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Coming Out Party

SEC Program Allows Companies to File Financial Info Using XBRL

by Glen L. Gray, CPA

Like a debutante, XBRL is being introduced to society. Although former SEC Chairman Arthur Levitt first mentioned XBRL in 2000, it was not until 2004 that the SEC embraced XBRL with the release of two documents—Concept Release: Enhancing Commission Filings Through the Use of Tagged Data, www.sec.gov/rules/concept/33-8497.htm, and Proposed Rule: XBRL Voluntary Financial Reporting Program on the EDGAR System, www.sec.gov/rules/proposed/33-8496.htm.

A Brief Tutorial

XBRL is an open standard for using XML to tag and define financial and business reporting information. For example, a company could use XML tags to identify net income as <NetIncome>1000000</NetIncome>. However, if every company created its own tags, it would be difficult to search and analyze the data from different companies.

To solve this potential problem, the XBRL International consortium created the XBRL specification for using XML for financial and business reporting. From this specification, taxonomies are derived that provide the details for using XBRL for specific types of reports, like tax returns, accounting entries and financial statements for specific generally accepted accounting principles.

XBRL International's members have collaborated on several taxonomies and more are being developed. The International Accounting Standards Committee Foundation has released the International Financial Reporting Standards General Purpose Financial Reporting for Profit-Oriented Entities taxonomy that can be used for IFRS general purpose financial statements.

With this new XBRL technology comes some XML terminology, including: an "instance document"—an actual set of financial statements created with XBRL—and "linkbases," which are repositories of labels, relationships, calculations and other information that would be common to instance documents.

For example, defining the relationships between assets, current assets and inventory would be applicable to many balance sheets. So, instead of putting all of this common information in each instance document, the company can put the information in linkbases and then put links in their instance documents to the applicable linkbases.

The SEC and XBRL

Public companies must file various documents with the SEC, which are stored in EDGAR, the SEC's online database.

Highlights

A Brief Tutorial

The SEC and XBRL

XBRL GL

Other Activities

Starting in 1984, EDGAR filings used ASCII formatting with SGML tagging used in the filing's header. (SGML is the parent of both HTML and XML.) Starting in 1999, registrants were allowed to use HTML and by May 2000, the SEC started migrating its internal processing from SGML to XML. Then, in May 2003, in response to Sarbanes-Oxley requirements, the SEC required XML tagging for the filing of ownership reports (forms 3, 4 and 5).

Here are highlights of the proposed rule, XBRL Voluntary Financial Reporting Program on the EDGAR System:

- The program is expected to begin with 2004 year-end reports and is expected to help the SEC evaluate the usefulness of XBRL to public companies, investors, the SEC and other parties in the financial reporting supply chain.
- Pre-approval is not required for XBRL documents, but the SEC can limit participation if technical or other factors arise as the XBRL submissions progress.
- The SEC is proposing to add Rule 401 of Regulation S-T to allow public companies to voluntarily submit XBRL-formatted supplemental documents as exhibits to Forms 8-K, 10-Q and 10-K, which are still filed using HTML or ASCII formats.
- XBRL documents are considered furnished—not filed—by the company. This is an important distinction in SEC regulations and limits the liability of public companies regarding XBRL documents. XBRL documents are not a substitute for the required filings. The SEC expects to place a caution on its website stating that investors and other parties should continue to rely on the official filings.
- Although the SEC cautions the use of XBRL exhibits, it states that exhibits have the potential to enhance the search capability of EDGAR to allow more efficient extraction and analysis of data; the capability to perform comparisons among registrants; and the ability to perform financial analysis of registrant financial data, such as for ratio analysis.
- The SEC will be able to evaluate: XBRL's impact on the staff's ability to review filings on a more timely and efficient basis; the use of tagged data for risk assessment and surveillance procedures; and XBRL's compatibility with reporting quality, transparency, accounting principles and other SEC reporting requirements.
- XBRL exhibits must reflect the same financial information that appears in one or more of the following portions of the volunteer's official EDGAR filing: the complete set of financial statements; earnings information, whether contained in the body of the related report or in an exhibit, and whether filed or furnished; applicable financial highlights or condensed financial information, if the related filing has been filed under the Investment Company Act; or schedule of investments, if the related filing has been filed under the Investment Company Act.
- XBRL documents must adhere to XBRL Specification 2.1 and use one of the following taxonomies: commercial and industrial; banking and savings institutions; insurance; or investment companies. Other taxonomies will be added as they become available.
- The SEC will store the taxonomies and linkbases on its website and volunteers are expected to link their XBRL documents to these files, as opposed to linking to other sites.
- The SEC plans to develop an application so that users can view XBRL data in a format that is easily readable for the public.
- XBRL exhibits would include the following files, as necessary: an instance document, a schema file and linkbase files that manage references, labels and relationships if extensions are used.

A schema file includes extensions to the standard taxonomies. For example, if a company wants to provide more details on an account, such as breaking down inventory by "raw," "work-in-process" and "finished inventory," it also would have to provide a schema file to reflect that detail.

Depending on the nature of the extensions, XBRL Voluntary Financial Reporting Program on the EDGAR System lists five types of linkbases. *Label links* manage the label associated with taxonomy elements. For example, a <inc> reference in the taxonomy would be labeled as income. *Presentation links* show how each element should be displayed to a user in relationship

with other elements. For example, raw material inventory would be a child of total inventory. *Calculation links* show how the elements are related by calculation. For example, gross margin equals cost of sales subtracted from revenue. *Definition links* indicate the classification of an element in the taxonomy. For example, depreciation would be defined as an expense. *Reference links* manage the references to authoritative literature.

• The volunteer can use the SEC's EDGARLink software via their web browser or a third-party product for the submission.

• XBRL documents would either accompany the applicable filing or to be submitted later as an amendment to the applicable filing.

• The official filing and XBRL documents would each undergo SEC technical validations. The official filing would follow the normal process for receipt and acceptance and would be suspended if it fails the traditional validation criteria. If any XBRL document fails, all XBRL documents would be removed, but the official filing would be accepted and posted to EDGAR without the XBRL documents. The SEC would notify the volunteer of the XBRL submission problem.

XBRL GL
While many external financial reporting activities are continuing, the XBRL General Ledger working group within XBRL International is moving upstream to the transaction levels.

Eric Cohen, the Global XBRL technical leader at PricewaterhouseCoopers and founder and chair of the XBRL GL Working Group, says interest is increasing for standardized information for representing the data that comes from operation systems, flows through the general ledger and is summarized for financial, tax and other business reporting purposes.

The XBRL GL modular taxonomies, www.xbrl.org/GLTaxonomy, have been part of XBRL from its inception, providing tags at the detail level of accounting ledger entries.

Cohen says that the XBRL GL outreach group has been working with the Organization for the Advancement of Structured Information Standards' Tax XML Technical Committee and the OECD Committee on Fiscal Affairs Forum on Tax Administration, working on a Standard Audit File, to refine the XBRL GL taxonomies and communicate its capabilities to the global tax community.

He also says that in light of more formal requirements for auditors to document how underlying accounting records agree to or reconcile with financial reporting (e.g., PCAOB Auditing Standard No. 3, Audit Documentation, Paragraph 5.c.), growing interest in continuous auditing and data level assurance, and other market factors, the need for XBRL GL is increasingly obvious. Accounting software developers in particular are being encouraged to take a more active role in fine tuning, adopting and encouraging the use of XBRL GL.

Other Activities
In addition to the above activities, other XBRL activities that are moving forward include:

- The Federal Financial Institutions Examination Council, the FDIC, the Federal Reserve and the Office of the Comptroller of the Currency, along with contractors, have been developing a XBRL-based system to collect, validate, manage and distribute bank Call Report information. The targeted implementation date is October 2005. For more information, go to www.fdic.gov/news/news/financial/2004/fil3004.html.
- EDGAR Online Inc., a financial information collecting and distribution company, provides XBRL-based financial statements for U.S. public companies. A limited number of financial statements can be downloaded into Microsoft Excel 2003 worksheets for free. For more information, go to xbrl.edgar-online.com/x.
- Software products from Oracle, Hyperion, SAP, PeopleSoft, ACCPAC, JD Edwards and

Cartesis are––or soon will be–– XBRL-enabled.

- Ernst & Young, PR Newswire, Microsoft, Reuters, Bowne and SunTrust Banks Inc. launched a project to demonstrate how XBRL-enabled earnings releases can be created, distributed and used to facilitate greater financial transparency. For more information, go to www.xbrlforearningsreleases.com.
- In addition to the XBRL activities in the United States, similar activities are taking place in Europe and Asia. For more information, go to www. xbrl.org/PressReleases.

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