“What’s in it for me?”
XBRL and the producer of Business Reporting
Notice to Readers

This XBRL-US White Paper was written on behalf of the XBRL-US Adoption Workgroup to assist professionals and other interested audiences in understanding the benefits, opportunities, and implementation choices for XBRL. This White Paper is not a substitute for professional advice and XBRL-US makes no warranty as to any outcomes through the publication of this work.

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1. Executive Summary

“Some critics have suggested that XBRL is not ready for primetime. In fact, it is.”

Hon. Richard H. Baker
Chairman, Capital Markets Subcommittee

This paper addresses the benefits of XBRL use from the perspective of the preparer of the financial statement or business report. Preparers of business reports should expect to achieve benefits in each of the following areas:

- You tell your story, your way
- Greater visibility to analysts
- Internal financial reporting improvements
- Cheaper money/Lower cost of capital

To achieve these benefits, organizations need to invest time and money to ensure they are able to produce XBRL tagged business reports. Businesses should consider these benefits in the planning efforts so as to speed their adoption of implementation considerations for XBRL.

This raises the question – “What’s in it for me?”

Fundamentally, after the initial investment of time and effort, and in some cases upgrading accounting software packages, XBRL will deliver the benefits listed above, which are discussed in more detail in this paper.

This document’s target audience includes owners and finance professionals in privately held companies and small and mid-sized public companies/SEC registrants. We discuss the implications for implementation, and discuss the benefits of XBRL to the business that is considering implementing XBRL for the first time.

2. Overview of XBRL

XBRL (eXtensible Business Reporting Language) is the new information standard enabling the electronic tagging of business reports including financial statements, to enable greater transparency and ease of use of the information contained within these reports by the user community.

The implementation of XBRL and the creation of an XBRL tagged set of financial statements will require additional work by Chief Financial Officers and Finance Departments. Preparers will use XBRL enabled software to map their reporting items to public taxonomies (‘vocabularies’ approved by the XBRL International consortium) and then the preparation of an XBRL formatted report would be similar to the ‘file/save’ functions used in many applications today.

Internationally approved taxonomies set XBRL apart from other methods of providing electronic business reporting. Use of the US GAAP taxonomy for tagging business reporting ensures that the provider of the report, and the users of the report, understand and can use the report content without requiring provider specific formats (such as Excel cell references, etc).
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3. XBRL and your financial statement

“The documented effects are statistically significant and economically meaningful: the results show, for example, that firms with the best earnings quality enjoy discounts of 80-160 basis points in their costs of debt and 150-300 basis points in their costs of equity relative to firms with the poorest earnings quality.”


While the use of XBRL will not demonstrate “earnings quality”, it does provide companies with a mechanism to ensure control over the communication of their financial statements, and support the widest access to the information by the analyst community. In this way, better “earnings quality” as the opportunity to be more widely demonstrated, leading to lower costs of debt and equity.

There are a number of users of the financial statements prepared by businesses. These users include internal users, auditors, banks, analysts and the investment markets. Each of these users is seeking different information, and using that information for different purposes.

This can result in the creation of multiple sets, and potentially multiple formats of financial statements. In addition, each company produces financial statements on different schedules, some monthly, others quarterly or annually.

4. Benefits to the financial statement provider

Benefits for preparers of XBRL instanced business reports include the following:

- You tell your story, your way
- Greater visibility to analysts
- Internal financial reporting improvements
- Cheaper money/Lower cost of capital

**You Tell Your Story, Your Way**

Tell your story, your way, precisely and clearly. XBRL allows the company preparing the financial report to control how financial information is communicated to financial institutions, analysts and the market.

Preparers of the financial statement are able to encode their financial statement information using standardized vocabularies of terms (taxonomies). This way, it becomes possible for them to select, from that vocabulary, the precise meaning they intend to communicate to analysts, to the market, and to regulators. Therefore, they can control the way in which information is imported into decision makers' analytics or other software applications that interpret and display their results.

It is a presentation standard in terms of providing a standard for the tagging and provision of financial statements, electronically, without the need for the preparation of paper reports. XBRL is not a presentation standard in terms of positioning of information on a page.

Many companies are unique, and as such, have industry or company specific reporting idiosyncrasies. The flexibility of XBRL also enables companies to build “extensions” to the standard taxonomies to cater for the uniqueness of a company’s financial reporting situation, with the context of an internationally agreed financial reporting standard.
Greater visibility to analysts

Private sector and public companies / SEC registrants, seek capital in the financial markets. The cost of capital is based on many factors, including the health of the company, the quality of the information contained within the financial statements, as well as the visibility of the company to the analyst community. Provision of XBRL instanced financial statements increases the visibility of the information to the analyst community.

For example, of US companies, today 29% of NASDAQ and 16% of NYSE companies have no research coverage, and a further 16% and 8% respectively have only one research analyst providing coverage. For non-US companies the numbers are grimmer, with fully 59% of NASDAQ and 48% of NYSE listed companies receiving no coverage. (Thomson Financial, December 2002). It is fair to expect that it is the smaller companies that are not receiving coverage.

Today's analysts manually copy and paste financial information into their systems, or they spend time paging back and forth to find what they want. This is an error prone process and introduces undesirable delays. Because this is a time consuming activity, it limits the number of companies that are ‘visible’ to analysts. In some cases they buy the data from aggregators/distributors who may have normalized the data (in this situation the clarity of the data is set by individuals outside of the preparer's control).

The provision of XBRL instanced financial statements enables the analysts to automatically import the financial information into their systems, ensuring that the preparer's financial statements are ‘visible’ to the analyst community.

Internal financial reporting improvements

Within their companies, XBRL can facilitate communication and common financial reporting, improving the quality (accuracy, timeliness, validity) of financial information prepared and used internally. XBRL, at the GL level (known as the “XBRL GL, the Journal Taxonomy”) will also improve the communication and sharing of financial information between internal applications. Improved internal flows of financial information will benefit:

- Strategic and tactical budget planning
- Monthly, Quarterly financial reporting and monitoring
- Faster preparation of financial information for external users
- Enhanced control over internal reporting processes
- Visual representation of information
- Improved analytics

Financial reporting benefits can also be achieved where a company’s various divisions use different financial management or ERP applications, or where the company has acquired companies using disparate financial reporting or ERP applications. The benefits are achieved through enabling rapid standardized reporting with XBRL, without the need to rebuild the acquired unit’s GL, and without the need to replace the financial system (these, or course, remain as options post-acquisition). This presumes that the financial application on both side are XBRL enabled, a prospect that is becoming more likely as financial service providers introduce XBRL capability at the GL level.

When the financial report is prepared, it is created from a roll-up of the XBRL tagged GL entries. However, the data is aggregated, and external users of the report receive only the aggregated report, without any ‘drill-down’ capability.
**Cheaper money/Lower cost of capital**

Demonstration of high quality of earnings has been shown to directly impact, favorably, the cost of capital. Improvements in presentation of information to lending financial institutions, making it easier for the financial institutions to interpret the information, will lead to faster recognition of the quality of earnings, and faster availability of better rates.

The ability to provide XBRL instanced financial statements to your financial institution(s) will speed their processing on your information, and speed their analysis of that data. This directly improves their risk analysis, and reduces their risk of misallocation of capital.

To a less but none-the-less very real extent, the provision of XBRL instanced financial statement will also assist in improving your financial institution’s internal, and highly manual, processes. Process improvements (time to load financial information in their applications and process that data) also result in savings in infrastructure costs, and you should request those costs saving be passed to you in the form of lower fees or interest.

**5. Emerging uses of XBRL**

XBRL is an international information standard that is sufficiently advanced to be available for ‘production’ use.

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- Several U.S. regulatory agencies (including the FDIC, OCC and OTS) are involved in a joint project that will have all U.S banks submit quarterly financial reports in XBRL to regulators starting in 2004. The FDIC is piloting, and expects to have all 8500 banks and thrifts that must complete Call Reports converted to XBRL by the third quarter of 2004.
- Several public companies have posted XBRL Instance Documents of their financial statements on the SEC EDGAR system and on their web sites – including Microsoft and Morgan Stanley.
- Several National Banks are currently involved in a market demonstration project to assess the benefits and obstacles to have borrowers submit their financial statements in XBRL to Lenders.
- In a few years, XBRL may be the primary medium in which financial statements, and other financial reports, are submitted to Regulators and Banks.
- The NASDAQ’s website provides a demonstration that attempts to highlight the inherent analytic capabilities related to XBRL formatted data for companies and their stakeholders. This demonstration version can be accessed at [http://www.nasdaq.com/xbrl](http://www.nasdaq.com/xbrl)

**6. Why and How XBRL Instanced documents are used**

XBRL instanced financial statements will be used by financial institutions to improve their efficiency, by analysts to expand the range of companies that they are reviewing, by the SEC as the standard for importation and storage of on-line financial statements, and by FDIC as the standard for the future collection of call reports from financial institutions.

XBRL documents are more useful to the consumer of financial information. Examples of benefits to consumers include:
Lowering the cost of consumption of financial information:

- Consumers of financial information will be able to import XBRL instanced financial statements into their applications.
- For banks, this will reduce a currently highly manual process of re-keying client provided printed financial statements.
- For analysts, automated importation of XBRL data enables faster population of their databases, enabling the importation of financial statements from a wider range of reporting entities.
- Regulators will be able to collect information from regulated entities with less intervention, lowering transaction related costs and time, keeping down the cost of regulation (the provision of banking Call Reports as XBRL documents is an example).

Greater transparency:

- Users of XBRL instanced financial statements are able to perform like-on-like analysis of results (excluding company specific extensions to the taxonomies).
- Faster access to greater volumes of data will improve the range and quality of analytics that can be performed by the consumers of financial statements.

7. Implementation implications (time & materials)

There are two distinct levels of effort:

- Tagging of the financial statement (post creation)
- Tagging of accounts at the GL level, to create a rolled-up pre-tagged financial statement

These two options require very different levels of effort.

The first requires a small effort each time the financial statement is produced. In this situation, each individual line item in the financial statements is mapped to a term in the US GAAP (or national GAP) XBRL vocabulary as published by XBRL International. A user does this with an XBRL instance creation tool (such as software offerings from a number of vendors). Once the XBRL document has been created, other tools can be used to validate the document, before distribution to regular users / requestors of the financial statement.

The second option requires a significantly greater up-front investment in time, energy and software/tools. However, once GL accounts have been tagged to their respective XBRL elements, creation of the XBRL instanced financial statement is an automatic process, with no additional effort for future reporting events. It is worth repeating that there is no drill-down capability in XBRL instanced financial statements. The detail in these reports is equivalent to the level of detail in the printed financial statement, but electronically tagged to enable electronic transition and use of the financial statement.

Before selecting the path that is right for you, you should discuss with your financial systems provider their existing XBRL creation capabilities. Many financial software providers have or are building XBRL compatibility into their systems. Your financial application may already be XBRL enabled.

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