GOVERNANCE/COMPLIANCE

Months worth of work cut to a few days

By PHILIP MAGUIRE

Paper-based financial reporting continues to evolve with the progress of e-filing and e-reporting technologies. One of the most intriguing developments is the notion that data can be liberated from the form that it is presented in. Welcome to Extensible Business Reporting Language, or XBRL. It is one of a family of extensible mark-up languages that is becoming a standard means of communicating business information and financial reporting electronically between businesses and on the Internet.

An international non-profit consortium of approximately 450 major companies, organizations and government agencies is developing XBRL. It is an open standard, free of licence fees. It is already being applied in a number of countries, and implementations of XBRL are growing rapidly around the world. A range of national and international bodies and groupings, such as regulators, banks, stock exchanges and industry bodies also maintain a strong interest and close liaison with XBRL International (the governing body).

The concept behind XBRL, or interactive financial data reporting as it is also known, is straightforward. Rather than treating financial information as a block of text — as in a standard Internet page or a printed document — it provides an identifying tag for each item of data. This data is computer readable. For example, company net profit has its own unique tag. Its extensible features mean that it can be modified for unique business requirements. Tagging data based on standard definitions transforms text-based information, such as the filings currently contained in the System for Electronic Document Analysis and Retrieval (SEDAR), into documents that can be retrieved, searched and analyzed through automated means. This enables investors, for example, to analyze data from different sources and facilitates the automatic exchange of financial information across various software platforms, including web services.

As well XBRL can administer data in different languages and accounting standards. Data can be transformed into XBRL by suitable mapping tools or it can be generated in XBRL by appropriate software. The use of XBRL does not imply an enforced standardization of financial reporting. On the contrary, the language is flexible and is intended to support all aspects of reporting in different countries and industries.

There are many benefits to XBRL once fully integrated into the operations of a filer. For the preparer, XBRL offers synergies in the compilation, analysis and communication of business information. This should result in cost savings, greater efficiency and improved accuracy and reliability. For the user, XBRL automates the processing of business information, eliminating laborious and costly manual re-entry and comparison. As well XBRL increases the speed

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of processing financial data, reduces the chance of error and verifies the data. For example, searches that, in the past, have taken hours can be completed with XBRL in a fraction of a second.

There are a number of technical terms used in the application of XBRL. Probably the most important concept is taxonomies. Taxonomies are the dictionaries used by XBRL in order to define the specific tags for individual items of data. Different taxonomies will be required for different financial reporting purposes, such as U.S. Generally Accepted Accounting Principles and International Financial Reporting Standards.

Different XBRL jurisdictions may define unique financial reporting taxonomies to reflect their local accounting regulations. Many different organizations such as regulators, specific industries or even individual companies may require taxonomies to address their reporting needs. Taxonomies recognized by XBRL International are identified as Financial Reporting Taxonomies.

A special taxonomy has been designed to facilitate internal reporting within organizations. Known as the general ledger taxonomy, it is particularly appealing when processing information scattered across disparate accounting systems such as a legacy chart of accounts, journal entries and non-financial information.

In the U.S., domestic and foreign large accelerated filers that employ U.S. GAAP and have worldwide public common equity float above $5 billion were required

by the Securities and Exchange Commission to tag their financial data for fiscal periods ending on or after June 15, 2009. During the first year of filing using XBRL these companies were permitted to block-tag the footnotes and schedules that accompanied their financial statements. However, starting in the second year of reporting it is necessary to provide detailed tagging of financial statement footnotes and schedules.

Large accelerated filers using U.S. GAAP, which were not in the first group of filers, are now required to file their XBRL financial statements beginning with fiscal periods ending on or after June 15, 2010.

Remaining filers using U.S. GAAP, and foreign private issuers with financial statements prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, will be required to file XBRL financial statements effective for fiscal period ending on or after June 15, 2011. This requirement will affect approximately 450 Canadian companies that are cross-listed in the U.S., or slightly over 10 per cent of the companies listed on the Toronto Stock Exchange.

On Jan. 19, 2007, the Canadian Securities Administrators launched an XBRL voluntary filing program for Canadian domiciled filers. Beginning in May 2007, reporting issuers participating in the voluntary program could file financial statements in XBRL format on SEDAR. The purpose of the voluntary program is to assess XBRL technology, including both the ability of registrants to tag their financial information using XBRL and the benefits of using tagged data for analysis.

To date, the CSA has not provided timelines for XBRL compliance in Canada other than to state that it is a matter of when, and not if, XBRL will be implemented.

There are a number of items to be considered when preparing for a conversion to XBRL reporting. Typically, in America, filers required three months of investigation and implementation in order to prepare the initial XBRL financial statements. On an on-going basis, XBRL reporting was reduced to a matter of days. In most cases, first time filers will need to consider the following matters:

• In the short term, whether to implement XBRL internally (commonly referred to as a 'bolt on' solution) or outsource to a third-party filing agency;

• Identifying and training XBRL preparers and users;

• Mapping, tagging and validating XBRL financial statements;

• Identifying XBRL reporting risks and implementing compensating controls;

• Learning from the pitfalls and best practices of American XBRL filers; and

• In the longer term, imbedding XBRL within the financial and administrative systems of the filer (an 'integrated' solution).

With its focus on regulatory reporting (such as e-filing), XBRL will produce little benefit, and additional costs, to filing organizations in the near term. The benefits of XBRL will generally be realized when filers adopt the broader aspects of e-reporting, such as corresponding with investors and analysts, and general ledger taxonomies that will enhance synergies in the collection and reporting of financial data.

Philip Maguire, CA, is the principal of Glenidan Consultancy and managing director, Executive Mentors. Glenidan Consultancy specializes in compliance and accounting standards. He conducts the ICAO's XBRL training program. For more information, visit www.glenidan.ca.