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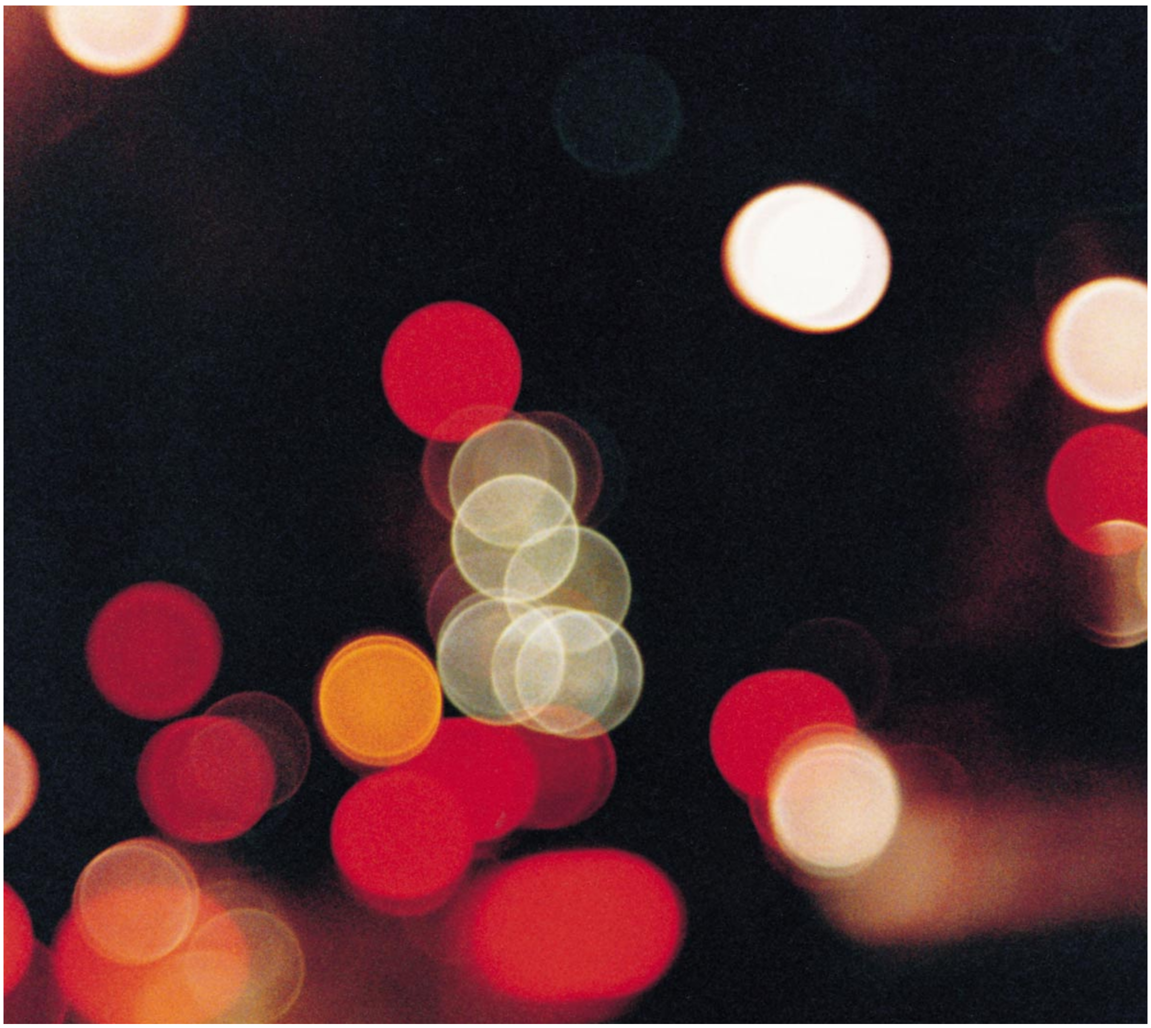

by Mike Willis

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XBRL: Leveraging the Internet for Corporate Reporting

by Mike Willis

It is a truism, of course, to say that the Internet has revolutionized the business world. But there are sectors of the corporate world for which the promises of the Digital Age have remained just that—promises. Case in point: corporate reporting. The fact is that producing, reporting and analyzing company information is still a labor-intensive, tedious process. Why? Because most companies still depend upon disparate systems to store and deploy much of the needed data—and those systems simply can't "talk" to each other. They speak different languages.

But what if there was a way to assemble and distribute corporate information, from a variety of sources, so that it could be used across different systems—inside and outside a company? There is: XBRL. Short for eXtensible Business Reporting Language, XBRL is a relatively new electronic language that promises to work profound change in the business reporting process.

In this article, the first of a series, Mike Willis, deputy chief knowledge officer of PricewaterhouseCoopers' Global Assurance and Business Advisory Services practice and founding chairman of the XBRL Steering Committee, explains how—by enhancing the ability of software applications to analyze data within business reports—XBRL will make it easier to publish, share and use business information via the Internet.

It may seem self-evident to say that good corporate governance practices are essential if investors are to regain confidence in the financial markets. History is replete with examples of how damage to a single company's valuation from disreputable management practices can negatively impact entire market sectors.

However, as the recent spate of high-profile corporate "meltdowns" makes abundantly clear, the entire marketplace is thrown into turmoil when several instances of management malfeasance are uncovered in close proximity. As we have seen, the discrediting of management is tantamount to discrediting a company's financial reports, and this uncertainty leads to plummeting prices.

The reverse is also true; good corporate governance practices—along with solid performance—strengthen stock price. Given management's influence on a company's valuation, a fundamental concern for corporate managers must not be just whether their actions are above reproach, but whether they are actually *creating value* for the company.

A FUNDAMENTAL CONCERN FOR CORPORATE MANAGERS MUST NOT BE JUST WHETHER THEIR ACTIONS ARE ABOVE REPROACH, BUT WHETHER THEY ARE ACTUALLY *CREATING VALUE* FOR THE COMPANY.

In order to formulate and implement strategic and tactical plans to enhance value, managers need a clear understanding of where their company's value truly resides and methods by which to measure value creation. For this information to be fully reflected in a stock's price, management needs to convey it to investors and other stakeholders.

The Limitations of Traditional Reporting

Traditional reporting practices lack a standardized mechanism for conveying management's actions to create value. Indeed, the information included in current reports often provides too little, too late to be useful to investors. To fill in the blanks about a company's value, investors turn to second-hand sources and conduct their own investigations to calculate a stock's price and make investment decisions.

THE END GAME IS TO ENSURE THAT THERE IS A MORE LEVEL PLAYING FIELD WITH RESPECT TO PROVIDING INVESTORS ACCESS TO INFORMATION.

The problem with leaving investors to their own devices is that management has little or no control over whether the stock price accurately—or in any way—reflects management's own business assessment or value-creating activities.

Investors are certainly not alone in reacting strongly to the spate of corporate collapses; regulators too are scrutinizing the ways in which companies disseminate market-sensitive information. The overall regulatory focus has been to examine where current rules and disclosure requirements fall short and to make adjustments that will allay investor concerns and stabilize the markets.

The end game is to ensure that there is a more level playing field with respect to providing investors access to information. We have already seen various regulatory agencies around the world make moves toward requiring increased frequency and greater substance in corporate reports.

Importantly, the tight association between corporate collapses and the executives at the helm has prompted regulators to examine managements' own activities and disclosures about those activities.

The Shift to Internet-based Corporate Reporting

While investors and regulators push for more information at more frequent intervals, the fact remains that the corporate reporting burden under existing requirements is already onerous. Research conducted by PricewaterhouseCoopers found that many companies are turning to the Internet to ease the intensive information-gathering and dissemination needed to fulfill reporting requirements. For those companies that can afford the technology, systems that enable electronic data collection from all over the enterprise, plus the ability to send reports via e-mail, have made important inroads as time- and labor-saving devices.

But most companies still use paper documents and electronic versions of those paper documents to satisfy corporate reporting requirements. Internet usage, if this medium is used at all, is confined to offering reports as static Web-based documents, such as HTML and PDF files. Unfortunately, paper documents are not cost-effective, as they are expensive to produce and disseminate.

More importantly, the task of preparing financial reports often involves generating different reports that use the same or overlapping information.

For paper-based reporting, this means the same data is manually input over and over into various reports, which is not only labor intensive, but also leaves a wide margin for error. Clearly, if there was a way to deposit data and other information in one place such that it could be electronically accessed repeatedly for different purposes, part of the considerable time, money, and human resource outlay needed to create these reports could be redeployed to areas that are more productive for the enterprise.

XBRL HAS ALREADY BEEN EMBRACED BY SOFTWARE DEVELOPERS, INDUSTRIES, COMPANIES, AND REGULATORY AGENCIES WORLDWIDE, AS A VEHICLE FOR PROMOTING SYSTEM INTEROPERABILITY.

Even when information is gathered or sent electronically, recipients rarely find that it's immediately usable. The reason is straightforward: Disparate systems present barriers to information usability within a single enterprise, among members of a corporate reporting supply chain and between corporations and their stakeholders.

For information to become reusable, more often than not, there is a need for recipients to search and manually input information into different software. This may be more efficient than using paper, but the improvement is one of speed rather than substance.

This is not to disparage speed as an improvement in its own right. Among capital market investors and other company stakeholders, reliance on the Internet for information—especially time-sensitive corporate disclosures—has become a given.

Moreover, the shift to Internet-based corporate reporting created an even greater demand for such information long before the present market turmoil. This leaves companies needing to better exploit the Internet to comply with all of their information demands internally, but knowing as well that faster information gathering and dissemination will also lead to expectations that companies can and should provide *more* information.

Enter XBRL—eXtensible Business Reporting Language

Whatever information demands investors, regulators and managers have, clearly there is a need for the corporate reporting supply chain to eliminate the hand-tinkered, labor-intensive processes currently used to produce reports and consume their contents. It's expensive, it's slow and it's error-prone. The question becomes: Can the Internet provide a way to gather and disseminate corporate information such that it is usable across different systems—inside and outside companies—to better assure accuracy and increase delivery speed?

Yes, there are many ways to do this. Do any of these technologies allow a company to keep its current systems and still achieve almost total interoperability? Yes, there are a few that do this. Is any one of these technologies more widely accepted than the others? Yes, the freely licensed eXtensible Business Reporting Language (XBRL).[1]

XBRL allows for:

- Lower preparation costs, more reporting flexibility and more timely information for management
- Simplified information access, transparency of reported information and more timely information for investors, analysts, regulators and creditors
- Broader information availability in a common format for distributors and aggregators

The Regulatory View

XBRL has already been embraced by software developers, industries, companies and regulatory agencies worldwide, as a vehicle for promoting system interoperability. To get an idea of XBRL's high profile, take a look at the participants in the consortium promoting XBRL: http://www.xbrl.org/../Members/Members.htm. Leading the regulatory move toward XBRL implementation is the Australian Prudential Regulatory Authority (APRA), which is the financial services industry regulator in Australia.

APRA was created when 11 predecessor agencies were consolidated. While the move made sense from the standpoint of streamlining the regulatory function, the predecessor agencies all had different data collection systems.

To overcome the incompatibility issues, APRA used XBRL to develop an integrated data collection, management and dissemination system and migrated these functions to the Internet. The agency created further efficiencies by requiring all reporting entities to send their data in XBRL format.

Thanks to the adoption of XBRL, APRA has seen significant improvements in the efficiency and integrity of its data collection, analysis and sharing processes. This enabled the agency to focus more attention on its other regulatory activities.

For example, APRA is working on plans to provide regulated entities with XBRL-enabled benchmarking data to be used in concurrence with their regulatory filings. This type of immediate feedback is simply not feasible in today's paper-based filing environment.

Other regulatory agencies are also taking concrete steps to incorporate XBRL into their reporting processes. In the U.S., the Federal Deposit Insurance Corporation (FDIC)—the bank regulatory agency—is now streamlining its Internet-based processes using XBRL. Likewise in the UK, Inland Revenue's Internet-based e-filing initiative requires the use of XBRL-formatted data for 2003 corporate returns.

Regulators are not the only ones adopting XBRL; many of the world's leading companies are now providing their company reports in XBRL format.

And, in technology-conscious Singapore, the Ministry of Finance is making plans to use XBRL for all Internet-based financial data exchanges. As more and more government agencies migrate their regulatory processes onto the Internet, it is quite probable that there will come a time when XBRL is more than a desirable communication platform; it will be *de rigueur* for regulators worldwide.

XBRL in the World's Leading Companies

Regulators are not the only ones adopting XBRL; many of the world's leading companies are now providing their company reports in XBRL format. Morgan Stanley, Reuters, and Microsoft, for instance, are already using XBRL as part of their external financial reporting processes. The benefits are aptly summarized by Morgan Stanley Executive Director Mark Schnitzer: "Morgan Stanley has committed significant resources to making XBRL successful because a globally accepted specification for business reporting will enable us to better serve the needs of investors worldwide."

Another group with a strong business case—and an exceptional ROI—for XBRL is the lending community. Rather than collecting company credit applications and financial statements in a paper format, these institutions can obtain the same information in an XBRL format. This allows creditors to reduce the time and costs associated with collection and analysis of information for lending and investment decisions from days/weeks to minutes.

Several creditors are currently using XBRL to re-engineer their credit application and monitoring procedures. Bank of America, Dresdner Kleinwort Wasserstein, and Deutsche Bank, among others, are assessing the benefits offered by an XBRL-enabled world. "XBRL would obviously be a cost savings to us," says David Vickers-Kock, Senior Vice President in

Commercial Risk Management, Bank of America. "Data is valuable to us, but it's also costly for us to gather and use."

The Internet will play a major role in the future of corporate reporting, and there are numerous points along the corporate reporting supply chain where XBRL can be applied.

The Power of XBRL

XBRL is also a very powerful analytical tool. To demonstrate just how powerful XBRL is for analyzing corporate reports and how its use greatly enhances the corporate reporting supply chain, PricewaterhouseCoopers collaborated with NASDAQ and Microsoft on a demonstration that can be found at http://www.nasdaq.com/xbrl. This demonstration allows a user—an investor, a creditor, a regulator or a financial analyst—to select company reports/information from more than 20 companies, then acquire the selected reports/information in a matter of seconds.

Gone is surfing from site to site to collect the company reports, the manual entry of selected information into analytical applications, the flipping back and forth to review key company disclosures, the time wasted checking numbers, etc. This demonstration illustrates how the corporate reporting supply chain can be transformed for the benefit of investors and other consumers of company information.

Clearly, the Internet will play a major role in the future of corporate reporting, and there are numerous points along the corporate reporting supply chain where XBRL can be applied. It is also worth noting that XBRL not only can help re-engineer business processes, but is also a catalyst for successfully integrating systems that facilitate data conversion between disparate systems.

So, if there are processes within your enterprise that involve collection, preparation or analysis of significant volumes of financial information—whether it be management reporting, credit assessment and analysis, tax provisioning or financial reporting—XBRL offers a means of making those processes significantly more efficient and effective.

Many of the XBRL early adopters are regulators who, along with their constituents, believe that the XBRL format is good for companies, the regulatory process and for their public benefactors. This information standard benefits all participants in the corporate reporting supply chain, particularly the company executive who is looking to more effectively communicate with stakeholders in an exponentially more efficient manner.

Footnote

1. XBRL is not a new accounting standard, rather it is an information format that places self-describing tags around discrete pieces of information. Once those tags have been assigned, it is then possible to extract only the desired information, rather than having to download or print an entire document.

XBRL is also platform-independent: It will work on any operating system, or any computer. Because it is "application-independent," it can interface with virtually any software system. In fact, XBRL is so flexible that you can e-mail a financial report created in, say, accounting software, to someone using an entirely different format and XBRL will allow the recipient to easily import the data right into their own software format.

This means that business information, including financial data — regardless of its format — can now be identified, extracted, and re-presented in whatever way the user requires. What's more, because XBRL allows financial data from a wide variety of industry sectors to be compared quickly and easily, businesses of all kinds can lower their distribution costs and greatly enhance the value of their IT investments.

XBRL is truly global in its reach and uses.

***Mike Willis**, deputy chief knowledge officer of PricewaterhouseCoopers Global Assurance and Business Advisory Services (ABAS) practice, served as the founding Chair of the International Steering Committee and currently serves as Chair of the Accountants Supply Chain working community. Currently composed of more than 200 global software, accounting, regulatory, and finance companies, the consortium is charged with creating XBRL for the international business reporting supply chain. As a result of his leadership role on the XBRL Steering Committee, Mike was named to* Accounting Today *magazine's 2001 and 2002 list of the "Top 100 Most Influential People."*

Mike joined Price Waterhouse in 1983 and became a partner in 1991. As deputy chief knowledge officer for ABAS, he is responsible for leading the development and implementation of applications and software tools used by ABAS partners and staff around the world. He is a member of the AICPA and the California and Florida Institutes.