What CFOs Need to Know about XBRL
“No army can resist an idea whose time has come.” French author Victor Hugo wasn’t talking about eXtensible Business Reporting Language (XBRL) when he wrote those words - but he could have been.

XBRL is quickly becoming an indomitable force. Many of the world’s leading financial thinkers and practitioners, including Christopher Cox, chairman of the U.S. Securities and Exchange Commission, believe XBRL is a truly revolutionary technology. “(It has) the potential to slash hours of waste, cost, and inefficiency - not just for users of financial data, but for the companies that prepare it as well,” Cox said in a recent public statement.

Visionary organizations are now leveraging XBRL to transform the way financial performance data is delivered to executives, managers and employees, enabling them to make better business decisions based on up-to-the minute information.

For instance, since implementing an XBRL system from UBmatrix, the Federal Deposit Insurance Corporation (FDIC) has experienced dramatic gains across all measures of performance. Filing errors by member banks dropped from 18,000 to zero and cost savings will reach $26 million over the next ten years.

Perhaps most compelling to CFOs is the potential for vastly improved audits. XBRL-coded data allows auditors to do more and quicker analysis - and spend quality time looking at results rather than just manually assessing and validating data.

XBRL is already changing how finance departments and CFOs do their jobs. But some financial chiefs may be asking themselves, why the need for change?

Well, financial reporting was built for paper. But today, we’re in a digital age that requires a digital solution - a solution that’s faster, better, cheaper and more efficient. In short, XBRL will do for financial reporting what digital cameras did for photography.

Savvy CFOs know that XBRL has the potential to successfully differentiate their companies from the competition, and give them the ability to communicate better in the capital markets. Today, CFOs can look at financial information only one way - the way it was published. With XBRL, they can look at financial information in any way they want - and in any flavor they desire.

XBRL is no longer a question of if, but when. Some major banks are now asking corporate clients to file financial statements in the XBRL format. Meanwhile, in September of last year, the SEC announced the completion of data tags for the entire system of US GAAP. Some people believe it’s only a matter of time before XBRL is mandated for SEC filings. Gartner, for one, expects a move to mandatory use will be announced in the fourth quarter of 2008.

So what does this all mean for CFOs? What exactly can XBRL do for your organization, and how can you take advantage of it? We’ve put together the following document that answers most of your pressing questions about XBRL - and puts you on the path to success.
Why should CFOs care about XBRL?
CFOs should care about XBRL for four primary reasons. First, this is a unique opportunity to influence the burgeoning XBRL standard by participating in its creation and ensuring that the needs of CFOs are considered. This can be achieved through participation in the SEC Voluntary Filing Program (VFP). It is vitally important that CFOs take the time to grasp what XBRL is, how it works, and how their interests can be supported during the development phase.

Second, there is a very good chance that the SEC will require public companies to file their financial information using XBRL. The SEC and others (the FDIC already requires banks to file using XBRL) see XBRL as improving the transparency and possibly the speed of financial information.

Third, using XBRL to report information to regulators such as the SEC is only part of the value. In fact, those most knowledgeable about XBRL insist that as much as 99 percent of the value will come not from reporting, but from the use of XBRL within an organization in various and creative ways.

Finally, companies that prepare early for XBRL can minimize the cost impact, and more importantly, quickly benefit from this technology. Benefits of participating early include:
- Lower cost of financial reporting
- Internal information reporting improvements
- Better understanding of your competition with benchmark information
- Being perceived as well-run “tech-savvy” company

Does XBRL really work?
There is ample evidence that XBRL does work. For example, the FDIC’s system has been up and running since October 2005 and they are very pleased with it. Many other systems make use of XBRL.

However, there are some areas of XBRL that need to be battle tested and fleshed out. One is the US GAAP Taxonomy. Another is the SEC’s system for accepting, storing, and making XBRL data available to investors. Imagine 15,000 public companies suddenly filing with the SEC in XBRL. Would everything go flawlessly? Likely not. Is XBRL perfect? No.

But a thorough testing program and wide-ranging participation to ensure that all parties benefit would be a very good thing. That’s why it is important for CFOs to participate in the SEC Voluntary Filing Program. By getting exposed to the process, CFOs can better understand the issues that need to be addressed.

What will it cost me to implement XBRL?
The accounting profession faced a similar question when the computer first came along. Computers cost a lot of money, and many accountants were reluctant to purchase one. But these days, it would cost far more to operate without one. Of course, cost is important, but CFOs also need to look at the net benefit. The bottom line is that XBRL will save you money over the long term.

There are basically two approaches to implementing XBRL. The first is to simply “tack it on” at the end of the process. This is a low-cost approach with limited benefit. Companies may get some value from XBRL, but they will never be able to realize its full potential. Another approach is to embed XBRL deep within your systems. The more deeply XBRL is embedded, the more it will cost. But the benefits will be much greater.

There is no right or wrong answer. The Pozen Committee (Advisory Committee on Improvements to Financial Reporting) in their Decision Draft Memo dated...
January 11, 2008, stated it would take approximately 80 to 100 hours to create an initial XBRL report using the “bolt on” approach. However, the number of hours would drop significantly for subsequent reports because it is not necessary to replicate the tagging process.

In a letter to the Pozen Committee, Edgar Online and its partner, R.R. Donnelley, state that their automated approach to creating tagged information is less than 10 hours on average, including the time to review the statement with management and auditors. In fact, Edgar Online already provides XBRL-tagged information for 12,416 publicly traded companies every quarter.

In a June 2007 Journal of Accountancy article, United Technologies reported that XBRL can be implemented for a reasonable price and can generate a positive ROI. The company began with the “bolt on” approach, but has since integrated XBRL into its systems. When United Technologies started, it invested about 80 hours creating its filing and learning the tools. Today, it takes about four hours.

Costs vary, as do the benefits. A good place to get your feet wet is the SEC Voluntary Filing Program. The potential upside is so great and the initial costs so low, it is worth learning more about XBRL.

The Future is Now

What is the impact of XBRL on financial reporting? Paper-based reports are so 20th Century! In fact, they were first developed in the early 1900s. We now live in the Internet age, yet we still use a paper-based model for financial reporting. XBRL is a move from a “paper-based” reporting scheme, which is unstructured, to an “XBRL-based” reporting scheme that uses structured information.

How do we transition from the past to the future? One option is to start with a clean slate. We could drop all that we know about financial reporting and not bring any of the “baggage” from the current paper-based approach into the future. But that would be a mistake. It would be just as big of a mistake to take every burdensome feature of the paper-based model and simply convert it to a new XBRL-based format.

The answer lies somewhere in the middle. So what’s a CFO to do? It is vital for CFOs to weigh in with their opinions and express their views. This is best done by experimenting with the new system and gaining an appreciation of what might be possible. CFOs need to understand the power of XBRL and how it can help them and their organizations. By clinging too tightly to the past, we risk jeopardizing the future.

How are financial reports better with XBRL?

The biggest difference is ease of use - not just for you, the CFO, but for a wide range of interested parties, including investors, suppliers, employees, and customers.

Currently, financial reports are made available on either paper, an HTML page or a PDF file. These formats share one key element: the information within the report cannot be reused without first being re-keyed into a downstream application, such as a spreadsheet model or analysis system. Even information in an electronic format cannot be reused. That’s because the data is typically structured for “presentation” rather than meaning.
Consider the following unstructured information:

Purchase Order, Stock Number 1002, 2, 100

The following information is structured for presentation. A computer understands how to present this information within, say a web page. But the computer does not really understand the information:

```html
<html><body><p style='bold'>Purchase Order, Stock Number 1002, 2, 100</p></body></html>
```

And, now, consider this bit of information structured for meaning. It can be presented in a web page or other document, but a computer will understand the information because it is structured for meaning:

```xml
<purchase_order>
  <stock_number>1002</stock_number>
  <price>100</price>
  <number>2</number>
</purchase_order>
```

Information that’s structured for meaning - as is the case with XBRL - does not simply sit inertly on a piece of paper. Instead, it is dynamic and interactive. A computer application can interact with the data - it can move things around, sort, search, slice, dice and filter because the computer knows precisely what the data means. What’s more, with XBRL, information can be exchanged between parties because that data adheres to established global standards.

Who is using XBRL and how are they benefiting?

Today, many regulators and companies are reaping the rewards of XBRL. Here are just a few examples:

- Federal Deposit Insurance Corporation (FDIC) collects financial information from approximately 9,000 banks using XBRL. The FDIC went live with its XBRL system in 2005, and has since reduced errors from 18,000 to zero, with an estimated savings of $26 million over the next ten years.
- The Microfinance Information Exchange, Inc. (MIX) was created to increase the accountability of microfinance institutions (MFIs), which provide small loans - often less than $100 - to entrepreneurs in emerging nations. Using XBRL and off-the-shelf software, MIX created a web-based platform that collects financial and social data from more than 1,000 MFIs. Since partnering with UBmatrix, MIX has greatly improved its ability to aggregate microfinance data and generate accurate reports on the financial health of MFIs. The new XBRL reporting structure is providing increased transparency, confidence and, ultimately, investment in the microfinance industry.
- The Committee of European Banking Supervisors (CEBS) established a pan-European framework for using XBRL as an official filing format for FINREP and Basel II-related COREP compliance reports. Rather than using 27 different reporting formats, as it did in the past, CEBS is leveraging a single XBRL-based filing structure for European Union countries. As a result, it can better gauge the overall health of the EU’s banking system. Many central banks, including those in Spain, France, Norway, Poland and Belgium have already implemented XBRL.
- The Dutch Government is undertaking a massive project to collect data from all local businesses using XBRL. The system went live in 2007, and The Netherlands expects to save $345 million annually as a result of implementing XBRL.
- The Korean Stock Exchange, the Shenzhen Stock Exchange in China, and the Shanghai Stock Exchange have implemented production systems leveraging XBRL. Japan, New Zealand and Australia are in the process of implementing eXtensible Business Programming Language (XBRL) is a truly revolutionary technology. “(XBRL) has the potential to slash hours of waste, cost and inefficiency - not just for users of financial data but for the companies that prepare it well,” said SEC Chairman Christopher Cox in a recent public statement.
similar systems.
- In 2007, the Australian government funded the first phase of a massive project to use XBRL as the standard way to communicate between government and business entities. This is called the “Standard Business Reporting” project. The Australian Tax Office is implementing XBRL in the first phase. The cost savings of this project is projected to be $780 million (Australian) per year.
- Walcola, a leading clothing manufacturer in Japan, uses XBRL to integrate its 36 subsidiaries operating in Asia, Europe and North America. Walcola estimates that the implementation of its XBRL system was five times faster and a third of the cost of an alternate ERP solution.

**The SEC and XBRL**

**Is the SEC going to require my financial statements (and other filings) in XBRL?**

It is highly likely, based on the actions of the SEC to date, that it will eventually require public companies to make their filings using XBRL. The Pozen Committee recommended that the SEC mandate the filing of XBRL-tagged financial statements.

Several years ago, the Federal Deposit Insurance Corporation (FDIC) went through the process of evaluating - and ultimately implementing - XBRL. The FDIC is quite happy with the benefits it has realized from XBRL. The SEC has been watching and discussing XBRL with the FDIC. This is probably one of the reasons the SEC is so interested in XBRL.

Moreover, regulators like the SEC derive significant benefit from XBRL. If they want to exchange data electronically, regulators would either have to create something similar to XBRL or use XBRL. But, prior to the introduction of XBRL, there really was no other alternative.

From the CFO’s perspective, think about how many regulatory organizations you have to submit information to. Wouldn’t it be easier - and cheaper - for you if they all used the same format? That’s why there are 500 members of the XBRL International consortium - and why the SEC is likely to mandate XBRL.

**Why is the SEC involved with XBRL?**

This document does not speak for the SEC, but we can speculate. The SEC’s mission is to protect the investing public. As such, it wants to make as much information as possible available to investors. Previously, it did this with paper. The SEC literally had a room where those who wanted information about public companies could go and obtain it.

In the 1990s, the paper system was moved to an electronic system called EDGAR. Those wishing to access this information no longer had to go to that specific room and copy the information. Instead, the information was available electronically.

EDGAR was a resounding success, but it had its limitations. To find the information they needed, users had to manually read all of the EDGAR filings. XBRL will change that.

The SEC coined the term “interactive data” as a description of what XBRL can do. The EDGAR system is essentially an electronic filing cabinet. But XBRL will make the data within the SEC filings more like a database. Computer applications can pull information out, search it, sort it, sift it and otherwise work with the data. The analysis capabilities of the SEC will definitely benefit from the use of XBRL, as will investors in general.

**When will the SEC mandate XBRL?**

There is a lot of speculation as to when and how the SEC would require XBRL. Many people believe that XBRL will be phased in gradually. For example, some
speculate that the largest filers, say the top 500 corporations, would be required to use XBRL first. Then others would be phased in according to some plan. No one is advocating against XBRL.

But the real question is, why wait? Being an early adopter could reduce costs and put your company in a positive light with key interested parties. Also, the benefits of XBRL are documented and there is plenty of data to show its value.

IT research firms such as Gartner, Ventura and others have been monitoring XBRL for many years. They are confident that XBRL is a major force, and that it will play a significant role in the future of most businesses.

So again, why wait for the SEC to mandate XBRL to start realizing its benefits? What are the risks of moving to required XBRL filings and how are those risks being mitigated? Yes, there are risks of moving to XBRL - but there are also risks of not moving to XBRL. Stock exchanges in other countries already require reporting in XBRL, and the U.S. is already perceived as being behind.

But, to answer the question, there are ways to mitigate the risks. A thorough risk analysis is beyond the scope of this document, but we at UBmatrix are confident that the SEC is undertaking such an analysis.

The SEC certainly does not want to fail. If anything, it will err on the side of caution, making things easier for preparers and investors, even if the SEC itself must experience some short-term pain as the system evolves.

Is XBRL the only thing I will have to file, or will I continue to submit my current EDGAR filings?

It’s still unclear whether companies must (a) continue to file what it files now and then also submit XBRL or (b) submit only XBRL. There is one additional distinction which should be made. Using the Pozen Committee terminology, XBRL could be “filed” or “furnished”.

Furnishing XBRL to the SEC would have no real status, and thus no legal liability or scrutiny. Filing in the XBRL format would mean that the information is official and legal. So, it looks like there are three options:

a. Continue as currently filing and also file XBRL
b. Continue as currently filing and furnish XBRL
c. File only XBRL

What are the benefits of adopting XBRL before the SEC requires it?
XBRL has major benefits whether the SEC requires companies to file in XBRL or not. Fundamentally, there is no reason for a company to wait for the SEC to mandate XBRL. But here’s the reality: it’s extremely difficult to change the status quo. Even though XBRL today offers many benefits to businesses, it is highly unlikely that companies will adopt XBRL until the SEC mandates it. In the meantime, we expect to see more hard data trumpeting the benefits of XBRL, as well as more software and services on the market to help businesses realize those benefits.

Is the public accounting profession ready for XBRL if it is mandated?
No, the public accounting profession is not ready for XBRL. But once it is mandated, that will quickly change. For example, software vendors would be far more motivated to develop applications that support XBRL or to implement XBRL features within their existing products. Accounting professionals would rapidly follow suit.
The Truth about XBRL

It seems like the burden of XBRL is on the shoulders of financial report preparers, while all the benefits go to regulators and investors. Is this the case?

No, this is not the case. Many companies that prepare financial information also use data for competitive analysis and benchmarking. XBRL experts believe that a typical company’s usage of the technology will be just 1 percent for external reporting and 99 percent for other internal uses.

Here is a great example: disclosure checklists and verification of information within a financial statement. All CFOs understand what a disclosure checklist is and most have a formal or informal checklist that they use. What if you could automate the checking of those rules on the disclosure checklist? What if you could have XBRL check 100 percent of the computations within a financial statement to ensure that everything foots and cross-foots? What if you could exchange those business rules along with the financial statements themselves so analysts can see the relations?

All of this is possible with XBRL. The technology was expressly designed to enable this type of validation of financial statement content. And there are thousands of these relations within a financial report.

XBRL will significantly benefit those preparing financial information - as well as those throughout the supply chain. The losers here will be the data aggregators who are currently paid to do this work manually - and with increased costs. Companies that properly plan for XBRL and execute early will be far ahead of the cost curve.

Is XBRL just another boon for consultants?

Like any new mandate, there will be professionals who capitalize. The key for CFOs will be minimizing the cost and maximizing the benefit. If XBRL is indeed mandated, it is possible that consultants will make money helping companies get their financial information into XBRL.

Some companies will gladly farm out this task to consultants. Different businesses will choose different approaches for a variety of reasons. Hiring a consultant to do everything is just one approach to XBRL. At the other end of the spectrum, some companies may choose to enable XBRL at the beginning of the accounting process, as transactions are entered into the system.

These are but two extremes: a service model that relies solely on consultants and a fully embedded model that introduces XBRL at the very start of the accounting process. Of course, there are a lot of other approaches that lie somewhere in between. Many companies may even begin with the service model, and evolve into the embedded model as they gain more confidence with XBRL and experience the benefits.

Will private companies have to use XBRL?

The SEC does not regulate private companies, only public companies. But private companies are “regulated” by the financial institutions that provide them with capital in the form of commercial loans. It is highly likely that private companies will be reporting to financial institutions in XBRL in the not-too-distant future.

More importantly, just as with public companies, private firms that prepare early for XBRL can minimize the cost impact and quickly benefit from this technology. Benefits of participating early include:

- Lower cost of financial reporting
- Internal information reporting improvements
• Better understanding of your competition with benchmark information
• Being perceived as well-run “tech-savvy” company

How will XBRL be audited?
There is currently no definitive answer to this question. There are a lot of questions about how XBRL will be audited - as well as lots of opinions and lots of discussion that still needs to take place. For instance, the Pozen Committee is concerned about the cost of providing assurance. Others are concerned about the value of the information if no assurance is provided, saying that it could render the XBRL unusable or unreliable. The Pozen Committee recommends that the SEC initiate a pilot program to test the costs and benefits of assurance and answer any other outstanding questions. Again, holding onto the past too tightly would be a bad thing, as would moving forward too fast without fleshing out all the details.

The ABCs of XBRL

What is XBRL?
XBRL is a language for electronic communication of business and financial data which is revolutionizing business reporting around the world. XBRL stands for eXtensible Business Programming Language. It is one of the family of “XML” languages that is becoming a standard means of communicating information on the internet.

The idea behind XBRL is simple. Instead of treating financial information as a block of text - as in a standard internet page or a printed document - it provides an identifying tag, which is computer readable, for each individual item of data.

The introduction of XBRL tags enables automated processing of business information by computer software, cutting out laborious and costly processes of manual re-entry and comparison. Computers can treat XBRL data “intelligently”: they can recognize the information in an XBRL data document, select it, analyze it, store it, exchange it with other computers and present it automatically in a variety of ways for users. Companies can use XBRL to save costs and streamline their processes for collecting and reporting financial information. Consumers of financial data, including investors, analysts, financial institutions and regulators, can receive, find, compare and analyze data much more rapidly and efficiently if it is in XBRL format.

What is a taxonomy?
A taxonomy is a classification system that defines the specific tags for individual items of data. Basically, a taxonomy articulates information - or metadata - about something in a form that is readable by a computer.

For example, the US GAAP Taxonomy is a classification system for the portions of GAAP used in the reporting of information within a financial statement, information disclosed in the notes and other such information.
A taxonomy basically articulates “semantic”, meaning information such as:

- “Cash and Cash Equivalents” is a debit.
- “Cash and Cash Equivalents” is part of the total of “Current Assets”.
- “Cash and Cash Equivalents” appears on the balance sheet, in the statement of change in cash flow and in the “Cash and Cash Equivalent Disclosures”.
- The concept “Cash and Cash Equivalents” has the following label in Spanish, Japanese and English...

Are taxonomies country specific? Industry specific? Company specific?

Taxonomies can be country specific, industry specific or company specific. Let’s take a look at the US GAAP taxonomy. The taxonomy is not really country specific as it is actually used in many other countries other than the U.S.

But the US GAAP Taxonomy contains specific components for several industries, including commercial and industrial businesses, financial institutions, insurance companies, brokers, etc. For example, the commercial and industrial balance sheet is “classified” (i.e., it breaks out current and non-current portions of assets and liabilities), while the balance sheet for banking and savings institutions is not classified, following respective industry practices.

The US GAAP Taxonomy is not company specific. But a company can create its own taxonomy that extends the US GAAP Taxonomy for its specific reporting needs.

Does my company need to develop its own taxonomy? If so, is this proprietary information?

A company is not required to develop its own taxonomy, but it will likely want to. Taxonomies do not contain proprietary information. Companies that enroll in the SEC Voluntary Filing Program can learn to use an established taxonomy, starting with the US GAAP. Companies can then build add-ons and eventually create a taxonomy for their own use.

Next Steps

Financial reporting was built for paper. But today we’re in a digital age that requires a digital solution - a solution that’s faster, better, cheaper and more efficient. XBRL has the potential to successfully differentiate your company from the competition, and give you the ability to communicate better in the capital markets. UBmatrix can help you realize the value of XBRL today and prepare your organization for tomorrow. For more information about XBRL or the SEC Voluntary Filing Program, please visit www.ubmatrix.com.