Accelerating XBRL adoption to raise transparency

Understanding Regulatory Challenges

The global financial crisis has unabatedly morphed into a global economic crisis, crashing through national and global regulatory frameworks. "The greatest regulatory failure in modern history," as many have called it, is widely acknowledged to have been caused by the financial system itself.

As the resulting regulatory implications are being felt throughout the globe, nations will need to collaborate to align new architectures to the realities and dynamics of the global financial system. With the introduction of more regulations, further implications will likely include:

* An increased demand for standardized and unambiguous data
* The convergence of accounting and reporting standards
* The need to raise data reliability by reducing the risk of erroneous data entry
* The requirement to more quickly process large amounts of newly available, reusable data (including the automation of compliance checking)
* The need for decision support analytics to make higher quality and more efficient decisions using accurate data within a shorter timeframe
* The need to reduce the additional reporting burden, resulting in cost savings and improved efficiency to regulated entities

With regulators moving to implement systems that address these needs, regulated entities will also face some key challenges:

* Time to respond to new regulatory requirements – without an effective strategy and reporting business model, the delivery of reports would be delayed by focusing on individual reporting needs. This could also result in duplication of effort and lengthy cycle times for report maintenance and delivery.

* Lack of metadata usage – without the effective use of metadata within the enterprise or in financial management packages, organizations face many challenges around controls, audit requirements and consistency due to lack of automated validation and data lineage reporting. Failing to correct errors early in the reporting lifecycle also results in greater costs towards the end.

Raising Transparency

XBRL has emerged as a leading standard for raising transparency. The market for XBRL regulatory systems is relatively new. As a result, there is a tendency to develop custom solutions to fill the list of varying requirements without the benefit of a deep understanding of overall cross-geo issues and long-term requirements. Regulatory requirements go far beyond XBRL data collection, validation, storage and retrieval. The further need for real-time analytics and modelling soon becomes evident after solutions are implemented. Additional insight reveals XBRL as a key business enabler for process efficiency, information integration, information governance, effective analysis and decision making.

Regulators play a pivotal role in the global adoption of XBRL and, as reporting becomes more standardized and transparent across the globe, the financial ecosystem will be changed. Changes will include:

* Access to more accurate information and knowledge regarding the ecosystem, which will enhance our ability to locate the weakest link or anomalies in the network
* An improved understanding of its behaviour and more importantly an understanding of how to better regulate the ecosystem in order to improve stability

Figure 1 conceptually illustrates XBRL usage across a financial ecosystem (non-exhaustive)
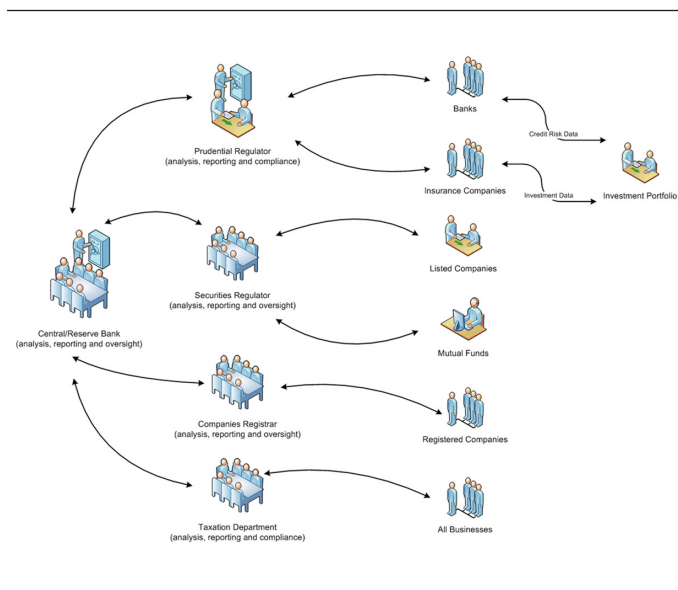

Figure 1 - XBRL across a financial ecosystem

Transparency, therefore, takes on new meaning as a prerequisite for systemic risk early warning and effective financial system governance. It is now more important than ever for regulators to more quickly and effectively build scalable platforms for the timely capture, analysis and distribution of corporate filings and financial data submissions—with the ultimate goal of reusing this data for more effective decision making.

A high level of adoption across a financial ecosystem is needed to positively influence any financial market as it seeks to recover from the global financial crisis. A point-based solution for a particular country and market segment may increase the reporting burden—especially for enterprises with a low IT footprint or locally represented global companies—and consequently, this type of solution can compromise adoption. Regulators would welcome time-tested solutions based on a combination of the leading expertise gained on similar successful projects and market leading software. These solutions must not only address current requirements but must also be flexible enough to address future operational and business requirements as well as keeping pace with new local and international filing best practices and regulatory standards.

A few key pointers (non-exhaustive) to help regulators accelerate the implementation of XBRL enabled platforms and reduce system delivery risks include:

a. **Focus on outcomes** – An approach that focuses on optimizing key outcomes like adoption, ongoing usage and supportability will often positively influence key architectural decisions and determine specific program and technology components, such as:

- Multiparty stakeholder engagement, change management and knowledge dissemination
- Simplified service-oriented architecture
- Multiple channels and solution options based on market segmentation
- Tools and software development kits
- Taxonomy usability
- Standardized interfaces and messaging
- Overall system usability and ease of use

b. **Reduce the overall reporting burden** – Easing the reporting burden on regulated entities will often improve adoption if filing is voluntary or improve attention to quality if filing is mandated. To make this a smoother process, regulators can take the following steps:

- Develop a clear and concise stakeholder engagement and communications plan. XBRL will be new to many stakeholders. No matter how quickly the submission solution and associated support material can be delivered, these stakeholders need to be taken on the journey, with regular communications and prompt response to queries and concerns.
- Streamline and standardize the business-to-government (B2G) lodgement approach. Simplify cross organizational boundary business processes and automate as much as possible. Standardize responses and provide a predictable quality of service. Emphasizing how analytics can further enable decision support in compliance operations and streamlining the reporting process will go a long way toward positively influencing key stakeholders.
- Support user segments—multiple user segments need to be supported with appropriate submission channels, tools and software development kits. They will need attention, direction and education for a successful implementation to occur.

c. **Reduce effort and optimize value** – Can be done by taking a commercial-off-the-shelf (COTS) approach to system delivery—where the use of architectural patterns and pre-built components to assemble end-to-end solutions will also reduce delivery timeframes and most importantly contribute towards reduced delivery and operational risk. Value can be optimized by reusing components, such as authentication and B2B integration. Look for platform software that has built-in features that could be leveraged as opposed to embarking on a custom development exercise.

d. **Support XBRL aspects** – XBRL should be seen as an open standard for communicating multidimensional financial performance-related information, particularly where document style exchange of where semantics and relationships are important. Implementation programs should not only focus on XBRL, but also on what the program can enable. Delivery and adoption of solutions could be accelerated if the following criteria are met:

- There is a multiagency taxonomy governance regime in place, as all too often multiple regulators require common information. Some degree of harmonization can help reduce the reporting burden.
- Taxonomy development is decoupled from submission services infrastructure, which will allow taxonomies to be changed over time without having to change the submission system. This will also allow submissions systems to be piloted with the filing market, as part of taking stakeholders on the journey, before final taxonomies are ready.
- Submission services infrastructure is built in a way that optimally uses XBRL B2B integration patterns and techniques.
- Filer-created taxonomy extensions are deferred until the industry can provide a better approach or standard for improving comparability where taxonomy extensions are used. Until such time, inline XBRL (iXBRL) is recommended as it still enables filers to provide additional or extended information with a significantly reduced effort, among several other benefits. The use of content analytic software, such as IBM Content Analytics, can still provide analytic capability for unstructured data.
- Subject matter experts generally offer insight and lessons learned on previous projects. These include stakeholder engagement, change management, security, privacy, XBRL usage scenarios and patterns, XBRL processing and XBRL taxonomy design. They can also assist with engaging key internal and external client stakeholders, facilitating workshops with public stakeholders to improve adoption and serving in an oversight or assurance role during system implementation.

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The Road Ahead

We have witnessed some of the challenges that both regulators and regulated entities experience. Regulators now have a key role in streamlining the reporting process and raising transparency. Once the basics are in place, participants in the financial network can look to more advanced uses of XBRL, such as:

- Benchmarking
- Analyzing key dependencies and relationships among market participants
- Monitoring key indicators with access to data rather than narratives
- Analyzing financial performance statistics on a repeated basis
- Automatically detecting and tracking financial disclosures

Additionally, XBRL-related projects have begun to mushroom around the world. Many are at a concept stage, a few in pilot, others are being implemented with some already in production. The demand for XBRL technical resources is high and many organizations will be looking for innovative and more economical implementation methods.

The high demand for improved regulatory frameworks through improved transparency, along with the demand for technical resources, compels us to take a different approach to implementing new regulatory monitoring and analytics solutions – one that uses accelerated implementation techniques.

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