

XBRL and Enhanced Business Reporting

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Introduction

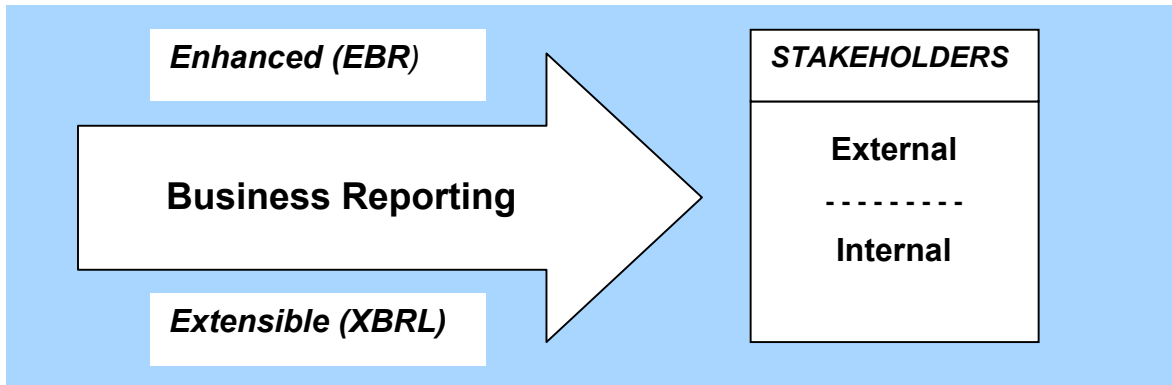
One of the buzz words since the Enron scandal has been transparency. There have been increased calls from investors, regulators, employees, and lenders for better and faster communication of financial information. The drumbeat for change has been accompanied by voices outside the traditional hallowed halls of accounting and finance. Environmental groups and non-governmental organizations are promoting non-financial metrics such as carbon footprint or compliance with child labor laws in emerging markets. Transparency is being embedded in the set of expectations of all corporate stakeholders.

Today, I would like to focus on two interrelated initiatives that have promise to improve not only the quality but the timeliness of business reporting. Note that I have just used the term business reporting rather than financial reporting. It has been estimated that 25% of an entity's market value is attributable to accounting book value. The remaining value estimate is based on factors such as strategy, product innovation, employee talent, customer loyalty and other similar matters.

In the first part of this presentation I will discuss the subject of enhanced business reporting with particular focus on the efforts of the Enhanced Business Reporting (EBR) Consortium. While EBR addresses the content or the "what" of business reporting, XBRL addresses the format or "how" of business reporting. XBRL, which stands for Extensible Business Reporting Language, has been in the process of development since the late 1990s. XBRL is a methodology to report business information in an interactive format that is easily accessed by external and internal users. In the second part of the presentation I will review some of the key components of XBRL. Lastly, I will review some future opportunities related to EBR and XBRL and offer some observations related to corporate scandals and ethics.

A Graphic Connection

Prior to launching into further detail, the following graphic illustrates the connection between EBR and XBRL. We have noted how EBR focuses on the content and XBRL focuses on the format and delivery of business information. Make particular note to the box on the right side of the diagram. Both EBR and XBRL address external and internal business reporting needs.



It is also important to emphasize that the line between external and internal is dotted, not solid. The business information that is being captured and reported by organizations should move smoothly between internal and external users. As the concept of transparency would suggest, users want to understand organizations on a level deeper than what balance sheets and income statements report. Interested stakeholders in XBRL include the stock exchanges, the SEC, lenders, pension funds, employees, and of course internal management.

The value proposition to the company is that as business reporting improves, there will be concomitant improvements in corporate performance, corporate value, capital markets, and the overall economic system. These goals mirror some of the hopes that were attached to the Sarbanes-Oxley legislation in 2002. As I cited in an article more than three years ago in a business ethics journal, XBRL may help realize some of the goals that Sarbanes-Oxley was designed to achieve.

Enhanced Business Reporting

Enhanced business reporting (EBR) refers to an initiative to broaden the scope and improve the quality of business reporting. Under the umbrella of the American Institute of CPAs (AICPA), the Enhanced Business Reporting Consortium represents a collaborative effort of industry leaders such as Grant Thornton and Microsoft. It has drawn significant input from the PricewaterhouseCoopers ValueReporting materials and research. The mission of the consortium is:

"...to improve the quality, integrity and transparency of information used for decision-making in a cost-effective, time-efficient manner."

The Consortium has developed an Enhanced Business Reporting Framework of disclosures as summarized below:

“Similar to the objectives of financial reporting, disclosures should provide information that is useful to present and potential investors and creditors in making rational investment and credit decisions. Disclosures should provide information about the economic resources and performance of an enterprise and help users assess the amounts, timing, and uncertainty of prospective net cash flows.”

The importance of enhanced business reporting is hard to understate. Expanding and improving disclosures is not just an exercise in protecting corporate reputation. Future management of corporate value will include focused attention on the scope, depth, and usefulness of corporate disclosures.

As noted in research conducted in the UK by PricewaterhouseCoopers and Schroders:

“...corporate reports are more likely to generate rewards in the capital markets if the reader can visualize a link between strategy and areas such as employees, the environment and corporate performance...Reporting is a new competitive arena. For those who understand and report transparently upon their key engines of value creation, the long-term rewards will be tangible: a greater investor following, lower stock price volatility, and ultimately a more attractive cost of equity and debt.”

As mentioned before, EBR and XBRL are related initiatives. To that end, the AICPA announced in June that it was formally putting its management vis-à-vis these two initiatives under one umbrella. As noted by Robert Laux, Director of External Reporting for Microsoft:

“XBRL will play a key role in the implementation of the Consortium’s mission to improve the quality, integrity and transparency of information used for decision making. Investors will have better access to performance information because XBRL facilitates effective and timely analysis of that information.”

Will there be a cost to implement EBR? Of course. However, as noted by the EBR Consortium in their Prospectus, “the most significant potential cost is that of failure to enhance transparency and restore trust and confidence in our capital markets”.

The EBR Framework recommends that companies enhance their reporting along four main quadrants namely:

- Business Landscape
- Strategy
- Competencies and Resources

- Performance

Business landscape addresses business and economic climate as well as other external forces such as political and regulatory actions. Strategy includes not only the corporate strategy but structures that are in place to execute those strategies. Competencies and Resources are connected to strategy but also describe those elements that are sources of value for the company such as intellectual property. Lastly, Performance includes measures of profitability, liquidity, and operations plus segment information.

The reader is encouraged to delve into the sample reports on the EBR Consortium web site to experience how valuable enhanced business reports using XBRL technology can be.

Other Initiatives Enhancing Business Reporting

In addition to the Enhance Business Consortium, there are other initiatives addressing business reporting. One initiative that has gained wide acceptance world-wide is the Global Reporting Initiative (GRI). To-date, nearly 1000 organizations in over 60 countries have declared their use of the GRI Reporting Framework. The goals of GRI are summarized below:

The Global Reporting Initiative's (GRI) vision is that reporting on economic, environmental, and social performance by all organizations becomes as routine and comparable as financial reporting. GRI accomplishes this vision by developing, continually improving, and building capacity around the use of its Sustainability Reporting Framework.

Many international companies produce "Social Responsibility", "Corporate Citizenship" or "Sustainability" reports in accordance with GRI standards. These reports can generally be located on the investor relations page of the respective company web sites. They can also be located on the GRI web site noted later in the paper.

XBRL

XBRL is a language for the electronic communication of business and financial data which is revolutionizing business reporting around the world. It is already extant in many countries of the world for tax and financial reporting. It offers cost savings, greater efficiency and improved accuracy and reliability to all those involved in supplying or using financial data.

XBRL stands for e**X**tensible **B**usiness **R**eporting **L**anguage. It is one of a family of "XML" languages which is becoming a standard means of communicating business information on the Internet.

XBRL is being developed by an international non-profit consortium of approximately 450 major companies, organizations and government agencies. **It is an open standard, free of license fees.** XBRL can handle data in different languages and accounting standards. It can flexibly be adapted to meet different requirements and uses.

Rather than treating financial information as a block of text - as in a standard printed document - it provides an identifying tag for each individual item of data. This is computer readable. For example, company net profit has its own unique tag. Some have likened tagging to “bar-coding” the information. XBRL does more than “code” a piece of business data. XBRL contextualizes data. Net profit is not just a number. It is a number for a specific period, reported under specific accounting principles, belonging to a specific company, and much more.

According to XBRL International:

“The introduction of XBRL tags enables automated processing of business information by computer software, cutting out laborious and costly processes of manual re-entry and comparison. Computers can treat XBRL data “intelligently”: they can recognize the information in a XBRL document, select it, analyze it, store it, exchange it with other computers and present it automatically in a variety of ways for users. XBRL greatly increases the speed of handling of financial data, reduces the chance of error and permits automatic checking of information.”

Small businesses can benefit alongside large ones by standardizing and simplifying their assembly and filing of information to the authorities.

Some Key Definitions

Taxonomy:

Greek: *Taxis* meaning arrangement or division and *nomos* meaning law or science. Hence, taxonomy refers to the classification of some kind of knowledge. XBRL taxonomies are dictionaries of business concepts (also referred to as *elements*) and their corresponding tags. See the Appendix for a list of current XBRL jurisdictions around the world where XBRL taxonomies are being tailored to country-specific requirements

Schema:

An XBRL schema stores information about taxonomy elements. The example below is a simplified (prefixes have been omitted) definition of the element *Assets*.

```
<element name="Assets" id="Assets" periodType="instant" balance="del  
abstract="false" substitutionGroup="item" type="monetaryItemType"/>
```

The most important parts provided in this example, from a business perspective, are name, periodType, balance and type.

Linkbases:

Linkbases describe relationships between elements and link them as necessary to external resources. *Presentation*, *calculation*, and *definition* linkbases describe relationships between elements. For example, the presentation linkbase describes where current accounts receivable would be placed in a balance sheet. *Label* and *reference* linkbases connect to external resources such as IFRS (International Financial Reporting Standards).

Example of XBRL Tagging

Schema
<p><i>Element's definition:</i></p> <pre><element id="ifrs-gp_ProfitLossBeforeTax" name="ProfitLossBeforeTax" type="xbrli:monetaryItemType" substitutionGroup="xbrli:item" xbrli:periodType="duration" xbrli:balance="credit" nillable="true" /></pre>
Instance Document
<p><i>Business fact:</i></p> <pre><ifrs-gp:ProfitLossBeforeTax contextRef="Current_ForPeriod" unitRef="U-Euros" decimals="0">661000</ifrs-gp:ProfitLossBeforeTax></pre>

The example above states that Sample Company's *Profit Loss Before Tax* for the year 2004 amounted to 661,000 EUR. The element's definition is contained in the schema. The instance document assigns it a value and provides additional information about the currency in which it is disclosed. Additional context tagging would provide the entity that it refers to.

International Financial Reporting Standards – Excerpt

To provide more insight into one of the XBRL taxonomies, please refer to the table below which lists selected presentation element identifications under International Financial Reporting Standards (IFRS). Note that the one highlighted is the one used in the Schema in the above

example. There are over 4,000 such elements under IFRS. By comparison, the U.S. GAAP taxonomy for commercial and industrial companies has less than 2,000 such elements.

ifrs-gp_ProfitLoss
ifrs-gp_ProfitLossAfterTaxFromContinuingOperations
ifrs-gp_ProfitLossAfterTaxFromContinuingOperationsPresentation
ifrs-gp_ProfitLossAttributableToEquityHoldersOfParent
ifrs-gp_ProfitLossAttributableToEquityHoldersOfParentAndMinorityInterestPresentation
ifrs-gp_ProfitLossAttributableToMinorityInterest
ifrs-gp_ProfitLossBeforeTax
ifrs-gp_ProfitLossBeforeTaxPresentation
ifrs-gp_ProfitLossFromDiscontinuedOperationsNetOfTax
ifrs-gp_ProfitLossFromOperations
ifrs-gp_ProfitLossFromOperationsDisclosures
ifrs-gp_ProfitLossFromOperationsPresentation
ifrs-gp_ProfitLossPresentation
ifrs-gp_ProfitLossReportedUnderIFRS
ifrs-gp_ProfitLossReportedUnderOtherGAAP

Data can be transformed into XBRL by suitable mapping tools or it can be generated in XBRL by appropriate software. Many software developers have XBRL capabilities including Hitachi, Microsoft, Fujitsu, Rivet, Edgar Online and others.

XBRL GL

So far in this paper we have been describing the use of XBRL in financial reporting at a high level. XBRL can also be used to tag data deep within organizations. XBRL GL, the standardized Global Ledger, is a standard format representing both financial and non-financial data at the detail level. It provides context for drilling down into the detailed information.

The XBRL International Consortium summarizes that XBRL GL was created to meet numerous goals such as:

- Multi-GAAP, drill-up to multi-XBRL reporting taxonomies.
- Standard format for 3rd-party software to create journal entries to pull into client GL system.
- Standard format to move unposted and posted GL information back and forth from branch offices to consolidating systems, budgeting and forecasting tools, reporting tools.
- Standard format to upload general ledger information as well as payables and receivables master files and open balances in migrating from one system to another or moving information to or from an Internet Application Service Provider (ASP).
- Standard format to represent open receivables, open payables, inventory balances, and other asset-based measures for sharing with banks.
- Extensible for any type of mandatory audit trail.
- Extensible for meeting any "sub-ledger" need.

See the following link for more information: <http://www.xbri.org/GLKeyFeatures/>

XBRL GL brings the value of XBRL to more than just the “top of the pyramid”. Some of the benefits of XBRL GL include:

- easier data migration when switching from one accounting product to another
- providing a seamless audit trail across numerous systems (a plus in Section 404 SOX compliance)
- tax reconciliation between book and tax

For a very good overview of the benefits of XBRL GL, reference can be made to the August, September, and October issues of Strategic Finance for XBRL columns by my colleague, Gianluca Garbellotto.

Accounting Scandals, EBR/XBRL, and Ethics

It is quite appropriate to ask whether EBR and XBRL will reduce the likelihood of corporate scandals. As recent headlines have proven, corporate misdeeds did not stop with Enron or the passage of Sarbanes-Oxley legislation. Nevertheless, it is quite logical to assume that as the quality (EBR) and accuracy/speed (XBRL) of business reporting improves, the likelihood of material scandals derailing a company may be reduced. Doing misdeeds in transparent light is not a good strategy.

As I wrote almost four years ago:

“We need better systems and we need more individual integrity throughout the financial reporting process. We cannot regulate away every opportunity for individual avarice. Neither can we assume that the personal virtue of executives can overcome or compensate for all of the weaknesses in our financial reporting system...The upside to the business community is that we may emerge from the recent disasters with better and timelier information to judge and manage companies. However, there are always strong tendencies to return to “business as usual”. Therefore, in addition to supporting systemic improvements to our financial reporting system we must maintain our individual resolve to build successful businesses through sound ethics.”

Opportunities and Resources

There will be a future market for accountants who are familiar with XBRL taxonomies or at least have a general understanding of XBRL. The field is broad so one can pick the area that they would like to focus. This year the international XBRL conference will be held in early December in Philadelphia. This may not be a winter-time destination but if you are interested in XBRL, it would be a good place to get product information, training, and a good overview of the future of XBRL. Speakers will include Chairman Cox of the SEC and Robert H. Herz, Chairman (FASB).

Even if you stay at home over the holidays you may want to spend some time on the following sites:

- XBRL.org – the international site of the XBRL consortium <http://www.xbrl.org/Home/>
- XBRL.org/us – the United States site of the XBRL Consortium <http://www.xbrl.org/us/>
- Iphix.net – a good site with tutorials on XBRL-GL <http://www.iphix.net/>
- Any of the software vendors mentioned above or alluded to in this paper
- Ebr360.org <http://www.ebr360.org/>
- Global Reporting Initiative <http://www.globalreporting.org/Home>

Conclusion

Though both Enhanced Business Reporting and XBRL are largely voluntary initiatives, it is highly recommended that organizations pay attention to these developments. As evidenced by Sarbanes-Oxley, the government can forcefully step in and require change in the financial and governance worlds. The EBR and XBRL initiatives give industry the opportunity to be proactive and get ahead of the curve in the marriage of technology and transparency. Though there may be future mandates from the SEC, private industry will benefit by using its competencies to help craft future regulatory requirements.

As this paper has attempted to communicate, there are many benefits to companies and organizations to improved business reporting. EBR and XBRL are two initiatives that can help companies express and expand their value propositions. The end result for the capital markets and socio-economic goals should be positive.

Thank you very much.

Appendix - XBRL Jurisdictions October 2006

<u>Established Jurisdictions</u>	
	XBRL Australia
	XBRL Belgium
	XBRL Canada
	XBRL Germany
	International Accounting Standards Board
	XBRL Ireland
	XBRL Japan
	XBRL Korea
	XBRL Netherlands
	XBRL New Zealand
	XBRL Spain
	XBRL United Kingdom
	XBRL United States
	Affiliate Organization - XBRL Europe
<u>Provisional Jurisdictions</u>	
	XBRL Denmark
	XBRL France
	XBRL Poland
	XBRL South Africa
	XBRL Sweden
	XBRL UAE
Affiliate Organization	
	XBRL Europe