

Mr Fabrice Demarigny – Secretary General  
Committee of European Securities Regulators  
(CESR)  
11-13 Avenue de Friedland  
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Brussels, 31 August 2005

Subject: Mandate to CESR regarding technical advice on possibly implementing measures concerning the Transparency Directive – storage of regulated information and filing of regulated information – CALL FOR EVIDENCE

Dear Mr Demarigny,

With reference to the above-mentioned paper, we wish to offer to provide CESR with some information about the financial reporting language, XBRL, and the 'XBRL in Europe' project. Thanks to its technological features and its widespread use in the business/financial reporting field, XBRL could play a significant role for CESR in the storage and filing of regulated information. Therefore, we strongly believe that CESR should consider XBRL as the standard for financial data communication.

### **What is XBRL?**

*XBRL* (eXtensible Business Reporting Language) is an open, licence-free, Internet- and XML-based reporting standard that enables better, faster, and more cost-effective business reporting. Organisations can use XBRL to save costs and streamline their processes for collecting and reporting financial information.

Consumers of financial data – including investors, analysts, financial institutions and regulators – can receive, find, compare and analyse data much more rapidly and efficiently when it is in XBRL format. XBRL can handle data in multiple languages and accounting standards and it can be flexibly adapted to meet a wide variety of requirements and uses.

XBRL may be seen as a format whose structure is determined by a set of data. This set of data is defined by standard rules, such as accounting principles (US GAAP, IFRS, etc.) or reporting regulations (Basel II-COREP, Sarbanes-Oxley, etc.) with taxonomies. Today, a number of taxonomies – including an IFRS taxonomy<sup>1</sup> – have already been developed and are publicly available.

The IFRS taxonomy developed by the IASCF (International Accounting Standard Committee Foundation) uses a single common protocol to facilitate the transfer of financial reporting information (created pursuant to IFRS) via the Internet. The use of such a common protocol is key

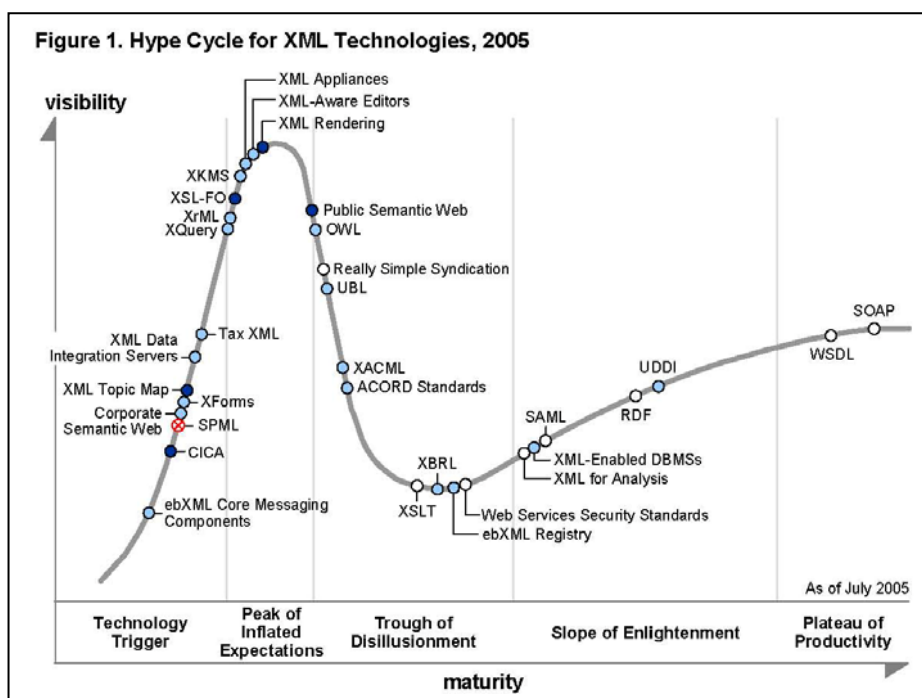
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<sup>1</sup> <http://www.iasb.org/resources/taxonomies.asp>

to creating the financial transparency and comparability in financial reporting across European financial markets that is necessary for the introduction of a single accounting framework. Introduction of such a common protocol will be crucial in meeting the goal established in the Lamfalussy Report.

According to a survey by Gartner<sup>2</sup> (see Exhibit 1) – the world's leading provider of research and analysis concerning the global Information Technology industry – XBRL is one of the four emerging technologies that will be fundamental to the Next Generation Architecture, the third major era in the IT industry's evolution.

### Exhibit 1



Source : Gartner

### Who is governing XBRL development?

Worldwide development of XBRL is governed by *XBRL International*, a not-for-profit collaborative consortium<sup>3</sup> of approximately 300 organisations (companies and agencies) representing virtually all components of the business reporting supply chain that have committed to a consensus-based data entry interchange format. The consortium members are part of national working parties (called jurisdictions) and have committed to working together to develop the XBRL language, to promote and support its adoption, and to incorporate the consortium's work into their products and services.

<sup>2</sup> For more information, visit: <http://www.gartner.com/Init>.

<sup>3</sup> <http://www.xbrl.org/AboutTheOrganisation/>

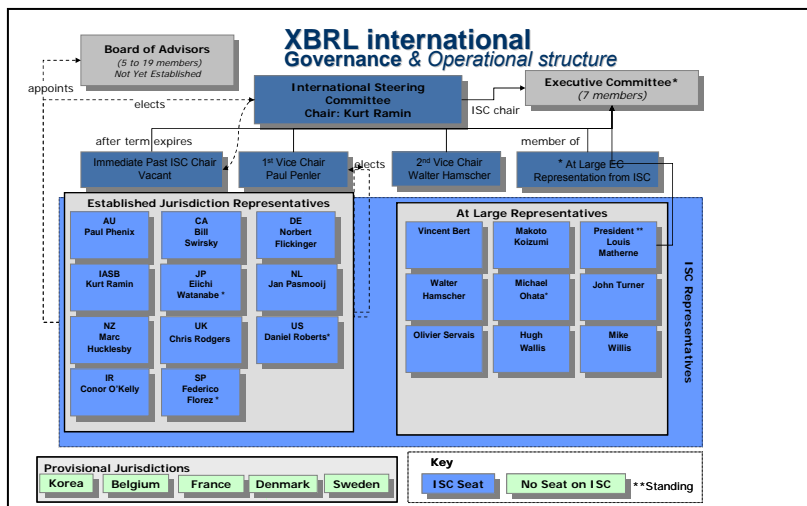
## What is 'XBRL in Europe'?

*XBRL in Europe*<sup>4</sup> is a two-year project financed by the European Commission within the *6th Framework Programme*<sup>5</sup> to accelerate the use of the XBRL language in Europe by increasing awareness, helping to found national jurisdictions, and providing various materials to reach these objectives. XBRL in Europe is affiliated with *XBRL International*.

Today, (as shown in Exhibit 2) jurisdictions have been created in Europe in Belgium, Spain, the Netherlands, France, the United Kingdom, Germany, Denmark, Sweden and Ireland<sup>6</sup>. Other European countries – specifically, Italy, Poland, Portugal and Hungary – are considering setting up jurisdictions before the end of 2005<sup>7</sup>.

European representatives play a key role in the governance of XBRL International, and 6 of the 20 members of the International Steering Committee originate from EU countries.

## Exhibit 2



Source: *XBRL in Europe*

## Why should XBRL be considered the electronic standard for storing and filing regulated information?

In the light of the European Commission's aim to assess the creation of a European architecture for the filing and storage of regulated information – which will likely consist of an integrated network of national databases that would provide the flexibility, scalability, and common accessibility required by the variety of end users of regulated information – here are several key reasons why XBRL could be the standard underlying the European integrated network:

1. First of all, XBRL might well provide an answer to the **preliminary issues** raised by the European Commission regarding the setting up of the storage mechanism.

### a. Agreement on interoperability

<sup>4</sup> [www.xbrl-eu.org](http://www.xbrl-eu.org)

<sup>5</sup> [www.cordis.lu/fp6](http://www.cordis.lu/fp6)

<sup>6</sup> Further details about jurisdictions and website addresses on: [www.xbrl-eu.org/jurisdictions](http://www.xbrl-eu.org/jurisdictions)

<sup>7</sup> CESR members are also members of the local XBRL jurisdictions in Spain (CNMV) and in Belgium (CBFA).

XBRL is an ideal electronic format for realising a pan-European project where interoperability among different systems is a fundamental requirement. As far as **agreement on interoperability** of Officially Appointed Mechanisms (OAMs) is concerned, the project requires agreement on structured filing as well as on common vocabularies – XBRL provides both features, plus the ability to ensure uniform validation of filed documents.

As stated above, XBRL is an XML-based standard language, whose main feature is the interoperability concept itself. XBRL is a universal, independent, non-proprietary platform, and it is software application independent as well. It is a flexible system: compatible with existing data architectures, maximizing existing legacy systems and disparate data sources, enabling the efficient electronic exchange and collection, retrieval, analysis and storage of data. Moreover, it has been developed for the exchange of information over the Internet through Web Services applications.

Because it is an electronic language through which information is tagged and structured, XBRL also facilitates the presentation and transmission of the information content. Thanks to this, XBRL enables a fully automated integration of disparate systems, where data are collected and stored in different ways.

For all these reasons, depending on their local environment and historical technological choices, individual EU country regulators can select the technological platform of their choice for the implementation of the storage mechanisms of regulated information, and the agreement on a commonly accepted standard such as XBRL would still enable interoperability across countries.

#### ***b. Cost and funding***

We do not intend to discuss funding mechanisms, but, in this regard, we wish to stress that XBRL is an open standard, licence-free and fully independent of proprietary systems.

XBRL represents several years of collaborative development efforts across the globe and thousand of hours spent on driving adoption of the standard in Europe. Not only are both the standard and specific IFRS vocabularies (Taxonomies) readily available, but local associations whose objectives are to drive adoption are already present in many EU countries.

XBRL is the commonly accepted standard for business and financial reporting all over the world. It is being applied across a wide variety of sectors, particularly in Europe. In terms of cost, the opportunity to leverage an existing and mature technology (and thus avoid the costs of developing a new standard) is a major advantage both financially and in terms of time-savings in the effective implementation of the Transparency Directive. In addition, as almost all the European countries have already adopted XBRL, the integration process has been greatly simplified.

Being an open standard, licence-free, and fully independent of proprietary systems, XBRL is also particularly cost-effective for the financial market participants themselves – especially in an implementation phase. Thanks to its interoperability, XBRL **does not require replacing legacy systems**, as it can be fully integrated

with the existing ones. Therefore, compared to other electronic exchange formats, the **implementation costs are significantly reduced**, as well as the costs of system updates (since it is not a proprietary format).

XBRL automates the entire information flow – from the production of the information to its storage – thus generating significant cost savings for the whole information supply chain, including the user of that information. Data are generated only once and can be easily transmitted and re-used without any manual re-keying of the information.

Lastly, XBRL's flexibility and extensibility enable cheaper and faster update of the information content *and* of the information systems used – providing the speed and flexibility required in today's complex financial environment.

2. Regarding the other issues related to the role of OAMs, XBRL's many technical features are able to address each of them appropriately:
  - a. Minimum quality standards of **security** in information exchange are provided by the global technological architecture of the European network under discussion. On this matter, XBRL developers do not intend to develop specific security mechanisms but to leverage other XML security standards (e.g., encryption and digital signatures) that can be used to provide security for the exchange of data.
  - b. Because it is an electronic format, some of XBRL's main advantages are in structuring and contextualising the data. XBRL identifies and incorporates the **information source**, allows for **authentication**, and maintains **traceability and integrity of the data** themselves, thanks to automatic validation.
  - c. XBRL contributes dramatically to **accelerating the information process**, which it has completely automated. XBRL enables greater data transparency and data accuracy, but most of all faster access to information, and thus **data timeliness** – reducing risk, while making data more relevant, reusable, and reliable. XBRL eliminates data re-keying tasks and decreases the time and resources spent on data collection and dissemination, enhancing the transparency of the information. The XBRL format, as previously stated, has been conceived for the Internet environment, where information is exchanged through web-services. For this reason, it might well be the **ideal format for an integrated network aimed at information collection and storage**.
  - d. **Easy access by end-users**: for end-users, in particular, XBRL format produces many significant benefits in terms of searching and re-using data, which can be immediately processed and analysed by any software application, allowing timely and cheap access to information.

XBRL applies unique tags to items of financial and business data, while providing the information itself with a range of additional details and flexible features. It structures the information in an electronic file containing a dictionary, organised hierarchically, of financial concepts (the so-called taxonomy). This allows the definition of common customisable information templates, such as those that might be required to be filed in a European data repository (other examples are the IASs/IFRSs and Basel 2 templates for these regulatory reporting requirements).

Thanks to its technical structure, XBRL is also able to provide information in **multiple languages**, thus addressing the issue related to the language regime of the information to be filed and stored within an alleged European network. The file containing a business report expressed in XBRL format can hold the same information in many different languages, so that it is easy to switch from one to another without needing to re-key or translate the information. This makes the information extremely accessible to end users on a common pan-European platform.

### Who is already using XBRL?

Projects using XBRL are currently up and running worldwide. Here are some of the projects that pertain to CESR's sphere of activity:

- **CNMV**<sup>8</sup>: on 1 July 2005, the "Comisión Nacional del Mercado de Valores / Spanish Stock Exchange Commission" (CNMV) put into operation the new XBRL standard for financial exchange of information in the reception and diffusion of the periodic public information (quarterly and semi-annual information) that the listed companies with shares admitted to quotation must send to the supervisor.
- **US SEC**: The U.S. Securities and Exchange Commission (SEC) announced in February 2005 that public companies could begin supplying XBRL data to specific EDGAR filings with the 2004 calendar year-end reporting season. The primary purpose of the voluntary program is to assess XBRL technology, including both the ability of companies to tag their financial information using XBRL and the benefits of using tagged data for analysis. In the February announcement, SEC Chairman William Donaldson said "*the initiative was part of a broader effort to improve the quality of information available to investors and the marketplace*". On 8 August, the SEC announced<sup>9</sup> the expansion of its voluntary program by allowing mutual funds to file exhibits to their annual report to shareholders (N-CSR) and quarterly statement of portfolio holdings (N-Q).
- **CEBS**: within the Common Reporting framework for the new solvency ratio (commonly called Basel II), the Committee of European Banking Supervisors (CEBS) developed an original taxonomy that will be made available to all CEBS members<sup>10</sup>. Recently, **José-Maria Roldan**, CEBS Chairman, stated that XBRL is important for supervisors because of its positive effect on market efficiency<sup>11</sup>.
- **CBFA**: on 29 June 2005, the Belgian Banking supervisor (CBFA) issued an IFRS taxonomy with Belgian extensions as a Public Working Draft. This taxonomy<sup>12</sup> will be used (as a mandatory template) for banking financial reporting starting from the 1st Quarter 2006.

<sup>8</sup> Further details are available on: <http://www.cnmv.es/index.htm>. The list of companies with the financial statements is available on: <http://www.cnmv.es/asp/em/ip/ipp.asp?desde=01/07/2005>.

<sup>9</sup> <http://www.sec.gov/news/press/2005-112.htm>

<sup>10</sup> (...)The implementation of the CRD and the adoption of IFRS provide the EU with a unique opportunity to harmonise the data framework, as all competent authorities and banking institutions will need to adapt to new reporting requirements. The adoption of a common technical protocol based on the XML/XBRL language will allow institutions to take full advantage of the common reporting framework, and is recommended by CEBS. CEBS also plans to provide a complete XML/XBRL coding and taxonomy for reporting the solvency ratio (...). (CEBS Annual report 2004).

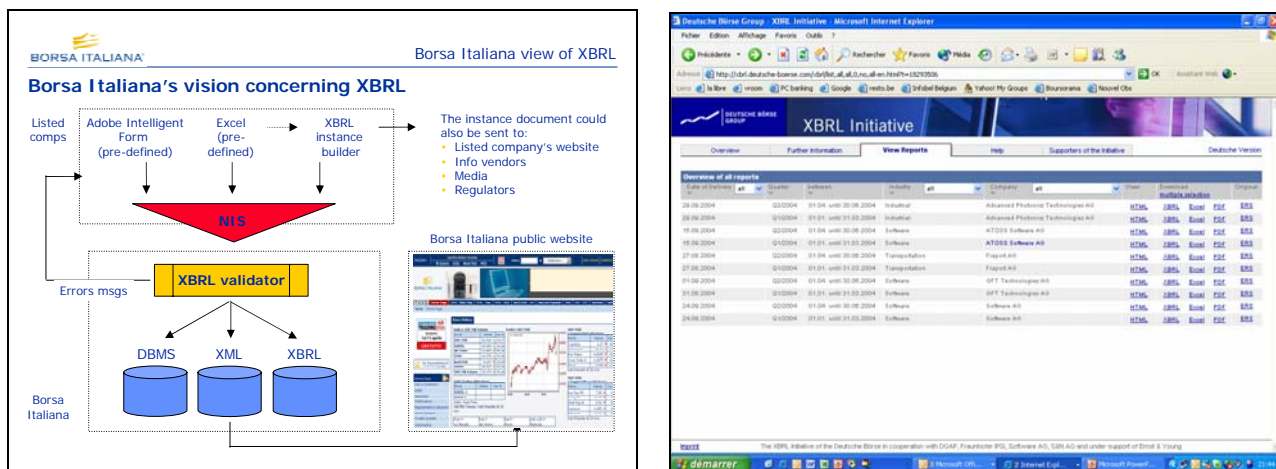
<sup>11</sup> 'By improving information flows, we will introduce greater efficiency, speed and integrity – which will make the European financial markets more competitive. XBRL appears to be invented for Europe with its many pan-European banks and European reporting standards.' <http://www.c-ebs.org/press/30062005XBRL.htm>

<sup>12</sup> This taxonomy is available in French or Dutch on: <http://www.cbfa.be/fr/consultations/lop/pdf/taxonomie.zip>

- **FDIC<sup>13</sup>**: in the United States, the Federal Deposit Insurance Corporation (FDIC), the Board of Governors of the Federal Reserve System, and the Office of the Comptroller of the Currency have collaborated on a conceptual design to collect, validate, manage and distribute Call Report information using XBRL. The federal banking agencies – under the auspices of the Federal Financial Institutions Examination Council (FFIEC) – are in the process of designing, building and operating a shared data repository (Central Data Repository – “CDR”) to modernize the management of Call Report data.
- **Stock exchanges**: Italy (Borsa Italiana), Germany (Deutsche Börse), Luxembourg, and Hungary (Budapest) are actively developing XBRL pilot projects aimed at using XBRL as the underlying electronic format in the information exchange flow for all the companies listed in their respective markets. These European Stock Exchanges, following the experiences of other stock exchanges all over the world (Tokyo, Toronto, Korea, New Zealand), are willing to achieve a full adoption of XBRL as they believe it will significantly contribute to increasing the visibility of their listed companies worldwide.

Exhibit 3 shows two examples (Italy and Germany) of the European stock exchange XBRL projects.

### Exhibit 3



Source: XBRL in Europe

<sup>13</sup> Further details are available on: <http://www.fdic.gov/news/news/financial/2004/fil3004.html>.

## How did these organisations begin to use XBRL?

In each of the above-mentioned organisations, XBRL was started by a test case (proof-of-concept), which subsequently confirmed the real expected benefits.

After the proof-of-concept period (which ranged from a few weeks to about one year), some organisations started actual use of XBRL on a voluntary basis, some even on a mandatory basis. Based on our experience, we do not believe that there is a best way for XBRL adoption, and so we do not strongly recommend one. However, it has been evident that significant and measurable benefits are achieved when XBRL use is made compulsory, because a technological development reaches its full potential only with a wide-spread, concerted adoption.

## What is the European Commission's point of view regarding XBRL?

A few years ago, during preliminary contacts between some European members of the *XBRL International Consortium* and *European Commission* representatives<sup>14</sup>, it emerged clearly that both parties benefited by working together. Indeed, the *European Commission* quickly understood that XBRL's capacities for improving financial communication and reporting – and especially its benefits (“better, faster and cheaper”) – are major opportunities for the whole financial community in Europe. Indeed, XBRL's capabilities fit perfectly with the expectations outlined in the EC's *Framework Programs*, and especially the Sixth one.

At the same time, within the adoption of the IAS/IFRS standards, contacts have been made with three other Directorates:

- Internal market;
- Enterprise;
- Eurostat;

The *Internal Market* has said that XBRL could provide a structure and an output format that the IAS/IFRS are not currently integrating. *Enterprise* has said that XBRL could make IAS/IFRS implementation far more easy. *Eurostat* has considered XBRL as the communication standard for organisations ranging from companies to national statistical agencies (NSA)<sup>15</sup>.

Recently, during the *1st European XBRL conference for Financial Services*, which was held in London on 29 June 2005 and hosted by *XBRL in Europe* along with *CEBS*<sup>16</sup>, Gérald Santucci, *Head of Unit “ICT for Enterprise Networking”* of the *European Commission*, praised the role of *XBRL in Europe* in organizing the event and contributing to raising awareness and interest in XBRL: ‘...the standard that introduces tagging of business data is appealing because of its simplicity. XBRL supports the shift from information economy to the knowledge-based economy and provides the necessary platform. It supports the Lisbon Strategy for Europe to become the most dynamic and competitive knowledge-based economy by 2010. XBRL contributes to the creation of a single market by facilitating transparency, efficiency, and public trust – the standard then contributes to exploiting the single market's potential. There is no reason to wait any longer!...’

**Why can *XBRL International* and *XBRL in Europe* help CESR consider XBRL implementation?**

<sup>14</sup> In particular, from the Information Society Directorate.

<sup>15</sup> Eurostat has authorised PricewaterhouseCoopers to conduct a feasibility study showing the state-of-the-art and confirming some real benefits of using XBRL: mapping with different sources of data, content validation, and guarantee of confidentiality.

<sup>16</sup> Speakers programme & presentations are available on: <http://www.xbrl-eu.org/london/programme.html>.



### 1. Authority and independence

XBRL International (XII) is the sole authority governing XBRL development all over the world. XBRL in Europe (XiE), as a consortium funded by the European Commission, is an affiliate of XBRL International for European matters. In 2005, XBRL International will leverage XiE's efforts by creating a European legal entity, based in Brussels, to coordinate XBRL developments in Europe. The sole objective of both XII and XiE is to make XBRL THE standard – neither organisation is influenced by any commercial or political interest. In addition, the two organisations already have an international and, most importantly, European perspective and scope of activity.

### 2. Technical expertise

When undertaking a technological development, it is crucial to have access to – and to be able to rely on – the appropriate technical expertise. Since its inception, the *XBRL International Consortium* has set up *international working groups* chartered to focus on specific deliverables related to the continued development of the technology, taxonomies (information templates), and awareness of the technology and its capabilities in different domains. These working groups are comprised of volunteers from the member organisations – and currently some of them are:

- Specification WG: focus on the core technical developments of the standard;
- Domain WG: produce technical documentation for the standard application and integration, and provide domain expertise (including accountants, analysts and regulators) to discuss XBRL domain issues from an end-user perspective;
- GL WG: develop XBRL for internal reporting purposes based on General Ledger;
- Basel II WG: focus on the use of XBRL for the Capital Accord compliance.

The great added value of these international working groups is that they are composed of experts from a variety of fields – ranging from finance, accounting, and assurance to strong IT expertise – who valuably and powerfully share and merge their knowledge.

### 3. Contacts and networking

XiE has contacts throughout the European financial community at a number of levels: from European institutions and Agencies to public authorities, from regulators to national associations, from end-users to the major entities. The extension of the XBRL community in Europe (and at a global level) across different industries at different levels has proven to be extremely valuable and effective for XBRL implementation; therefore, XiE could also be of great help in CESR's XBRL assessment.

#### 4. Experience

Lastly, we believe that XBRL International and XBRL in Europe can share their experience related to XBRL adoption projects at an institutional level (i.e., the US SEC, FDIC, etc.) and thus provide concrete support in the realisation of a European network platform for regulated information in accordance with the Transparency Directive.

We would be very pleased to provide CESR with further information and details, and to be associated with the Expert Group or to be part of the Consultative Working Group that CESR is planning to set up.

If you should so desire, we look forward to working with you for the further benefit of CESR and its mandate regarding storing and filing regulated information.

Sincerely yours,

Olivier Servais  
Permanent Secretary – XBRL in Europe

Louis Matherne  
President – XBRL International