How companies can minimize reporting risks and realize benefits

XBRL submission and processes

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At a glance

- With the chicken-and-egg problem of XBRL out of the way, users—and uses—of XBRL-formatted financials are increasing. But users are finding that report quality varies wildly.

- Report quality is management’s responsibility, and it cannot be delegated; but management is relying on vendors’ promises of automated validation.

- An SEC comment letter is only one of the ways poor quality gets highlighted. Such letters present many legal, reputational, and other kinds of reporting risks.

- PwC can help organizations mitigate XBRL reporting risks and optimize the reporting process.
The importance and benefits of report quality in XBRL submissions and processes

In the sixth year of the US Securities and Exchange Commission (SEC) mandate requiring the submission of financial reports formatted in eXtensible Business Reporting Language (XBRL), pervasive issues related to poor report quality continue to affect how analysts perceive companies and to pose risks to filers. Based on their perception that no one is using the XBRL filings and on them feeling comforted by their XBRL vendors that potential problems are being minimized by automated tooling, management usually does not devote sufficient resources and attention to interactive data. With additional attention, corporate messages can be communicated more effectively; internal processes can be more efficient overall; and the costs and the time it takes for compliance can be reduced.
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XBRL: The benefits of quality with a minimum of regrets

Since April 2009, the SEC’s Interactive Data Rules for Operating Companies Rule 33-9002 has stipulated that companies worldwide that submit financial statements under US generally accepted accounting principles (GAAP) to the SEC’s EDGAR system provide XBRL-formatted exhibits to accompany their traditional filing. At the time of writing, more than 10,000 companies have submitted approximately 110,000 exhibits in XBRL for Forms 10-K, 10-Q, and 20-F; certain registration statements; and related submissions. Those exhibits contain more than 70 million individual data points, and mid 2014 was the third year that every number in every financial statement—including numbers otherwise buried in paragraphs of text in the Notes or certain supplemental schedules—has been structured and available from virtually every domestic filer as well as foreign private issuers reporting under US GAAP.

Those numbers reflect a required level of effort that often frustrates those who haven’t found methods of implementing XBRL in ways that are integrated and that reduce total costs rather than create incremental costs; it’s no surprise that some filers have expressed concern that they’re being asked to perform significant amounts of additional work with little perceived benefit—especially to themselves. Surveys of preparers find that neither they themselves nor others of whom they have inquired indicate that they are actually using the XBRL data. That situation—from management’s point of view—has led to the deprioritization of XBRL reporting and the delegation of XBRL reporting to either outsiders or undersupported employees.

The rationale behind doing as little as possible is typically based on the belief that no one is using the XBRL-formatted disclosures—least of all the SEC itself. That belief has been debunked through studies of users of XBRL content\(^1\) and indications of demand for high-quality reports. And PwC can play a role in helping companies both produce those in-demand, higher-quality reports and improve internal processes, controls, and governance. In particular, the area of disclosure management is a focus of the potential streamlining of the last mile of reporting and would thereby enhance the corporate reporting control environment.

\(^1\) For example, the paper “The Quality of Interactive Data: XBRL versus Compustat, Yahoo Finance, and Google Finance” compares the quality of data drawn directly from XBRL compared with typical aggregated data and demonstrates significant mismatches in the aggregated data compared with XBRL reporting. See http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2253638
Your company’s XBRL-formatted reports: Who—or what—is using them?

**Why spend time on XBRL quality? No one’s using it anyway!**

Is XBRL being used?

“Is anyone using XBRL?” It’s a common question, asked by filers who do not believe that the actual current and potential future benefits of interactive data merit the costs they as filers must bear. Some feedback seems discouraging, but the answer elsewhere comes back: “In more ways than you might imagine—and by a broad audience, usually without their knowledge.” Yes, it’s often not who but what is using XBRL.

XBRL is sometimes compared to the Universal Product Code (UPC), which revolutionized the retail supply chain. The analogy isn’t limited to technology and process benefits; critics originally proclaimed that the UPC “offers so little return that it simply won’t be worth the trouble and expense.” 2 The benefits of standardization with XBRL, even with the known data quality growing pains, are already proving themselves. This is evident in the SEC's own use of the EDGAR data, the growth in analytical tooling, and reports from the market. 3

**By whom—or what?**

As for users of XBRL data, the first audience is the SEC itself. Although accused by critics like Rep. Darrell Issa (R-CA) of not providing enough feedback on data quality issues and of relying on third-party data, the SEC has repeatedly indicated that it is using XBRL data as the basis to support its traditional oversight efforts.

The SEC’s Division of Economic and Risk Analysis is using XBRL data to support its own oversight efforts. The SEC’s strategy broadly calls for an increased focus on analytics, with plans that “filings structured for automated data retrieval and analysis will replace all filings submitted through the EDGAR system.” SEC staff have also indicated that XBRL will play an important role in the commission’s Accounting Quality Model, an evolving risk detection and risk-monitoring tool.

Next, the developer and analyst community is involved. BlueMatrix, a global securities research platform, began using XBRL content, and more than 800 buy-side and sell-side firms, too, have been using XBRL—most of them unaware of the original source of the greatly expanded data.

Then the EDGAR Dashboard of XBRL Cloud began publishing automated, real-time feedback on exhibit quality, which forces management, investor relations personnel, and consultants to answer for perceived errors. And that management, those investor relations personnel, and those consultants were all forced to answer for debatable errors. Then TagniFi took a different approach by identifying potential errors and then sending letters to companies—with copies to the SEC—that asked the companies to correct the errors. Minimizing the mechanical effort it took to get at the data meant that the analysts could consume the data and make suggested corrections—automatically—thereby reducing the impact of the preparer-quality problems.

The EDGAR system was designed to “make corporate and financial information available to investors, the financial community and others in a matter of minutes.” 4 Even so, it

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3 The SEC’s October 2013 request for proposal for modernizing EDGAR speaks to the commission’s plans related to analytic tooling. See [https://www.fbo.gov/utils/view?id=8166e286b7f1663a4e249d8f81e6e8b](https://www.fbo.gov/utils/view?id=8166e286b7f1663a4e249d8f81e6e8b)

4 [http://edgar.sec.gov/info/edgaregoverview.htm](http://edgar.sec.gov/info/edgaregoverview.htm)
was largely impractical to be able to use the information in minutes—until XBRL.

XBRL exhibits on EDGAR are available either as raw files or in a viewer whereby users see a standardized presentation and drill down to underlying definitions and other information. More solutions emerged for different types of users: simple presentation on screen, automated entry into Excel templates, summarized data with drill-down to detail and then to the original representation, comparisons across periods and filers, and raw data sets queryable with database tools.

The granularity, immediacy, and reusability of XBRL means that EDGAR data is now open for the market to consume and is made available often for little or no cost. XBRL US produced a historical database for members and subscribers and then sponsored an annual challenge to encourage the development of open-source analytic tools. Some of the participants go on to commercialize their later efforts—such as Calcbench and XBRLAnalyst—whereas others move forward with open-source offerings, such as Arelle.

Other market participants capitalized on the reduced mechanical effort of XBRL to populate their own models and tools: “SEC Filings for Humans” is the work of one person fed up with difficult-to-use tools, the leveraging of XBRL, and other content. Its developer wondered, “Why did I have to build this?” but went from learning how to build a website to exposing XBRL and other data in seven months. Nonhumans process XBRL as well: US Equity News delivers reports in real time, and the Thinknum Web platform for financial analysis enables its users to develop models that update instantly when XBRL data is published.

[How] Is XBRL used?

XBRL’s chicken-and-egg situation no longer exists. There is a critical mass of public-company disclosures, and there is a critical mass of users. The SEC has indicated that soon “filings structured for automated data retrieval and analysis will replace all filings submitted through the EDGAR system.”

- **Filers** can now be encouraged that their efforts to create quality XBRL (1) are leading to valuable use and (2) can be applied to better understand their own businesses and create better XBRL documents.
- **Investors** can learn how others are gaining faster and deeper insights through XBRL-equipped tooling.
- **Auditors** can learn how the SEC is performing automated and in-depth analysis of their clients, can learn the warning signs, and can populate their own disclosure checklists.
- **Academicians** can learn how to both research XBRL and use XBRL to facilitate their research on companies and the market.
- **Regulators** can gain insights into how the market is using XBRL and can then work to optimize XBRL for that purpose.

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5 [http://www.xbrl.us/research/Pages/challenge.aspx](http://www.xbrl.us/research/Pages/challenge.aspx).
What users are finding: Poor data quality

The good news is that this information is now forever freely available on the Internet. The bad news: this information—some of it of questionable quality—is now forever freely available on the Internet. Like those pictures you or your children posted on Facebook 10 years ago that you wish you weren’t reminded about today, the trail of prior filings may have an influence on future stakeholders and analysts. The fact that companies reported billions of dollars of negative sales or quintillions of dollars in global public float (yes, those have happened) or indicated that the company’s cash was special and unlike any other company’s cash—like a number of Fortune 200 companies have done—may come back some day to haunt those filers. For some, the haunting has already begun because the SEC has started sending “Dear CFO” letters to companies whose completeness of required calculation relationships has been questioned. For others, the fact that acceptance into the EDGAR system is not the same as a satisfactory, quality filing, is something they might find out about in the near future.

There are challenges involved in using that XBRL data, as published in both research by the academic community and observations by the SEC itself. There are widespread quality issues with XBRL filings, including large numbers being provided as negative when they should be positive, lack of completeness, inconsistency, and overcustomization, which reduced comparability.

The SEC’s most recent observations note that smaller filers constitute 96% of the situations when a filing is made up of highly customized tags (custom tag rates exceeding 50%), with “systemic evidence” that they were creating a custom tag rather than using a standard tag that should have sufficed. Using an outsourcing provider wasn’t necessarily a cure; one outsourcing vendor was identified as being responsible for one-third of the companies identified as having high and unjustified custom tag rates.

Those costs, efforts, and challenges bring into question the potential of XBRL to result in reduced costs, reduced risks, greater transparency, clearer communication from companies directly to stakeholders, and better oversight. That such benefits increase with broad use, requiring a starting point to build on, is why we have to determine whether anyone is able to get value from the starting point on the way to potential greater benefits. Trains can’t run without the infrastructure of train tracks, and a streamlined business-reporting supply chain won’t come into being without a foundation of interactive data effectively in place.

Where are filers having the greatest difficulties, and why should it be, “Don’t do it their way; do it your way”?

Why are there so many quality issues? In many cases, it’s because of overreliance on software vendors and service providers that claim their automated tools produce high-quality documents without management’s having to learn anything about the US GAAP financial reporting taxonomy or the SEC’s requirements. In other cases, it simply amounts to inappropriate processes and inadequate controls. Just because the XBRL looks the same as the traditional report doesn’t mean it is the same.

XBRL filings are quality filings when they faithfully represent management’s message to the marketplace and clearly communicate the results. Management knows the message it’s trying to convey better than anyone does. And XBRL’s capability to deliver management’s message directly to the stakeholder community in a more-readily-discoverable and more-easily-consumable fashion—rather than letting the message be altered through the typical normalization process of data aggregators that conform companies’ unique messages to fixed templates and a fixed vocabulary, no matter how extensive—is unique and must be driven by management’s attentive participation. Learning how to best use the XBRL vehicle to communicate the message is an important part of corporate governance and responsibility.

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Potential consequences

The SEC’s limited-liability provision covers an initial 24-month period from an organization’s first XBRL filing. That provision has expired for a majority of companies and will completely sunset on October 31, 2014. Material errors in a company’s XBRL report are subject to the same liability exposures as the company’s traditional HTML filings. Additionally, “controls and procedures with respect to interactive data fall within the scope of disclosure controls and procedures. That the principal executive and financial officers do not need to consider such controls in making their individual certifications about their responsibility for establishing and maintaining the filer’s disclosure controls and procedures does not mean that the filer can exclude such controls in complying with Rules 13a-15 and 15d-15 and Item 307 of Regulation S-K.”

Companies are required to ensure that their XBRL files completely and accurately represent their disclosures. As such, the primary risk associated with XBRL lies in providing data that is incomplete, inaccurate, or inconsistent with the corresponding financial statements. For many companies, reporting errors go undetected due to ineffective processes and/or inadequate review procedures. That could include failure to comply with the SEC’s EDGAR Filer Manual rules, which would result in missed filing deadlines and/or amended filings.

Reporting process and control weaknesses may be the most significant risks management faces. The output of reports with material errors; inadequate review procedures; inappropriate access and information technology controls; lack of understanding of controls and related documentation; and other issues are clear indicators of process and control weaknesses.

In summary, company management is responsible for both material reporting errors and related processes and controls, and lack of the right amount of attention can lead to legal, professional, reputational, and regulatory risks.
Ten steps for preparing quality reports and benefiting from them

While solutions to production and consumption of XBRL reports are multiplying, the market is recognizing and noting which organizations are not producing quality XBRL reporting. With that in mind, management should take the following steps to prepare quality XBRL reports.

1. Involve management actively.
2. Make management responsible for its XBRL submissions, and disallow delegation of the responsibility to others—which in fact it is not permitted to do but in practice often does.
3. Management must be committed to determining the best ways of communicating its message to the market via XBRL and of expressing its commitment to all involved.
4. Provide proper training for all of those involved in the process, and devote time to regular updates on changes to rules and on new best practices.
5. Design special programs for those new to XBRL reporting and offer ongoing training for experienced colleagues.
6. Establish an environment of continuous improvement.
7. Perform ongoing evaluations of ways to apply XBRL, such as for internal integration, benchmarking, and analysis.
8. Take the evaluation beyond XBRL to the greater role of standardization in the forms of industry transactional standards, International Financial Reporting Standards, and technology architecture. Organizing, simplifying, standardizing, and adding discipline to all processes are all relevant in this environment and facilitated by disclosure management applications.
9. Implement adequate controls and relevant processes that get monitored and maintained so as to incorporate new guidance and best practices, and monitor progress toward the highest quality evaluated.
10. Collaborate with peers in your region and industry to learn together and to provide feedback together to the Financial Accounting Standards Board for taxonomies and industry guidelines.
How PwC can help

Have you thought about what a material XBRL error constitutes? What are the possible items that could go wrong in your XBRL filings? How do you identify those errors before you file? Is your current process optimized and operating effectively? Which of these items concern you?

Having a plan in place so as to be able to answer those questions and others offers a way forward to mitigate your risks and ensure a quality submission to the SEC. Additional opportunity comes from looking beyond the compliance aspect and taking advantage of the ability of structured information to optimize your reporting effectiveness and efficiency.

PwC has extensive experience in working with companies to help them understand—and respond to—XBRL reporting risks as well as to use standardization for the enhancing of reporting processes. We bring to each engagement an established process and control framework that we tailor to the organization’s specific implementation. Our approach is designed to provide concrete recommendations that will improve the quality and efficiency of your company’s process.

Pervasive XBRL report quality problems can and should be overcome
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