



Kathleen Wilhide

Research Director, Compliance and Business Performance Management Solutions

XBRL: Transforming Financial Reporting

May 2009

Recently, the U.S. Securities and Exchange Commission (SEC) mandated the filing of financial statements via eXtensible Business Reporting Language (XBRL). Organizations can ready themselves to adopt XBRL by standardizing financial reporting using enterprise software that is XBRL enabled.

The following question was posed by IBM Cognos to Kathleen Wilhide, research director of IDC's Compliance and Business Performance Management Solutions practice, on behalf of IBM Cognos customers as part of the company's analyst series *Controllers' Corner: Two-Minute Essays on Financial Management and Control*.

Q. What is the impact of XBRL, and how can companies get started?

A. XBRL is the standard that will lead the move toward financial reporting transformation through the use of "interactive data." This term refers to the electronic labels that enable business and financial data to be presented and communicated in an electronic format, more widely known as XBRL.

The SEC has officially adopted a rule requiring the 500 largest public companies to begin filing their financial statements using XBRL beginning in 2009, with a three-year phased approach for remaining filers. This move cements the SEC's commitment to transform its vast database of financial information, nicknamed EDGAR, into an interactive data format. IDC believes that this is only the first step in what will be a broader transformation of the exchange of business information that will translate into greater accuracy, flexibility, and transparency.

XBRL transforms information by attaching electronic labels to that information based upon a standard taxonomy that is accepted worldwide. Once information is tagged, a consistent and comparable electronic exchange of business information is enabled. Initially, this will support the filing of statutory reports, and ultimately, it will drive a business information exchange platform that in turn will drive the broader spectrum of internal and external reporting and analysis. The implications are far reaching: Analyst firms will use XBRL-enabled databases to collect information more quickly and more accurately, and the SEC can apply analytics to filter target companies for additional review, applying oversight to more companies with the same resources.

The future capabilities of an XBRL-enabled environment are endless — reporting, audit, filing, electronic transactions. The information supply and demand chain has endless transition points that can be improved through a standards-based transformation of information.

What should companies do now to ready themselves for the SEC requirement but also take advantage of XBRL capabilities? First of all, companies need to look at the current structure of information. In particular, the master data that supports financial reporting such as the chart of accounts, must itself represent a standard for corporate reporting. In terms of reporting processes, the impact crosses general ledger systems, business intelligence systems, financial consolidation, and processes that may be performed in spreadsheets.

However, organizations can start by establishing a reporting "system of record" that is based upon a standard corporate taxonomy that can then be "mapped" to XBRL. Most companies do this by implementing a financial consolidation system that enables information from disparate general ledger systems to be integrated based upon this standard structure. Financial consolidation systems today enable not only statutory reporting but also management reporting.

Notwithstanding XBRL, there are benefits to a consolidation strategy in terms of performance reporting and analysis.

Consolidation vendors have made initial moves to XBRL enable their solutions. Additionally, there are vendors specializing in working with both regulators and end users to process information through an XBRL engine and manage data validation and taxonomy changes and enable report filing. These services allow customers to leverage the benefits of XBRL.

XBRL is not going away; therefore, it is time for organizations to educate themselves about the standard and create a solid plan for adoption. This includes an assessment of existing financial and accounting technologies and existing capabilities or vendor plans for XBRL enablement.

ABOUT THIS ANALYST

Kathleen Wilhide is a CPA and is the research director for the Compliance and Business Performance Management (BPM) solutions practice at IDC, a worldwide research firm with headquarters in Framingham, Massachusetts. Ms. Wilhide directs IDC's research efforts on software solutions supporting compliance and risk management and related business assurance processes. Ms. Wilhide also directs the research for BPM applications and participates on teams related to general enterprise applications research, with a focus on enabling finance and corporate governance through technology.

ABOUT THIS PUBLICATION

This publication was produced by IDC Go-to-Market Services. The opinion, analysis, and research results presented herein are drawn from more detailed research and analysis independently conducted and published by IDC, unless specific vendor sponsorship is noted. IDC Go-to-Market Services makes IDC content available in a wide range of formats for distribution by various companies. A license to distribute IDC content does not imply endorsement of or opinion about the licensee.

COPYRIGHT AND RESTRICTIONS

Any IDC information or reference to IDC that is to be used in advertising, press releases, or promotional materials requires prior written approval from IDC. For permission requests contact the GMS information line at 508-988-7610 or gms@idc.com. Translation and/or localization of this document requires an additional license from IDC. For more information on IDC visit www.idc.com. For more information on IDC GMS visit www.idc.com/gms.

Global Headquarters: 5 Speen Street Framingham, MA 01701 USA P.508.872.8200 F.508.935.4015 www.idc.com