XBRL

Research Analysts

David Zion, CFA, CPA
212 538 4837
david.zion@credit-suisse.com

Amit Varshney, CFA, FRM
212 538 8049
amit.varshney@credit-suisse.com

Christopher Cornett, CPA
212 325 5870
christopher.cornett@credit-suisse.com

ACCOUNTING

Coming Soon to a Computer Near You

As expected, earlier today the SEC proposed making XBRL filing mandatory, with the largest 500 US companies filing in XBRL as early as Q1 of 2009.

What is XBRL? XBRL stands for eXtensible Business Reporting Language, a computer language that's like bar coding for financial information. Companies can use XBRL to tag each piece of data in their 10-K, 10-Q, earnings release, etc. making it computer readable.

With the right software, your model could read those tags and put the relevant data into the right location with the press of a button. Allowing you to spend less time on manual labor like typing stuff into your model and checking it and more time on analyzing it. XBRL has the potential to significantly change (in a good way) how you and I do financial statement analysis, modeling and research.

With over 10,000 U.S. GAAP XBRL tags, covering everything from simple items that appear on the balance sheet (e.g., total assets) to data buried deep in the footnotes (e.g., the amount of pension benefits expected to be paid over the next five years) the analytical possibilities are endless. XBRL could allow investors to analyze things that they may not have in the past because it took too much time to pull together the data. For example, quality of earnings screens could evolve from basic changes in accruals to a focus on the underlying assumptions or valuation allowances. However, XBRL is not a cure all; it's just taking current information (with all of its baggage) and tagging it. XBRL is not changing any accounting or disclosure rules, it's just a better delivery mechanism.

In the future, XBRL could be used to enhance how companies present their financial results, allowing for much more flexibility. In an XBRL world, the financial statements no longer need to be limited to a sheet of paper or one static presentation. Why not let investors toggle between a direct and indirect method cash flow statement, or a historical cost and fair value balance sheet. The financial statements could also provide different layers of information, letting investors dig as deep as they want, for example the balance sheet could layer on off-balance-sheet items like operating leases, special purpose entities or a company's pension plan, and the income statement could allow you to drill down to find out what is driving each line item (e.g., is it cash flows, accruals, change in estimates, mark to market etc.) Of course, there are investors that won't care how the companies present the information as they can take the raw data and focus on whichever items they choose. Easily accessible detailed data may diminish the need for shortcuts, like trying to boil everything down to earnings. That may even help cure the disease of short-termism.

In this piece we briefly review XBRL, its potential benefits and challenges. We also discuss Credit Suisse HOLT's hands on experience with XBRL.

XBRL

As expected, earlier today the SEC voted unanimously to propose requiring public companies to file their financial statements in XBRL. According to the proposed timeline, companies with total market floats of over $5 billion could begin filing their basic financial statements in XBRL as early as the first quarter of 2009, with the footnote data following the next year. The rest of corporate America (and international filers) would begin filing over the next three years. The rule isn't finalized (there's still a 60 day public comment period), but we expect the final rule to pass with no major changes.

So what is XBRL? You can think of an XBRL tag as a bar code (for financial information), on the surface a bar code doesn't provide much information, it's just a bunch of lines and numbers, however, there is a wealth of information (product description, price, etc.) associated with each code that's below the surface, accessible with the right technology (a bar code reader). XBRL is very similar, on the surface, as you can see in Exhibit 1, an XBRL tag looks like a bunch of gibberish.

Exhibit 1: XBRL Tag for Microsoft's Current Unearned Revenue

```
<us-gaap:EmployeeRelatedLiabilities contextRef="FY07e" decimals="-6" id="id_footnote_elem_23420436"
unitRef="USD">2325000000</us-gaap:EmployeeRelatedLiabilities>
  <us-gaap:AccruedIncomeTaxesPayable contextRef="FY08Q3e" decimals="-6" unitRef="USD">3765000000</us-
gaap:AccruedIncomeTaxesPayable>
  <us-gaap:AccruedIncomeTaxesPayable contextRef="FY07e" decimals="-6" id="id_footnote_elem_9217141"
unitRef="USD">1040000000</us-gaap:AccruedIncomeTaxesPayable>
  <us-gaap:DeferredRevenueCurrent contextRef="FY08Q3e" decimals="-6"
unitRef="USD">10385000000</us-gaap:DeferredRevenueCurrent>
  <us-gaap:DeferredRevenueCurrent contextRef="FY07e" decimals="-6" id="id_footnote_elem_31282222"
unitRef="USD">10779000000</us-gaap:DeferredRevenueCurrent>
  <msft:SecuritiesLendingPayable contextRef="FY08Q3e" decimals="-6"
unitRef="USD">2476000000</msft:SecuritiesLendingPayable>
  <msft:SecuritiesLendingPayable contextRef="FY07e" decimals="-6" id="id_footnote_elem_28005541"
unitRef="USD">2741000000</msft:SecuritiesLendingPayable>
  <us-gaap:OtherSundryLiabilitiesCurrent contextRef="FY08Q3e" decimals="-6" unitRef="USD">4375000000</us-
gaap:OtherSundryLiabilitiesCurrent>
  <us-gaap:OtherSundryLiabilitiesCurrent contextRef="FY07e" decimals="-6" id="id_footnote_elem_33378724"
unitRef="USD">3622000000</us-gaap:OtherSundryLiabilitiesCurrent>
  <us-gaap:LiabilitiesCurrent contextRef="FY08Q3e" decimals="-6" unitRef="USD">27028000000</us-
gaap:LiabilitiesCurrent>
  <us-gaap:LiabilitiesCurrent contextRef="FY07e" decimals="-6" id="id_footnote_elem_462309"
unitRef="USD">23754000000</us-gaap:LiabilitiesCurrent>
```

Source: Microsoft's Investor Central, Credit Suisse Accounting & Tax Research

However, with the right software, it is clear that this tag provides lots of information: including, that it represents short-term unearned revenue for Microsoft, it's denominated in U.S. dollars, the amount is $10,385 million, and the information is as of March 31, 2008, as you can see from a snapshot of Microsoft's balance sheet in Exhibit 2.

Exhibit 2: Snapshot of Current Liabilities from Microsoft's Balance Sheet

(In millions)	March 31, 2008	June 30, 2007
Current liabilities:		
Accounts payable	$3,600	$3,247
Accrued compensation	2,427	2,325
Income taxes	3,765	1,040
Short-term unearned revenue	10,385	10,779
Securities lending payable	2,476	2,741
Other	4,375	3,622
Total current liabilities	27,028	23,754

Source: Microsoft's Investor Central, Credit Suisse Accounting & Tax Research

The U.S. GAAP tags (more than 10,000 of them) range from items that appear on the balance sheet (e.g., unearned revenue) to data buried in the footnotes (e.g., Microsoft also

liabilities; quality of earnings screens could evolve from basic changes in accruals to a focus on the underlying assumptions or valuation allowances, etc. etc. etc. The need for shortcuts may diminish too, why try and boil everything down to earnings and a simple P/E multiple, when you can more easily unearth the metrics that indicate whether the company is truly building shareholder value, rather than the company defined metrics.

XBRL could have a significant impact on quantitative research and strategies as well, where the number of factors and relationships that can be tested efficiently and accurately would increase exponentially (if the footnote and MD&A data are tagged). For a further discussion see the Quantitative research team's May 14, 2008 piece on XBRL, *The ABCD's of XBRL*.

However, XBRL is not a cure all; it's just taking current information (with all of its baggage) and tagging it. XBRL is not changing any accounting or disclosure rules, it's just a better delivery mechanism. Also, there are still plenty of unanswered questions: For example: what will the companies tag? So far, the SEC has only proposed requiring XBRL for the 10-K's and 10-Q's. Of course many investors rely on other sources of information including company earnings releases, which are often issued weeks ahead of these SEC filings. We hope that eventually the SEC will require companies to tag their earnings releases as well as their K's and Q's or that companies will choose to tag them on their own. Another example: will companies only tag the financial statements and footnotes, or will they tag the MD&A, pro-forma numbers and key performance indicators (KPI's) as well?

XBRL Could Help Change How Information is Presented

XBRL could also allow for a completely different presentation of financial statements, that today is still tied to the antiquated idea of financial statements as one sheet of paper. Of course today's businesses are too complex for that to work, hence we get hundreds of pages of footnotes, MD&A etc. With the help of XBRL the financial statements could provide different layers of information with the click of a mouse. For example, a company could present a very basic balance sheet that with a click on a particular line item would expand to provide more detail and then expand again with another click to provide even more detail and so on and so on. You can see how easy this might be through a high level view of a small slice of the XBRL taxonomy in Exhibit 4, where we start with the XBRL taxonomy for the balance sheet, expand the assets, then current assets, then inventory to find its components (finished goods, work-in-process, etc.). Presenting financial statements that provide different layers of information in a user friendly manner is not as far fetched as it might seem; for example, check out Microsoft's Investor Central web site at www.microsoft.com/msft/ic. You may be wondering, what's taxonomy? (It sounds painful) simply put the XBRL taxonomy is the dictionary for XBRL it contains descriptions and detailed information about the thousands of XBRL tags. See www.xbrl.us for the full U.S. GAAP taxonomy.

Exhibit 4: **High Level View of XBRL U.S. GAAP Taxonomy For Inventory**

Source: XBRL U.S., Credit Suisse Accounting & Tax Research

Potential Benefits of XBRL

As when bar coding was first introduced over 40 years ago, there is no way to dream up all of the benefits of XBRL before it is even rolled out unless you have a crystal ball. With that in mind here are just a few of the potential benefits of XBRL:

- Significant reduction in manual input and need to check and recheck numbers that go into models.

- Increased transparency with information from footnotes, maybe the MD&A and other data more readily available for further analysis. Could allow analysts and investors to build better models by incorporating factors they had not used previously.

- Almost real time data, more accurate information available instantly at time of filing.

- Standardized XBRL tags should provide better comparability across companies.

- Allows for the convergence of information globally and translation of financial reporting data into multiple languages as accounting standards converge.

- XBRL could extend beyond SEC filings (e.g., 10-Ks and 10-Qs) and include earnings releases and industry data. Conceivably any piece of financial information could be tagged under XBRL.

- Ability to share data easily would be a benefit to users of financial statements as well as preparers and auditors.

If investors can more efficiently and effectively digest financial data, it could result in more efficient capital markets.

Challenges for XBRL

Of course it's not all peaches and cream for XBRL, the technology faces a number of challenges, including:

- Will the data be timely? (i.e., will companies only tag their 10-K's and 10-Q's, or will they provide tagged earnings releases as well?)

- How to keep it up to date as accounting rules and disclosure requirements continue to change.

- The level of assurance the auditor provides, (i.e., will the XBRL tags be audited).

- One of the biggest challenges in developing XBRL has been and will continue to be, developing standardized tags.

- Extensibility, one of the benefits of XBRL, could cause problems. If companies create their own tags, it would reduce comparability and a newly tagged data item might be missed by investors.

- With so many tags, what level of detail will companies tag? How will this be policed? Inconsistent tagging, where some companies tag each data item and others may not, would be a problem.

- International convergence, there are significantly fewer XBRL tags for International Financial Reporting Standards (IFRS) than under U.S. GAAP. Will investors lose transparency if we move from U.S. GAAP toward an IFRS system?

Remember, XBRL is not a cure all; it's just taking current information and tagging it, the data is available, it's just tough to get your hands on. Therefore, today's problems with comparability and "one time" items will still cause problems in an XBRL world.

HOLT's Experience with XBRL

XBRL is more than just an idea, it is actually being put to use today. We asked Tom Hillman from HOLT a few questions about HOLT's experience with the new technology. HOLT is an advisory service of Credit Suisse offering unique insights into corporate performance and valuation. Companies are comparable across sectors, regions and over time because accounting and inflation distortions are systematically adjusted for to assess the underlying economics of the business. Tom Hillman, CFA, CPA, co-heads the global HOLT Valuation & Analytics group which is responsible for maintaining, improving, and garnering investment insights from their proprietary framework of 20,000 stocks in more than 60 countries. What follow are our questions, along with his answers:

How is HOLT using XBRL today?

- *First we built an infrastructure to leverage the XBRL technology. With this infrastructure, HOLT has been able to significantly expand the coverage of its Chinese A-share database from 300 firms to well over 1,000 firms in the past year by incorporating the XBRL data from the Shanghai and Shenzhen stock exchanges. In addition to the benefit of a significant increase in coverage, we have also found the data to be of high quality.*

What are the challenges you faced as you applied the XBRL technology?

- *A lack of uniformity between taxonomies pre and post China adopting IFRS has been difficult. Key data items, such as gross property, plant and equipment which were available for 2006 filings are no longer required for 2007 filings. This data is still available in their annual reports, its just not being presented electronically. Ideally all financial data in the annual report would be tagged consistently each year.*

Even though it's early on, what benefits are you seeing from the use of XBRL?

- *HOLT sources its key fundamental data from the best data vendors in the world and uses attributes such as quality, timeliness, and coverage to assess the vendors. The potential benefits of XBRL are many, including increased access, accuracy, quality, consistency, transparency, and detail of financial reports. In addition, through the automation of financial report delivery, we should see enhanced efficiency and better timeliness of financial reports. In the future, when companies file their financial data*

electronically, we expect to have this information in our HOLT database near instantaneously.

How do you expect HOLT will use XBRL in the future?

■ *As more countries adopt XBRL, HOLT will look to incorporate this into our database for the aforementioned benefits. Since XBRL allows for the possibility of significantly more data to be made available to investors, difficult to obtain key industry data items could be used to improve our industry models.*

Tom, as a member of the CFA Institute's XBRL Working Group, can you talk about the key characteristics necessary for XBRL to be a useful technology for investors?

■ *The working group was established to represent the needs of investors and analysts in the global implementation of XBRL and we developed five key principles to outline the XBRL framework attributes that are necessary to maximize the investors' benefits from XBRL. These benefits are:*

  o *Core taxonomy (or structure of tagging elements) should be predefined by current financial reporting standards.*

  o *Taxonomy extensibility should maintain the level of data comparability as defined by GAAP and other regulatory requirements.*

  o *Ultimately, companies should deliver required financial reports to regulators using the established XBRL framework.*

  o *The general public should have equal access to the XBRL-tagged information.*

  o *Regulators should develop the necessary infrastructure and protocol to ensure the timely updating of the established XBRL framework as outlined in the preceding four key principles.*

■ *The complete discussion on these key principles can be found on the CFA Institute Center web site, www.cfainstitute.org/centre/index.html. The second principle on extensibility is a significant concern to me. If extensions occur frequently, then we would potentially lose comparability and accuracy of financial reports, two significant benefits of XBRL. If taxonomies are properly defined initially, then the need to extend taxonomy should be a rare and unique event.*

Disclosure Appendix

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