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XBRL: A New Language for Financial Statements

It's increasingly likely that most large US public companies will need to format their financial statements in eXtensible Business Reporting Language (XBRL) within the next couple years. A voluntary corporate XBRL pilot program is under way, and in mid-February a Securities and Exchange Commission (SEC) advisory committee recommended that, "over the long term," all public companies be required to tag their financial statements and footnotes using the XBRL standard.

If you're not familiar with XBRL and the requirements your company may soon need to address, here is some background:

What is eXtensible Business Reporting Language?
XBRL is an international information format standard designed to help investors and analysts find, understand and compare financial information by making it machine-readable. XBRL and related technology aim to meet investors' demands for more comparable financial statements across companies.

Applying XBRL requires the use of "tags," strings of computer code assigned to every line item in a financial statement. These tags turn statements into interactive data that is easier to analyze.

Here's an example the SEC offers to explain XBRL's value: "An investor or analyst who wants to compare the sales of all pharmaceutical companies will be able to use software applications to take the XBRL-tagged information, extract the sales numbers and download them directly to a spreadsheet."

Who's behind the push to require XBRL for financial statements?
A global movement toward interactive data for financial reporting has started. China was the first country to mandate XBRL reporting, and others such as Japan, the United States, Korea, Canada and Australia are looking to follow suit.

In the United States, the original drivers were the American Institute of Certified Public Accountants and the Financial Accounting Standards Board. However, now the US initiative is squarely in the court of the SEC.

It was the SEC Advisory Committee on Improvements to Financial Reporting that in February recommended eventual mandatory use of XBRL for financial statements by public companies. In its progress report, the committee suggested a general time frame for implementing mandatory XBRL statements (see below).

What is the status of this initiative? When might XBRL become mandatory?
In the SEC's voluntary-filing pilot program, more than four dozen companies are submitting their annual, quarterly and other reports with interactive data in the XBRL format.

Meanwhile, the roadmap that companies will use to apply XBRL to their financial statements and footnotes — XBRL US GAAP Taxonomy and preparer guidance — is expected to be finalized and issued this spring.

In its February 14 progress report, the SEC advisory committee suggested a phased-in approach in which the country's largest 500 public companies would be the first to be required to furnish XBRL-formatted financial statements and footnotes. This first phase of implementation would occur after voluntary filers have successfully used the XBRL US GAAP Taxonomy and preparer guide "for a period of time."

The next phase would begin one year later and include mandatory implementation for domestic "large accelerated filers" (as defined in SEC rules). After evaluating how the first phases went, the SEC would then consider whether to require other, smaller public firms to also use XBRL.

What are the biggest corporate concerns regarding this initiative?
Filing statements both in XBRL and in the traditional fashion will take extra time. According to the SEC, "certain preparers participating in the SEC's voluntary program have indicated that the initial number of hours it took to tag the face of their financial statements ... ranged from 80-100 hours and that the number of hours dropped significantly for subsequent reports."

The cost of adopting XBRL reportedly is the other big concern. Start-up costs could include purchasing software and adding personnel resources for data input and training. Of even greater concern are the potential auditor fees if third-party assurance of XBRL documents is required. The SEC committee's progress report did not include an assurance proposal, so the issue of whether companies will need to pay auditors to double-check their tagging of financial data remains undetermined.

Will XBRL-formatted financials benefit corporations?
While XBRL-tagging of financial statements is primarily aimed at assisting investors and analysts, the SEC says corporations will benefit, too. The SEC suggests that XBRL-tagging may improve corporate communications with analysts and investors, will potentially increase analyst coverage of mid-sized and smaller companies, and should enable companies to gain greater control over the presentation of their financial information.

Where can I go to learn more about XBRL?
A good place to start is the SEC web site page that includes links to past news releases on the subject (www.sec.gov/spotlight/xbrl.htm). You might also want to check out the progress report of the Advisory Committee on Improvements to Financial Reporting (www.sec.gov/rules/other/2008/33-8896.pdf). Pages 72-80 cover the tagging of financial

information and include the committee's recommendations for implementing a mandatory XBRL filing program.

Another good online destination for those seeking a better general understanding of XBRL concepts is the web site of XBRL International (www.xbrl.org).