



## XBRL: The Language of Accounting in a Digital World

By Mike Willis, CPA

For company management, it is critical to be able to quickly spot problems and opportunities, to know what is going on in the company and to know it in time to make a difference. Getting the right information in a timely and consolidated way is often difficult, as data typically is stored in many different places throughout the organization. This is where XBRL comes in.

Extensible Business Reporting Language, or XBRL, is the new Internet language for the corporate reporting supply chain. Because business information is foundational to the markets and touches nearly every area of the entire economy, XBRL touches every business that publishes financial information internally and externally, and that receives financial information from business partners and other third parties.

For accountants, business information is business. XBRL was developed by the accounting industry, and it is the language of our business. That's why every CPA needs to understand what it is and what it does for us and for clients.

With industry leaders in nearly every sector beginning to deploy XBRL, and with nearly every software company embedding XBRL capabilities in its software, clients who are not yet aware of this technology soon will be. That's why it's not enough for CPAs to be aware of XBRL - they must understand how to use it. It's an all-or-nothing proposition: The rewards for accountants who are ready to operate in an XBRL-enabled world will be continued competitiveness and expanded service capabilities; the penalty for not adapting will be obsolescence.

This article explains how XBRL increases the interoperability of disparate software, thus making information directly exchangeable across all software applications. We'll discuss how this will benefit CPAs; how they can help their clients deploy XBRL to streamline the business-information reporting process, both internally and externally; and how this will enhance their credit, operational, and other business decision-making processes.

### **Leveraging the Internet**

XBRL's capabilities dramatically alter the way information is exchanged on the Internet. To get an idea of how different XBRL-enabled information is from current Internet information, ask yourself these questions:

1. How do you use the information your audit clients provide today? Can you automatically download it into your applications such that it's immediately summarized and analyzed?

2. How do other stakeholders use the information your audit clients provide today? Are they manually tinkering with it, cutting and pasting it into worksheets for analysis?
3. How does your own staff gather and disseminate client information for analysis within your firm? Can your staff exchange and immediately begin analyzing information regardless of the disparate applications in which they are working?

The issue is this: With so much information available to CPAs electronically, it is astounding that CPAs expend so much time and energy manually obtaining, assembling and assessing the data they use to do their jobs.

XBRL facilitates the use of information by enabling various software packages to share information in an interoperable manner. This means data is delivered from one software application directly into another so that it can be immediately used by the recipient's application, whether that recipient is a company manager, a business partner, a regulator, a creditor, a stockholder or any other kind of stakeholder.

XBRL also is 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 some 20 semiconductor companies, then acquire the selected reports/information in a matter of seconds (yes, that's right, 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.

And XBRL will be readily useable by companies and their stakeholders thanks to a remarkable agreement in the software industry to almost universally adopt the technology standard that enables software to use XBRL. Most have already embedded this technology in their software, so most clients, and even accounting firms themselves, will have the capability already in their systems. It just remains for accountants to flip the switch to "on" within their own firms and within client organizations. CPAs should expect to find XBRL embedded in the Microsoft Office 11 release scheduled for April 2003. You can learn more about other software vendors such as Creative Solutions who have already embedded XBRL within their applications at <http://xbrl.org/resourcecenter/tools.asp?sid=22>.

The software capabilities for XBRL are there. The demand for XBRL-enabled business reporting also is there, magnified a thousandfold by recent market turmoil.

### **The Demand for Financial Information**

Investors, regulators and creditors all have something in common: They want companies to provide more information more frequently. These demands have only taken on more urgency in the wake of recent high-profile corporate collapses. Regulators are listening to investors as never before, and are stepping up their requirements for increased disclosure and tighter reporting deadlines. With reporting requirements already onerous, companies can turn to XBRL to automate their reporting processes and cut down on the time and expense of the entire reporting process - from gathering, to assembling, to disseminating information.

Regulators and creditors also will be the source of more immediate demand for XBRL in that many prominent regulatory agencies and major banks have begun to deploy XBRL internally to

cut down on the time and expense associated with consuming information companies that send to them. By requiring companies to submit information formatted in XBRL, these information consumers can automate the process of inputting information into their own analytical software and redeploy resources to more productive uses. Regulators can spend more time assessing company information and performing oversight duties; meanwhile, creditors get more immediate and relevant information on which to base their lending decisions, reducing the bank's exposure to credit risk.

Leading the regulatory move toward XBRL implementation is the Australian Prudential Regulation Authority (APRA), the financial-services industry regulator in Australia. 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 has 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 simply is not feasible in today's paper-based filing environment.

Other regulatory agencies also are taking concrete steps to incorporate XBRL into their reporting processes. In the United States, the Federal Deposit Insurance Corporation - the bank regulatory agency - is now streamlining its Internet-based processes using XBRL. Likewise in the United Kingdom, Inland Revenue's Internet-based e-filing initiative requires the use of XBRL-formatted data for 2003 corporate returns. And, in technology-conscious Japan, the Tokyo Stock Exchange is making plans to use XBRL for all member-company reporting. 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.

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, already are 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 return on investment - 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 or weeks to minutes.

Several creditors currently are using XBRL to reengineer their credit application and monitoring procedures. Bank of America, Dredner 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 for Bank of America. "Data is valuable to us, but it's also costly for us to gather and use."

It won't be long before investors get wise to XBRL. Microsoft's Office 11 release in April 2003 will make every investor who uses Excel aware that if company information was XBRL-enabled, he or she could analyze more companies, more deeply, as there would be no need to read through company reports to locate and then extract desired information. There also would be no delay as information consolidators work to make company information easily readable in their analytical programs.

The technology already has been tested and proven beneficial by a CPA firm, Hevia Beagles and Co., in Orlando. In December 2001, the firm was approached by Bank of America to participate in a pilot program to demonstrate XBRL. Using data from a real client, the firm worked with the bank to make the technology work for their firm. "We essentially facilitated the communication of the data; our role was primarily to sit down with Bank of America to define protocol," says firm partner Daniel Hevia. "A lot of the XBRL stuff is at the 10,000-foot level, and we were trying to figure out how we would actually do this with a small business client."

Hevia says it wasn't long before he saw how XBRL could be beneficial to his business. "Bank of America sent us the information they had in their electronic database on our client; theoretically, it was the information our client had given them (via) hard-copy financial statements. We found out there were differences, because they had attempted to extrapolate certain data from footnotes, and either our footnotes weren't clear enough, or they simply made bad assumptions about it," he says. "But we saw immediately where XBRL transmission would have eliminated a lot of those problems right off the bat."

Hevia Beagles was able to successfully transfer data on its client to the bank, making it the first CPA firm to use the technology in the United States.

"We don't really have programs here that are XBRL-capable; most of our audit and tax software doesn't have that capability," he says. "But we were able to download some data into an Excel spreadsheet in a format that Bank of America was able to translate into XBRL on their side of the equation, and get it into their database that way."

Hevia says that his firm probably will use the technology again for its annual reporting requirement with Bank of America. He adds that if the technology works as expected, "it would greatly streamline a lot of the data transmission between all the players that use it."

#### **What XBRL Can Do for You**

The AICPA founded the XBRL consortium in 1998 with only 13 original member companies. Today, that consortium, XBRL International, has more than 170 members, representing over a dozen international jurisdictions. XBRL is an XML-based, royalty-free, open standard that provides a common platform for business reporting processes, and improves the reliability and ease of communicating financial data among users both internal and external to the reporting enterprise. XBRL membership represents virtually all constituents of the corporate-reporting supply chain, including auditors, management accountants, regulators, analysts, creditors, information aggregators, investors, software vendors and corporations. To get an idea of just how high XBRL's profile is today, take a look at the participants in the consortium promoting XBRL: <http://xbrl.org/aboutus/index.asp?sid=18>.

XBRL provides the accounting profession with a powerful tool to facilitate the advancement of corporate-reporting efficiency and effectiveness by allowing 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; and
- More effective exchange of company information between software applications.

XBRL already has been embraced by software developers, industries, companies and regulatory agencies worldwide as a vehicle for promoting system interoperability. Many of the technology

industry sector members have already embedded XBRL within their applications. Learn more about where they are at the consortium Web site: <http://www.xbrl.org>.

A short list of the benefits to CPAs and their clients from XBRL adoption:

**Lower operating costs.** Due to the more efficient exchange of XBRL data between applications within an accounting firm, and between an accounting firm and its clients, CPAs will be able to spend more time analyzing information for a wide variety of purposes and less time obtaining, assembling, transferring and validating information. The XBRL-enabled reporting environment also provides a more efficient reporting process, as data is published just once and can be used again and again to create any type of report. In addition, common XBRL reporting templates, expressed in an XBRL taxonomy, can be used in multiple reporting applications by CPAs and their clients alike. Finally, the efficiencies of handling data within a firm for analysis and comparative purposes will both increase efficiency of firm operations, and reduce risks associated with variances that otherwise may go undetected.

**Increased revenue opportunities.** The capability to more efficiently analyze company results highlights operational and effectiveness improvement opportunities for firms and their clients alike. Additionally, the use of the XBRL General Ledger may also help firms provide their non-assurance clients with reporting and management insights that are cost-effective for companies to afford and cost-effective for firms to deliver. This tool will provide cost-effective access and insights into deeper operational activities, should clients so desire.

**Enhanced service opportunities.** There is a wide range of additional services that firms can extend to clients by leveraging XBRL tools: more efficient analysis of debt pricing and lending relationships; increased analysis and efficiency of client information during interim periods; more efficient assessment of debt covenant compliance; and optimized reporting and risk models embedded within client applications. XBRL's ability to automate many of these services is a key selling point.

These service offerings are based upon value added to accounting firms and to their clients. These services are not dependent upon accountants becoming technology experts. As previously noted, XBRL capabilities already are latent in many software applications because the industry agreed to adopt the standard. This means that XBRL capabilities will work in much the same way that many other technologies work - they just work when you select the appropriate menu item or apply the appropriate keyboards shortcuts.

Any truly successful technology is most identified by the transparent nature of its use. It just works, and the consumers count on it to do so. Intel processor chips come to mind here: They're embedded everywhere, yet understood by only an infinitesimally small percentage of CPAs. Did this stop CPAs from having the tools on computer platforms upon which the entire industry now relies? Of course not. The same will be true of XBRL - it will simply be embedded in all of the applications that you use, and will enable you to do tomorrow what today would seemingly be magical. There's no magic here, and no trick up anyone's sleeve. XBRL is simply our industry's part of the next-generation Internet and how we enhance the business-reporting environment.

*(Editor's Note: This article is of a general nature and is not intended to address the specific circumstances of any individual or entity; in specific circumstances, the services of a professional should be sought. The views and opinions are those of the author alone and may not necessarily represent the views and opinions of XBRL International, or of PricewaterhouseCoopers or its member firms.)*

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