The competitive advantage of quality XBRL data

Why XBRL matters now

There are times when a historical moment meets a technological milestone. This year’s global pandemic and resulting workforce changes have moved digital transformation to the forefront for many organizations. Many companies are choosing now to increase their focus on automation and technology as a way to address the disruption of the past few months. This rapid shift aligns with a pivotal point at which technology exists that can analyze large swaths of data easily and accurately with the processing power and speed needed to identify meaningful insights. These factors make the quality of your company’s financial data—XBRL data—a key competitive advantage now more than ever.

The SEC mandates that registrants report their financial statements and disclosures in a digital framework called XBRL, using a language that applies tags to data. This tagging is embedded within, known as Inline XBRL (iXBRL), or reported alongside the company’s required reports filed with the SEC. The result is a structured way to extract, sort, and compare financial information across companies over time.

Globally, regulators and standard setters are also paying attention to XBRL. There are 60 territories around the world using it already. From this year onwards, listed companies in the European Union will use it for their annual reports, with the European Commission expecting auditors to report on the quality of the tagging.

As regulators require more data to be tagged via XBRL, more financial and nonfinancial data will be available in a structured format for consumption. This, coupled with the acceleration of technology, will only increase the need for companies to report high-quality XBRL data to better inform investors.

Using XBRL

XBRL data is used by analysts, credit risk agencies, industry researchers, investors, regulators, academics, and others to gain insights that influence key decisions. A company that consistently provides high-quality XBRL data can differentiate itself in a crowded marketplace with the credibility gained from high-quality XBRL data. It can also benefit the capital markets more broadly because it may result in more efficient and effective decision making.
XBRL data quality

Some technology companies license financial data aggregation applications and services. These data vendors correct some of the data quality issues in the XBRL financial data obtained from the SEC website, restructure and standardize it for comparability purposes, and sell the data to capital market participants and others.

Because only certain data quality issues are identified by the aggregators, the responsibility for the quality and usability of XBRL submissions rests with financial statement preparers. A high-quality XBRL filing allows users of the data to quickly and easily analyze accurate information digitally. In contrast, preparers who rely on data vendors to identify and correct errors within their XBRL submissions may unintentionally cede control of the narrative analysts and investors use for decision-making.

The XBRL US Data Quality Committee publishes errors in SEC filings. Between July 1, 2020 and July 13, 2020, 46% of Form 10-K and Form 10-Q XBRL filings included errors per the XBRL US Data Quality Committee.

<table>
<thead>
<tr>
<th>Common XBRL data quality issue</th>
<th>Potential impact</th>
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<tbody>
<tr>
<td>Unnecessary company-specific extensions when an appropriate US GAAP or IFRS tag exists</td>
<td>XBRL data users may be unable to compare your financial results to your peers</td>
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<tr>
<td>Incorrect sign (e.g., tagging a gain as a loss or vice-versa)</td>
<td>XBRL data users may misinterpret the reporting of a particular accounting concept</td>
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<tr>
<td>Incorrect XBRL table structure (e.g., XBRL table axis)</td>
<td>XBRL data users may not be able to consume certain data from the financial statements or disclosures in an automated way</td>
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<tr>
<td>Incorrect unit of measure (e.g., reflected as US dollar when the unit should be shares)</td>
<td>XBRL data users may misinterpret the meaning of a reported accounting concept</td>
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A robust XBRL tagging quality control process

It is important that XBRL tagging be more than a compliance exercise. A robust quality control process with clear ownership of the quality of the XBRL filing will enhance the completeness and accuracy of the filing. Although the XBRL tagging is often applied at the end of the reporting process, companies should consider executing it with the same rigor as other financial reporting. An effective process may include the following tasks:

1. **Assess the XBRL tags selected**
   - Confirm that each element selected accurately reflects the accounting concept communicated within the financial statements and disclosures.
   - Review company-specific extensions for potential standard element alternatives to enable comparability, increasing the likelihood of a company’s XBRL data being included in financial analysis.

2. **Review the results of publicly-available automated validation checks**
   - Confirm that the XBRL filing conforms with the XBRL specifications, EDGAR Filer Manual, and XBRL US Data Quality Committee checks.

3. **Review the underlying XBRL data**
   - Because automated checks alone may not identify all data quality issues, review the underlying XBRL data (e.g., values, signs, balances, units, data types, calculations) to confirm the data is complete, accurate, and aligns with best practice guidance.

4. **Formalize and document the control activities that support XBRL filing quality**
   - Formalized and documented processes and controls over the creation and review of the XBRL submission can enhance XBRL filing quality. Consider periodically testing the controls for effectiveness.

Prioritizing XBRL data quality now

As the use of XBRL data increases globally, companies that have implemented strong XBRL quality review processes and controls can more effectively manage their message to users of the data. The higher the quality and usability of a company’s XBRL reporting, the more confidence XBRL users have in the data they rely on to make key financial and investment decisions.

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