

## Learning the Language of XBRL

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**This essay is part of a series, *Controllers' Corner: Two-Minute Essays on Financial Management and Control*, which asks industry thought leaders for their opinions on critical issues facing today's finance organizations.**

*The U.S. Securities and Exchange Commission has decided to replace its 1980s-era EDGAR database with a new system of XBRL-based statutory filings. This will make collecting, analyzing and comparing financial information easier for the investment community. But the affected companies will now have to deliver quarterly and annual reports and other financial statements in XBRL.*

**Q. What should organizations do to make sure they can meet these new XBRL filing requirements?**

The SEC's December 2008 decision to mandate the use of XBRL for statutory filings of listed companies in the United States has elevated the status of 'interactive data' from a side show into the mainstream of group financial reporting. While other geographies around the world had embraced the new technology, the initiative needed the endorsement of U.S. regulators to put it firmly on the map.

So, now that electronic filing using XBRL is here to stay, what are the practical implications? Well, for large



filers the work begins right now with other enterprises following suit over the next two years.

Like many new initiatives, planning is the key to success. The name eXtensible Business Reporting Language, is quite a mouthful and it gives some clue to the difficulty that some users will face acclimatizing themselves to the language and its

idiosyncrasies. It may take a while for users to familiarize themselves with the vocabulary of the XBRL world, such as "taxonomies," "extensions" and "instance documents". Laid bare in all of its glory, XBRL nomenclature and syntax can look quite forbidding.

Furthermore, the tools available for generating and using XBRL are relatively primitive compared to other

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applications in the accountant's kit bag. For example, tools are necessary to map (convert) ordinary US GAAP or IFRS account lines into XBRL in a manner that is consistent with the relevant standards. The output needs to be validated to ensure that the syntax is complete and end user tools are needed to read XBRL financial statements. Added to which, XBRL skills are in short supply.

This all adds up to a need for significant investment in education in order to achieve the necessary level of competence in the finance function. What should organizations do?

Listed companies should start their preparations now, creating a dedicated project team focused on XBRL delivery. A project team should ideally comprise members of group finance with a deep understanding of the relevant GAAP or IFRS, a good understanding of the group accounts together with IT. Others with relevant input are likely to be suppliers of consolidation systems, XBRL tools and external auditors who may eventually (but not for the foreseeable future) have to attest to the accuracy of XBRL statements.

At an early stage, the assembled project team will need to examine vendor capability. Most suppliers of

consolidation systems claim to be XBRL-ready, but few applications have been tested in anger. Furthermore, the market for tools is immature and product capabilities are likely to differ quite widely.

One of the first decisions will be to choose an appropriate XBRL tool for mappings and preparation of instance documents (i.e., valid XBRL documents). In parallel, the project team will need to design the process, controls and methodology governing the preparation and management of instance documents together with their submission to the SEC.

Attention will also need to be paid to the production of relevant notes to the accounts and possible extensions to XBRL taxonomies (dictionaries) to suit a particular industry. Throughout these steps it would be advisable to keep external auditors on side.

For the foreseeable future, the emphasis of XBRL initiatives will be on external reporting and disclosure. But the standardization to XBRL will bring opportunities to drive significant change in business processes. However, this will also need to be accompanied by harmonization of reporting standards. For example, US GAAP and IFRS are converging but

there is still much progress to be made before improvements can be realized fully. In the short term, companies could be stretched as investors start to use XBRL data in the public domain to challenge company statements and projections. But by a similar token, the public availability of competitor data in XBRL format could bring interesting opportunities for analysis, benchmarking and insight.

These are early days for XBRL but we are definitely entering a new era in financial reporting.

### **About Gary Simon**

Gary Simon is the Group Publisher of FSN Publishing Limited, Managing Editor of FSN Newswire and the author of many product reviews and white papers on financial software. Simon is a graduate of London University, a Chartered Accountant and a Fellow of the British Computer Society with more than 23 years of experience implementing management and financial reporting systems. Simon was a partner with Deloitte for more than 16 years and has led some of the most complex information management assignments for global enterprises in the private and public sector. Gary Simon may be contacted at [gary.simon@fsn.co.uk](mailto:gary.simon@fsn.co.uk).

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