XBRL

For Better, Smarter Business Reporting

This article aims to provide an overview of the benefits and uses of eXtensible Business Reporting Language (XBRL), the new XML standard for business reporting. It will be of interest to investment and finance industry professionals; government, trade and regulatory professionals; finance specialists in companies; IT directors and software developers. Financial Executives can use XBRL to enhance communication with internal management and external stakeholders, and increase transparency and efficiency. Use of the Internet is ubiquitous and with XBRL, financial reporting is all set to take advantage of this highly responsive medium. However, these are still early days and much work is to be done before benefits can be accrued. Shouldn't India jump on this bandwagon, which much of the developed world touts as the next big thing in financial reporting?

Anil Jogani

Alan Benjamin in 'The 21st Century Annual Report' (2000) said, *"The annual report of the 21st century will not be annual and it will not be a report: It will be an up to date informative, permanent dialog".*

XBRL is perhaps the only medium that can deliver Benjamin's vision. It is an exciting, emerging technology standard for financial reporting that is being championed by the likes of the American Institute of Certified Public Accountants (AICPA), The Institute of Chartered Accountants of England and Wales (ICAEW) and the CPA and CA institutes of Canada, Australia, Germany, Korea, and Japan as well as regulatory bodies like Securities Exchange Commission of the US and some Governments. Approximately 300 of the world's leading companies, stock exchanges, associations, regulators and government agencies are working together to develop XBRL, a standard that enables those who prepare business reports to meet business reporting demands effectively and cost-efficiently. Many countries are making significant progress in the adoption of XBRL. A few weeks ago, for the first time, Microsoft Corporation published its accounts in XBRL.

Need for a Better, Faster, and Smarter Corporate Reporting

Post-Enron, corporate governance has assumed significant importance the world over including India, and laws like Sarbanes-Oxley in the US have put enormous responsibility on directors and other officers to report their affairs accurately and in time. Increased economic, market, and regulatory pressures are requiring companies to accumulate and publish information to a myriad of internal and external stakeholders in greater frequency, detail and variety of electronic formats. These ever-increasing demands on the reporting process are placing additional stress on a business decision environment that can be based on outdated data, incomplete, even sometimes inaccurate information, and expensive and cumbersome proprietary reporting structures. Management today needs to reassess its business reporting processes in the light of recent market changes.

Though most of the attention has been focused on 'what' is (or is not) reported, there is another side to the story—'how' information is being delivered. While regulators and the markets deal with the 'what', answers to the 'how' are being delivered by technology. Organizations are looking at how the Internet can bring promises of a better, faster, cheaper to business decision-making and specifically to corporate reporting. Clearly, the Internet has revolutionized how we communicate—and this is particularly true in the business environment. Accompanying this revolution has been a growing demand for businesses to disclose more relevant information to an ever-wider group of stakeholders, on a more frequent and timely basis.

About the Author

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Hitherto, and even presently, most corporate reports are outdated, in static formats, and contain terms that are interpreted differently by different people. What's more, significant information is hidden behind notes that if readily available, would affect decisions of investors, bankers, or other stakeholders. For example, a leading US company had its billion-dollar under-provision for pensions mentioned in the passing by way of a note that was tucked away, which if easily available, would have definitely altered the decision of its many investors. Few systems have drill-down, dynamic, real-time reporting, and the data generally available is static, which means that they cannot be queried for more details.

To analyze corporate reports, and compare figures of different companies, most analysts re-key information obtained from different sources into Excel spreadsheets or other tools and build analysis formulae for decision-making. Re-keying is time-consuming, costly, prone to errors and omissions, and totally unnecessary. To meet stakeholder demands for greater speed and volume of communications, businesses must find better and more effective ways of communicating. There is a growing demand for efficient delivery of information in an interactive medium, such as the Internet. This is particularly apparent in the reporting of financial information where the use of clearly presented hard facts to drive out market rumor, and guesswork has taken on a new urgency.

XBRL – the Emerging Solution

The development of a new Internet language, eXtensible Business Reporting Language (XBRL)—the business reporting extension of the 'smart data' standard, eXtensible Markup Language (XML)—is likely to fundamentally transform how businesses provide information to investors, markets and regulators—and how each of these stakeholder groups make more informed decisions. XBRL is destined to become the reporting language for all financial reporting in the near future. Some say that it is the first major accountancy reform since double-entry bookkeeping! In today's markets, consumers of business reports are demanding more accessible, reliable, and timely information in order to make informed decisions.

Transparency and Accuracy through XBRL

The adoption of XBRL promises to help people make faster and better decisions. Information encoded in XBRL is smarter; it is intelligent self-describing data that can be reused for a number of purposes. Adoption of XBRL permits financial analysts, investors, accountants, auditors, government agencies, internal users and other interested parties to access, compare, and analyze data in ways that are not currently practical or even possible. XBRL offers many advantages over traditional reporting methods, effectively freeing information from the constraints of time and place and providing crispness and clarity.

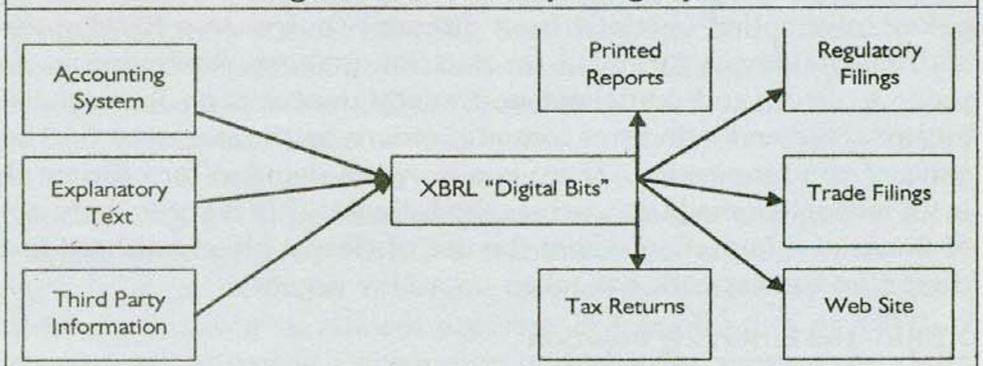
Just as bar codes revolutionized the retail industry, XBRL is set to revolutionize business reporting. XBRL is the 'bar-code' of reporting. For the first time, preparers will be able to channel the information in their financial statements, without distortion, directly into the many analytical tools of their investors and other stakeholders, all in a single format. Among the most prominent benefits are:

- Summarized information that can be drilled down to details
- Enhanced analytical capabilities
- More informed investment decisions
- Lower preparation costs
- Reduced preparation time
- Simplified international access
- Broader information availability
- More trustworthy information when associated with a digital signature.

Figure 1 shows how XBRL enables trusted and efficient reporting.

Even legacy systems can have XBRL interfaces built as a reporting layer, thereby, increasing their lifespan and enabling enhanced corporate reporting. XBRL enables managers to view data from disparate systems within their own company and create their own analysis. Many companies are likely to use XBRL to enhance their internal reporting system.

Figure 1: XBRL: A Reporting Layer



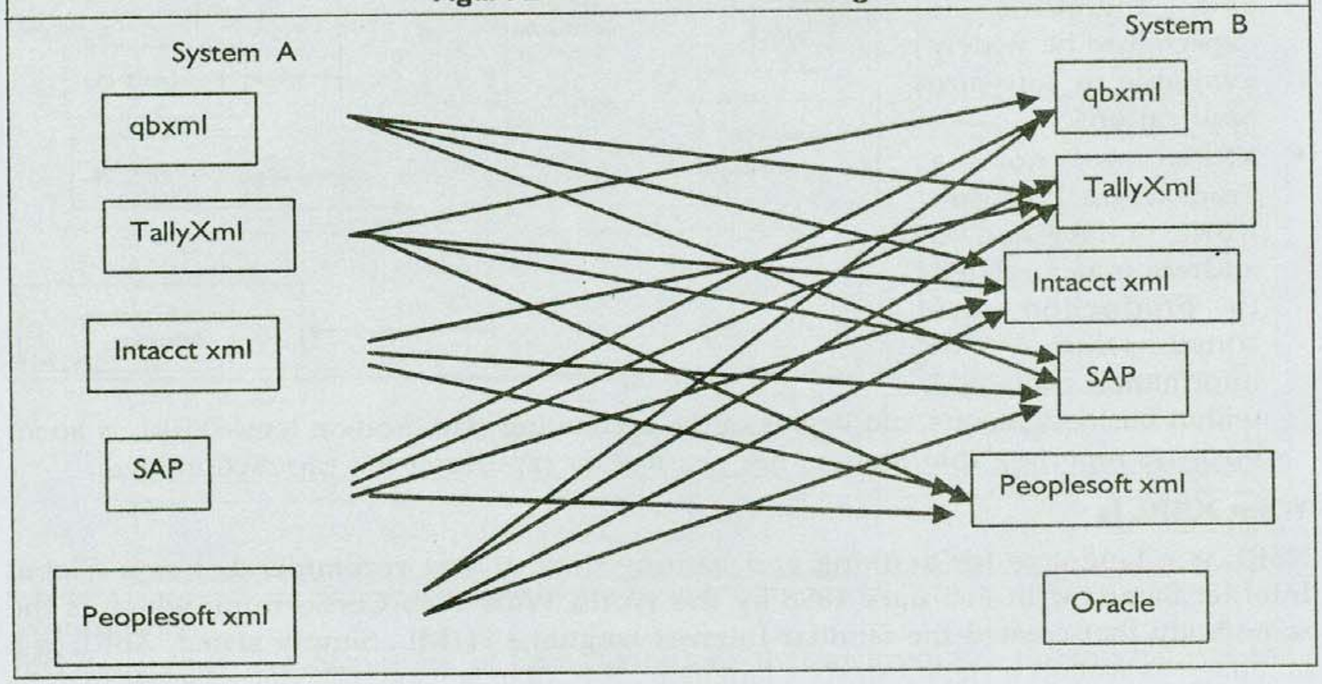
Seamless Data Exchange with XBRL

For business-to-business documents like purchase orders and invoices, sophisticated systems have been developed to integrate systems and companies. But to date, there has been a problem with communicating accurate and unambiguous financial information effectively across the Internet. Incompatible systems and software have prevented genuine cross-platform communication and data sharing, and limited the usefulness and transparency of the reported information.

The current data exchange mechanism is depicted in Figure 2 where though every software system communicates using XML, they need a 'bridging routine' for every other software system resulting in specific tailor-made bridges for all software. Hence, each system would need to have as many bridging routines as the number of target systems. It is an unnecessary overhead that requires constant maintenance especially when the other software system upgrades or changes its specifications.

XBRL is platform-neutral—it is the same, whatever type of computer or software you are using. It allows all recipients of financial information provided in the XBRL format to analyze and use precisely categorized information instantly, with no need to re-key or convert to other formats. As shown in Figure 3, data in XBRL format is directly available to other systems that have been updated for XBRL compliance. XBRL reduces the need for human intervention when moving financial and business reporting

Figure 2: Seamless Data Exchange



information from one system to another, or one organization to another. The information in XBRL from one system can be understood perfectly by any other system without the need for a bridging routine.

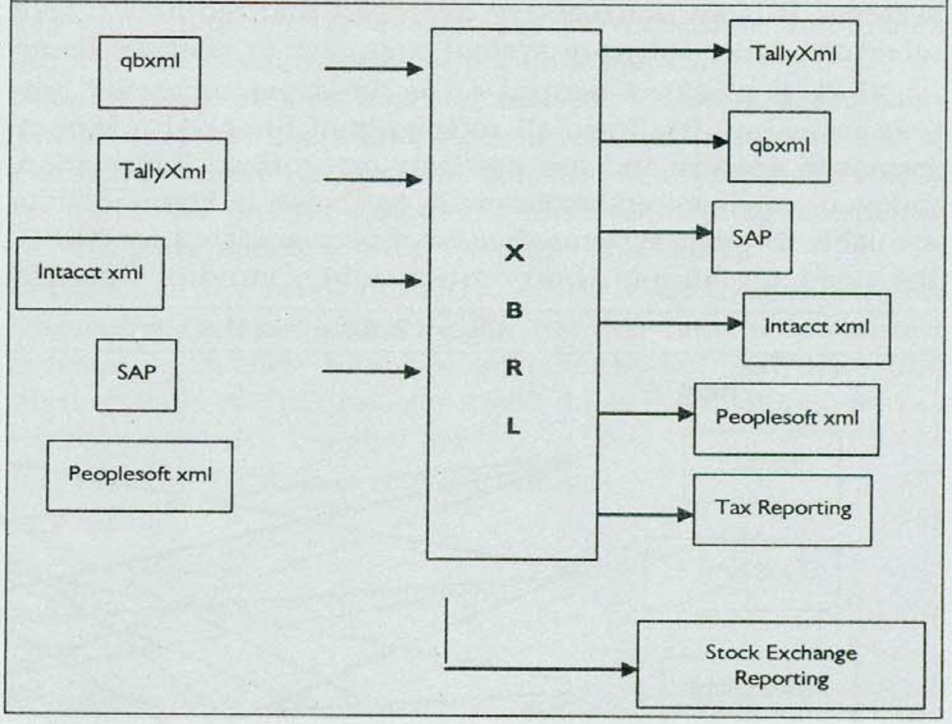
What XBRL Is Not

- XBRL is not a set of accounting standards. Accounting standards are the domain of the existing Generally Accepted Accounting Principles (GAAP) and regulatory standards bodies. XBRL is a platform on which reporting standards content will reside and be represented.
- XBRL is not a detailed universal chart of accounts. Accounting organizational charts are the domains of the management (and in many countries, of the government itself), and it is their responsibility to define appropriate classifications for use in generating appropriate management information. XBRL can facilitate the implementation of such structures through its ability to transport data between disparate software applications that might be used within an organizations operational structure.
- XBRL is not a GAAP translator. XBRL does not provide transparency of existing GAAP information into lower levels of information that would be necessary for translating from one GAAP to another. The business reporting document contains the same GAAP

information, be it in an XBRL format or a Microsoft® Word or PDF format.

- XBRL is not a proprietary technology. XBRL is freely licensed and available to the public. XBRL is XML-based and, therefore, is expected to be widely available in software applications.
- XBRL is not a Transaction Protocol. XBRL is designed to address issues related to production and consumption of information contained within business reports and begins at the accounting classification level. XBRL is about business reporting information, not about data capture at the transaction level.

Figure 3: Platform Neutral Language



What XBRL Is

XBRL is a language for defining and naming data. It was recommended as a Global Internet Standard in February 1998 by the World Wide Web Consortium, which is the same body that created the familiar Internet language HTML. Simply stated, XBRL is a language as well as a standard. As a language, it is an extension of XML, where it focuses on describing financial data so that they mean the same to everybody. As a standard, the development of XBRL is regulated by an international body, which ensures adherence to strict norms.

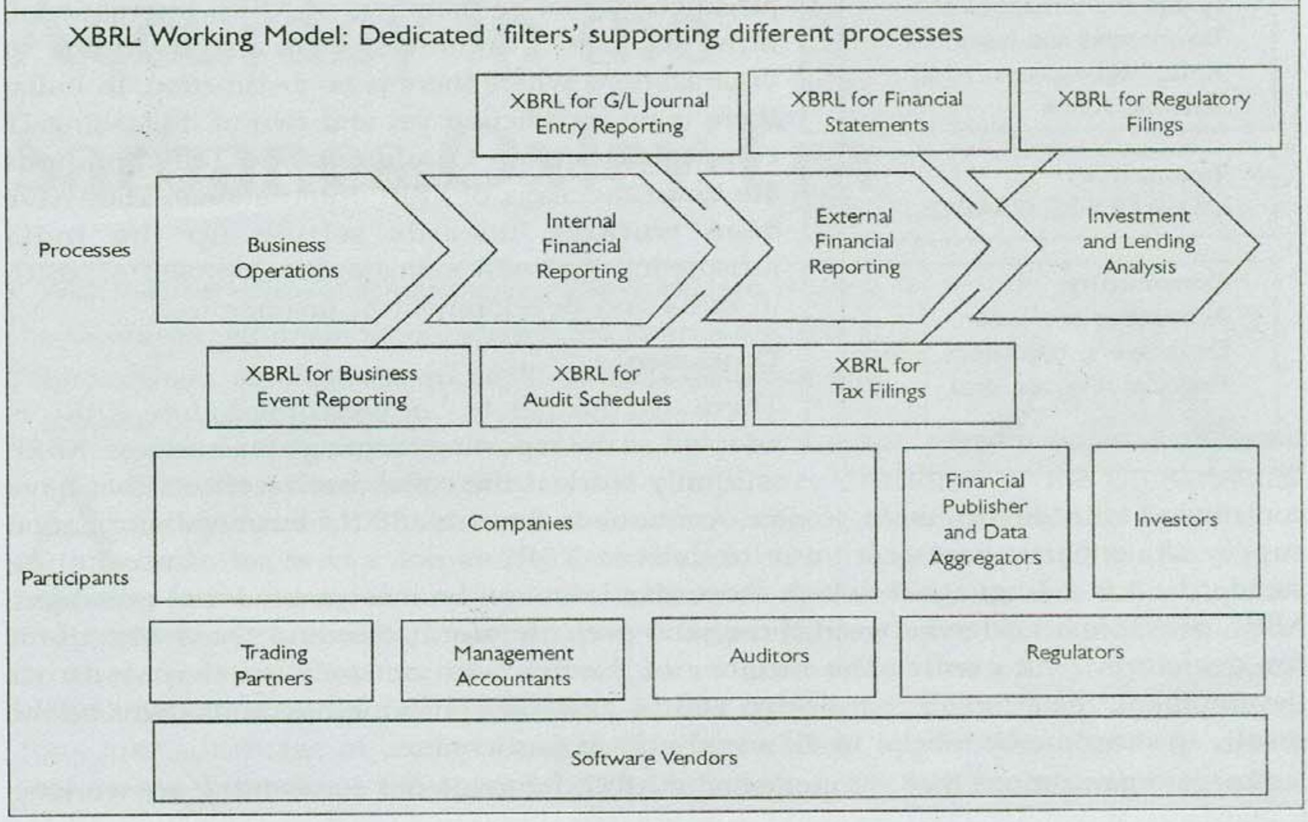
Figure 4 shows the corporate reporting supply chain and the different stakeholders. XBRL enables different processes to talk to each other seamlessly. As well as transforming the corporate reporting supply chain, widespread adoption of XBRL will bring benefits to all participants. Consumers of information will have faster and richer content to work with; producers will be able to create and disseminate richer information better and faster; and the interoperability that XBRL affords means that regulators are more likely to obtain the degree of transparency that they require, faster. In short, the speed, efficiency, and reliability of business reporting will be exponentially enhanced by the widespread adoption of XBRL. These same benefits will offer investors, creditors, and other information consumers better access to the information necessary for more informed decisions.

Components of XBRL

Specification – The XBRL Standard

The XBRL International Consortium has developed the XBRL Specification, a formal and detailed definition of XBRL for use by software developers. It defines the way XML is used for the purpose of business reporting. It is the technology platform for transporting the information contained within business reports. The standard enables software to unambiguously interpret the particular way information is represented.

Figure 4: Corporate Reporting Supply Chain



Taxonomy

XBRL taxonomy is a dictionary of data definitions that incorporates the mechanism for describing, naming, and classifying items of business information in a document. It is a tag list that contains common vocabulary for terms that occur in XBRL-compatible documents. Individual business concepts such as cash flow, depreciation, share capital, are represented in the taxonomy. The taxonomy also specifies inter-relationships, definitions, manner of display, and other descriptive data. XBRL taxonomies facilitate both internal and external reporting. Taxonomies are usually developed by organizations comprising of regulators and preparers in conjunction with software developers using the specification. For internal reporting, XBRL provides a taxonomy for representing operational and accounting details called XBRL GL, which represents data such as the chart of accounts, sub-ledger and general ledger postings, historical transaction data, master data, and so on. An organization using XBRL GL will be able to easily move data between disparate systems. For external reporting, XBRL taxonomies for IFRS have been developed to represent financial information to the external world. IFRS taxonomy can be adapted and even extended to a country's own GAAP needs. Further, specific country taxonomies like US GAAP, UK GAAP are now available for use.

International Developments

Internationally, all developments in XBRL are managed by XBRL International (headquartered in the US, www.xbrl.org), a nonprofit organization to which the AICPA contributes its organizational resources. Globally, each country's local organization is called a Jurisdiction, which works closely with XBRL International. The Jurisdiction has to be a nonprofit organization and needs to have key facilitators like accountancy bodies and regulators in its main membership. Only jurisdictions can be members of XBRL International; however, direct membership is also available to organizations where there is no jurisdiction. In India, there is no jurisdiction yet and two of its leading IT companies, Satyam Computers and Tally Solutions are direct members of XBRL International. They have been working towards setting up the India jurisdiction that will manage development of XBRL in India and development of taxonomies.

Three Components of XBRL

Specification
Syntax and semantics of Taxonomies and Instances XML, Namespaces, XML Schema, XLink

Taxonomies
US GAAP, IFRS, GAAP, GL

Community
Accounting profession, Developers, regulators, users, Financial services, data aggregators...300+

Conclusion

There are hurdles to be overcome before XBRL is adopted as the reporting language for business. XBRL will only work if the collaborative efforts that have contributed to its development, to date, continue to flourish and the business information supply chain participants continue to deliver. XBRL is not a new set of accounting standards; it is a language in which those standards can be incorporated and expressed. XBRL provides a bridge between those who prepare information and those who use it for decisions. The greater the number of parties who actively participate in its development, the stronger that bridge will be and more informed decisions will be the result, an outcome beneficial to all supply chain participants.

Large organizations that are members of XBRL International consortium, are working towards establishing it as the data standard for all corporate reporting. Their efforts suggest that the widespread adoption of XBRL is a question of 'when', not 'if.' It is important that India too joins the international effort early to contribute to its development and reap the benefits of XBRL. This calls for proactive participation by regulators of financial reporting as well as government bodies and cannot be achieved by the corporate sector alone. Hopefully, they will seize the opportunity this time.

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