XBRL - Increase Transparency in the Financial Markets

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Economies world-wide seeking to become highly competitive and dynamic in a knowledge-based world need a well functioning capital market. Capital markets play an important role in lifting economic growth and spurring job creation, and hence raising standards of living.

Fundamental to high functioning capital markets are financial reports prepared by management and audited by accountants. These reports provide the primary source of independently verified information to capital markets about the performance of the companies and they facilitate capital allocation decisions. Information contained within these financial statements helps users identify and evaluate investment opportunities and can lower cost of capital as the reliability of financial information increases.

Transparency, or the ability of users to quickly find and understand financial information, is a cornerstone to effectively informing the financial markets about corporate performance.

Financial reporting must focus on information that is reliable and meaningful and more importantly provided in an information format that is timely and reusable. A new emerging open source information standard called eXtensible Business Reporting Language (XBRL) is about to revolutionize financial and business reporting forever by delivering business reports that increase transparency, speed, and increase reporting accuracy.

Why you should get serious about XBRL

XBRL does not force any changes in the way companies manage their businesses. It is not a new accounting standard. Rather, it is simply an emerging information format for financial and business data. It makes company information more accurate, more transparent, and faster to aggregate and report. It makes data easier to analyze. And, for the first time, it allows computers to identify and analyze corporate financial data automatically and in real-time.

This is the revolutionary historic achievement. Unlike the many electronic advances that have vastly increased the volumes of data, XBRL vastly increases the clarity of data. XBRL data is the most accurate and timely in the marketplace with the lowest error rate of any available dataset. The main reason for this claim is that preparers of XBRL reports directly influence how the data will be made ready for consumption by the capital markets.XBRL eliminates error prone data re-entry and distorted data aggregations.

The name of this reporting language gives some people the idea that XBRL is all about technical computer software. XBRL does not require technical expertise to use it — any more than you need to be a computer programmer in order to browse the internet. A better name for XBRL is the one adopted by the US Securities and Exchange Chairman Christopher Cox. He calls it ’interactive data’ and promotes it as the future of financial reporting. In fact, one of XBRL's biggest supporters is Chairman Cox, who has said that the real reason behind SEC's interest in interactive data was “to protect investors” and to ensure that markets function best when all the information that market participants need is available to them when they want it, and in a form they can use.” XBRL has the ability to help shift the power back to the individual investor by empowering companies to more efficiently disseminate their financial information to the end user in a reliable, accurate and consumable way.

Think of XBRL as similar to the supply chain standard referred to as the UPC code. XBRL has been called the bar coding for financial statements giving the same efficiency that the UPC code gives to packaged goods. The UPC code links products to underlying data about quantity, shipment dates, prices and more. With XBRL, every piece of coded financial data is also linked to explanatory information. You don’t just get numbers; you get context. The underlying information of XBRL reveals facts about the data such as the accounting period, where the data appears in a financial statement, and links to data definitions and authoritative accounting literature. XBRL is a universal language, adaptable to any nation’s accounting standards and requirements. Countries in all five continents have adopted XBRL.

One of the barriers to adoption of XBRL is the perception on the part of financial and information technology corporate leaders that XBRL is only about technology.

For those of you who still view XBRL as simply technology, we have one question: do you look at HTML as technology or do you look at it as a must-have solution for communicating financial and business reporting information to the ever-growing networked world? The point is that with XBRL, companies can quickly expand the opportunities to tell their story quickly and accurately in the new interactive data era.

Today, most of us probably do not even think about HTML as the underlying solution that enables management to communicate to the right stakeholders. Fact: getting the right information to the right stakeholders at the right time is the common internet standard called HTML. It allows you to control how the stakeholders view information when they launch their internet browser. However, HTML has its limitations: the code is only useful as a means of marking up a web page to look good to humans. Computers cannot further process or understand the displayed data in the HTML format. Computers can understand data once it is tagged to XBRL taxonomies (ie. barcodes). This is because each XBRL tag carries with it additional accounting information that eliminates the guesswork that normally surrounds a piece of reported financial data.

For example, if you looked at a revenue number on a typical corporate website, you would have to read the column headings and row identifiers to determine the period, the precision on the amount reported and what account title the company has assigned to that number. Additionally, the revenue recognition footnote accompanying the financial statements adds additional information about the number. With XBRL, companies can provide additional data definitions, authoritative literature references and more thereby dramatically increasing the probability that the user of the financial data will be able to understand management’s intent.

The Microsoft Corporation is one of the world leaders in the use of XBRL. The Microsoft Investor Central website, http://www.microsoft.com/msft/IC/default.aspx, contains many interactive features all driven by tagged XBRL data. It is a great example of the power of XBRL without asking the user to know anything about the technology.

Spreading globally

Every Chinese public company reports their financials in XBRL to the Shanghai and Shenzhen stock exchanges; other live projects are starting in Sweden, Denmark, Japan, Belgium, India, the UK and Spain to name a few. That raises the question, “Can the capital market afford to sit back and let all these other countries bring dynamic interactive intelligent XBRL data to the marketplace?” Many studies reveal that capital flows where there is transparency and trust. Providing your business reporting data in XBRL gives birth to a whole new electronic marketplace for financial and business reporting information.

Clearly the way financial and business reporting data is prepared, communicated and analyzed is fundamentally changing. XBRL is not about the technology. It is about communicating your financial and business reporting information, accurately, effectively and in real time, to the electronic marketplace. Give the capital markets better financial information that is easier to consume, is more reliable, and is delivered faster, and the capital market will respond favourably with more exposure and lower costs of capital.