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The X-Factor

Get ready for eXtensible Business Reporting Language

BY TOM LARSEN, CFA

A global movement to improve the delivery of financial data and other market information to market participants is gaining momentum. Known as eXtensible Business Reporting Language (XBRL), these interactive data are based on a standardized electronic-enabling language that allows unique data items to be tagged. Once tagged, such data can be searched or transmitted via the internet through various software programs.

A Global Movement

The movement is truly global. XBRL International (see www.xbrl.org) is an international, nonprofit consortium that comprises approximately 450 companies and agencies and over 20 reporting jurisdictions worldwide. In Europe, XBRL introduction has been moving forward following the development of International Financial Reporting Standards (IFRS). The United Kingdom has mandated the use of XBRL for tax filings, comprising both financial statements and tax computations, for all companies by 2010. Also, in the United Kingdom, 28,000 smaller companies are already filing to Companies House (the official U.K. government register of U.K. companies) in XBRL format. The Dutch government and businesses are working together to introduce XBRL-tagged documents starting in 2007. In Japan, the Tokyo Stock Exchange is introducing XBRL and the Financial Services Agency is incorporating it into its statutory disclosure system. In the Middle East, the United Arab Emirates has set up a provisional XBRL jurisdiction under the sponsorship of the Abu Dhabi Securities Market. In short, countries from Europe, Asia, and the Middle East are at various stages of

actively implementing XBRL filings.

In the United States, SEC Chairman Christopher Cox believes interactive data will revolutionize the way financial statement users collect and analyze company financial statements, mutual fund prospectuses, and other financial data. Since his appointment in June 2005, Chairman Cox has taken up the charge to move forward a voluntary XBRL filing program that was begun in 2005 prior to his appointment; currently, only 24 companies are participating in this program. Last year, U.S. banking regulators began requiring banks to file their Call Reports in XBRL format. Banking regulators in other countries are also beginning to require XBRL-based filings of bank regulatory data.

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Benefits of XBRL

Proponents of XBRL promise it will revolutionize financial data collection, moving it from the 19th century into the 21st century. While financial filings can already be downloaded via the internet, those downloads are only text files with no easy way to extract the data. XBRL will allow publicly-disclosed financial numbers—such as those that appear in annual or quarterly filings (10-Ks and 10-Qs in the United States) or mutual fund prospectuses—to be “tagged” so that they can be uniquely

KEY POINTS

- Proponents believe eXtensible Business Reporting Language will revolutionize financial data collection.
- Interactive data may benefit users by not only improving access to data but also saving time, raising accuracy, and lowering costs.
- For XBRL to work, a standardized data classification system, or “taxonomy,” must be developed.
- Low investor demand and other obstacles are slowing the implementation of XBRL.

downloaded for further analysis.

Proponents believe interactive data will benefit users by not only improving access to data but also saving time, raising accuracy, and lowering costs. Users of financial statements, mutual fund investors, or regulators will be able to sort through and download data scattered throughout filed reports for much easier and accurate analysis. Companies will find it easier to file with regulators and have those filings reviewed.

It is important to note that XBRL will improve collection of only already disclosed data. There is a common misconception that XBRL will allow the user to “drill down” into the financial statements to unearth new levels of information. The XBRL technology, however, is only a delivery system; it is disclosure neutral, offering no greater or less disclosure than what is already provided in published financial documents. In other words, it does not provide all of a company’s accounts for users to peruse. Moreover, it does not address criticisms regarding deficiencies in current disclosure requirements. Still, XBRL will improve the ability to gather already disclosed data and will also help researchers gather data from multiple sources or multiple companies. Enhancing the ease of data gathering can subsequently enhance the quality of the resulting analysis.

XBRL Taxonomy

For XBRL to work, a standardized data classification system or “taxonomy”

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must be developed. These taxonomies will provide the common computer language in which each financial item will be “tagged” with the information essential for it to become interactive. For example, when the “Cash & Cash Equivalents” line in the balance sheet is tagged, it will have the following information related to it:

- the machine definition (“cashCashEquivalentsAndShortTermInvestments”);
- the human definition (“Cash & Cash Equivalents”);
- the financial reference (GAAP or IFRS reference);
- the calculation (Cash = Currencies + Deposits);
- the formula (Cash & Cash Equivalents >= 0); and
- a contextual reference (e.g., year, currency, actual or forecast data, segmental information, or formatting information).

Thus, for example, while one company may call “Commission Revenue” in its financial statements “Partner Revenue” and another may call it “Fulfillment Revenue,” both will have the taxonomic tag equivalent to “Commission Revenue” in XBRL. The XBRL tags will also help prevent analysts from confusing line items that are similar but not exactly the same (e.g., copying “Net Sales” for some companies and “Gross Sales” for others).

In addition, interactive data will facilitate peer comparisons. For example, with a few clicks of the mouse, an

investor will be able to pull several years of sales data for all S&P 500 companies to analyze trends in sales growth. Such analysis could also be done on expense ratios and performance calculations in mutual fund filings or reviews of regulatory filings by regulators.

Status

Given the benefits XBRL seems to promise, why is it not yet widely used around the world? In the European countries that require IFRS, the XBRL taxonomy, for the most part, has only just been completed, with rollout beginning as noted previously. In the United States, the XBRL taxonomy to U.S. GAAP is not yet complete. The U.S.-based arm of XBRL International, XBRL-U.S., is working with auditors, regulators, and investor groups such as CFA Institute to complete the taxonomy—which is currently more or less limited to the financial statements (income, cash flow, and balance sheet). Work has only just begun on the footnotes and management discussion and analysis. And as any analyst knows, information in the footnotes and MD&A can change the context of what is contained in the financial statements.

Some software vendors have developed programs that can search SEC EDGAR-filed text documents to identify and tag financial data in XBRL, but those programs have generally been limited by the taxonomy to the financial statements—excluding the footnotes and MD&A although there have been some recent successful efforts to automatically tag the footnotes as well. The XBRL taxonomy does allow filers or third-party vendors to create unique extensions for items that may not yet have a standard definition (e.g., footnote or MD&A items). Unfortunately, if too many unique extensions enter the system before the taxonomy is complete, it could become difficult for users to identify and download similar data items, thereby limiting the benefits from XBRL and impeding analysis. Completing the XBRL taxonomy for the footnotes and MD&A is essential to avoid unnecessary limitations to the interactive-data concept. In addition,

some regulatory issues may need to be addressed along the way to ensure that XBRL filings correspond with SEC rules and regulations.

Investor Demand

Another hurdle identified by U.S. companies is that there is no investor demand for them to file in XBRL format. While XBRL is big news in the business reporting world, few outside of it are aware of this new technology. For example, in his monthly survey to members, CFA Institute CEO Jeff Diermeier, CFA, asked if members felt XBRL would assist them in their “evaluation and analysis of publicly traded firms.” More than half marked the box indicating “I am not familiar with XBRL.”

The good news is that when investors learn more about XBRL, they appear to like it. Moreover, of those CFA Institute members who already are aware of XBRL, almost 90 percent support it and believe CFA Institute should support its development.

The CFA Centre for Financial Market Integrity has been working with the SEC and others regarding the development and implementation of XBRL. (Most recently, we and others in the financial community have been working with the Financial Accounting Foundation (FAF) to prepare a feasibility study for the professional development of the taxonomies.) We believe we should take advantage of this window of opportunity to help complete the development of the U.S. XBRL taxonomies and work out the technical details. Meanwhile, as more investors learn about this unique opportunity, demand should grow for its implementation—by which time we hope the technology will be ready to roll out!

We at the CFA Centre welcome any feedback on this topic. **■**

Tom Larsen, CFA, is senior policy analyst for capital markets at the CFA Centre for Financial Market Integrity.

RECOMMENDED RESOURCES

For further information, see xbrl.org or contact the author at tom.larsen@cfa institute.org.