard business reporting (SBR; see Note 1). However, perhaps the most pivotal event in the widespread adoption of XBRL is the potential adoption by the SEC. The SEC chairman, Christopher Cox, has been a strong advocate of the use of XBRL, and the SEC has been a supporter and sponsor of the development of taxonomies for U.S. generally accepted accounting principles (GAAP). On 25 September 2007, Cox announced "the completion of all work on developing data tags for the entire system of U.S. generally accepted accounting principles," part of the SEC's introduction of interactive data. In February 2008, the SEC Advisory Committee on Improvements to Financial Reporting recommended to the SEC chairman that all publicly traded companies use XBRL within three years. Although Cox remained noncommittal about whether use of XBRL will be mandated for SEC filings, Gartner expects that a move to mandatory use will be announced in the second half of 2008 (see "The SEC Inches Toward a Decision on an XBRL Mandate"). If the SEC were to mandate XBRL use, then it would signal a seismic shift in its global adoption. Consequently, U.S.-based companies should prepare early for when the SEC makes XBRL filings mandatory. Other companies should watch adoption by their local industry or government regulators, and plan for use of XBRL for external financial reporting accordingly.

Despite this interest by regulators in XBRL for external reporting, there has been limited interest in end-user organizations, unless they are participating in one of the voluntary early adopter programs. Most CFOs and finance staff view XBRL as something they will be forced to adopt once their regulators demand it. It is viewed as a "necessary evil" that will be another output format of their consolidated financial reports, almost a "save as" XBRL option. Most corporate performance management (CPM) vendors provide the capability to produce financial statements as XBRL output, so most finance staff assume that they will just need to upgrade to the appropriate version to support XBRL. Although this is true, they are missing an opportunity. Early adopters already have found benefits in financial reporting. For example, United Technologies found that use of XBRL in preparation of financial filings eliminated 150 to 200 hours of labor from the quarterly reporting process, while concurrently strengthening the overall process controls.

Visionary organizations will take the adoption of XBRL beyond external reporting. XBRL offers significant potential benefits for internal reporting. By taking the appropriate GAAP taxonomy and extending it to link with management reporting structures, a company can bridge external statutory reporting systems and internal management reporting. This also can provide real-time financial and management information that can be disseminated internally to any user at any level of the organization, because XBRL handles the semantic complexity of aggregating financial data. XBRL also enables financial reporting tools to be significantly easier to use than the current generation of BI and CPM tools, because the semantic complexity of debits, credits, assets and liabilities is handled by the taxonomy and hidden from the user (and the reporting tool).

The technology to support this advanced use of XBRL is emerging already. In February 2008, the SEC released its own XBRL reporting tool, called "Financial Explorer," that provides a graphical analysis using graphs and interactive charts of the chosen company's performance. Although the data used for its analysis is still unaudited, and there are only a sample of companies listed, it demonstrates the ease of use and analytical capabilities open to external stakeholders and reviewers using XBRL. Some data providers, such as Reuters and Edgar Online, enable access to XBRL formatted data. Several specialist vendors, such as Snappy Reports, Ipedo, Rivet Software and UBmatrix, have products that allow taxonomy creation, validation, report production and ad hoc financial analysis of XBRL-tagged data.

These technologies could be used to create Web 2.0-type mashups that could, for example, feed up-to-the-minute financial information for a business unit to an executive based in his or her geographic location. Visionary CFOs will leverage these technologies to revolutionize the way financial performance data is delivered to executives, managers and employees, to enable them to make better business decisions in the context of up-to-the-minute information. However, adoption among most organizations will remain limited because they will wait for external regulation to drive them to XBRL. Most organizations will adopt XBRL for external reporting only, and will not make the move to using it for internal reporting until the technology becomes mainstream and the visionary organizations have proven the benefits.

RECOMMENDED READING

"The SEC Inches Toward a Decision on an XBRL Mandate"

United Technologies Case Study (http://www.aicpa.org/pubs/jofa/jun2007/stantial.htm)

Note 1
SBR for Government

Several government organizations are participating in an SBR initiative that aims to create a national, government-owned taxonomy and reuses current taxonomies, such as International Financial Reporting Standards (IFRS) or country GAAPs. This will reduce the number of unique data items demanded by governments, leverage XBRL for report submission and consolidate agencies' reporting requirements. SBR is being implemented in the Netherlands, while Australia has plans to implement it in the future, and several other countries (such as the U.K. and New Zealand) are considering it.

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