

XBRL: THE FUTURE OF FINANCIAL REPORTING

The era of eXtensible Business Reporting Language (XBRL) has arrived and promises to bear rich fruit: accountability, transparency and informed strategy for organizations around the world. Underwriters, lenders, the plaintiffs' bar and government regulators will have quick and unprecedented insight into the financial data of any public organization.

XBRL will also help companies that want to better understand their own financial numbers. XBRL-based systems allow effective and accurate analysis of financial cycles over a span of years, ensuring greater predictability of risk and more informed strategic direction.

IN SEARCH OF A COMMON LANGUAGE

Financial institutions are still reeling from the now abundantly apparent dangers hidden within complicated credit derivatives. One of the main causes of the collapse of key investment and lending institutions was an absence of transparency and oversight regarding complex financial instruments, coupled with a lack of clarity in financial reporting practices. For years, financial analysts have sought a common financial reporting language with three goals in mind:

1. Improving access to financial information, thereby promoting transparency
2. Raising the quality of data generated and analyzed
3. Allowing the easy flow of information between software platforms



Enter XBRL, and the immense possibilities of interactive data reporting. In his address to the XBRL Conference (January 2006 in San Jose, CA), Christopher Cox, Chairman of the SEC, referred to XBRL as “the new lingua franca of financial reporting.” As a long-overdue solution to a problem that can no longer be ignored, XBRL can help ensure a company’s books are not only transparent, but also easily and accurately analyzed for risk exposures, strategic positioning and future growth.

XBRL is currently being discussed, debated, debugged and further developed by an international consortium of more than 450 for-profit and nonprofit companies, government agencies and organizations. The FDIC and Tokyo and Shanghai Stock Exchanges are just a few of the major entities that have already mandated its use for all financial reporting protocols. More are sure to follow.

WHAT IS XBRL?

XBRL is an XML-based, open standard business reporting language. Simply put, it is a tool for organizing business information. Financial information is tagged with definitions, or metadata, putting it in an accounting context. XBRL tags work like barcodes, identifying each item on a balance sheet or income statement. This identifying information allows the numbers to be analyzed and reported with more clarity and precision across multiple software platforms. While PDF and Word files create blocks of text, XBRL allows each data entry to be tagged and identified within a particular schema. Depending on the financial data needed to run a particular report, specific taxonomies are created, allowing an XBRL-enabled software program to then easily read the context of each number. No re-keying of information or complicated research is necessary; the computations are automatically generated.

Without XBRL, analysts wanting to compare data from multiple firms need to first enter the data into a single program. Comparing companies in two sectors is virtually impossible, while global comparison of similar firms is a nightmarish task requiring extensive resources, time and manpower, often resulting in multiple errors and overlooked information. With XBRL, financial data can be read and analyzed by multiple parties in multiple contexts and by multiple software platforms.

Internet-based applications work easily with the XBRL, allowing information to flow so quickly that financial analysis in nearly real-time is possible – and requiring little manpower, it allows little room for human error.

In bringing clarity to financial reporting, XBRL helps raise red flags when data over multiple reporting cycles doesn't make sense. The appeal to the SEC is obvious. The SEC has mandated that filers of financial data who use U.S. GAAP and have a worldwide public float of more than \$5 billion file their financial statements in XBRL format starting with the first fiscal period ending on or after June 15, 2009. Other large companies must do the same by June 15, 2010. Smaller companies, and those that do not use U.S. GAAP, have a deadline of June 15, 2011, but the message is clear: XBRL is soon to become standard across-the-board for financial reporting procedural requirements.

As with most major changes, there will be hiccups in the logistics and implementation of interactive data reporting with XBRL. Staying ahead of the game by understanding what XBRL is and what it can mean for a company's risk management profile will not only facilitate the transition, it will give risk managers, CPAs and CEOs a head start in enjoying the strategic benefits that interactive data reporting offers. What might seem to be a regulatory nightmare could potentially turn out to be a great financial aid – a significant tool in setting strategy, meeting future goals and, ultimately, improving your company's bottom line.

Companies wanting to get up to speed on XBRL should investigate seminars, training courses and publications currently being offered on the subject. Once the advantages of XBRL are understood, organizations may well want to begin utilizing XBRL reporting ahead of the mandate.

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