

EARNINGS REPORTS GO INTERACTIVE

Giving finance a new language

• By Loren Fox

Since the prototype was created in 1998, accountants have been touting extensible business reporting language, or XBRL, as a way to turn static earnings reports into rich storehouses of interactive information. But only a handful of companies have begun using it since then. Now XBRL is finally gaining momentum — thanks largely to the Securities and Exchange Commission, which sees it as an upgrade to its Edgar online filing database. In September the SEC awarded \$54 million in contracts to encourage XBRL use.

The language transforms blocks of text into interactive data that are identified by tags. These tags allow investors and analysts, using software called an XBRL reader, to automatically populate spreadsheet valuation models with the proper data from financial reports, instead of having to identify and key this information in manually. Using XBRL, one could compare the gross margins of several corporations or chart a company's option-related share dilution — all with just a few mouse clicks.

"It makes the information identifiable, so users can organize it and analyze it the way that they want," says Jeffrey Naumann, co-head of the XBRL effort at the SEC's office of the chief accountant.

One eager potential user of the language is mutual fund research firm Lipper. "XBRL represents the next generation in access to data," says Darren Duffy, the company's head of global data operations. "It will enable us more quickly and less expensively to do the analysis we already do."

Companies also should benefit — especially if they use XBRL to code internal financial reporting. That will help them pull together and file reports far more quickly and efficiently, after some

initial expense and training of staff.

"Eventually, it's something we have to go to," says John Reiger, director of financial accounting and reporting at the Association for Financial Professionals, which represents corporate treasurers and other

agency hopes these efforts will be complete by July. Some experts believe that standardization will take far longer, because companies often define similar items in financial statements differently.

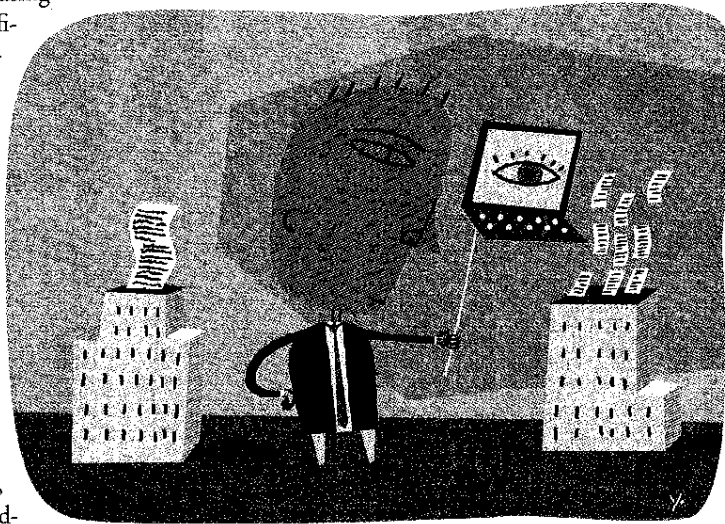
"This is a tremendous undertaking by the SEC," says Christopher Whalen, a managing director at consulting firm Institutional Risk Analytics. "They may find that the schedule they have is too ambitious."

Frustration with current financial reporting could also spur adoption of XBRL. Early last month the six largest global accounting firms issued a paper urging companies to report results more frequently than every quarter and noting that XBRL could play a huge part in facilitating such a change.

In the meantime, financial professionals can turn to software that translates Edgar filings into XBRL. Firms such as CoreFiling and RR Donnelley & Sons Co. help companies tag existing filings with XBRL. SavaNet, Edgar Online and Hitachi America are among the firms that make XBRL readers. The SEC also plans to offer a free one on its Web site by May.

The industry is watching to see if the SEC switches from encouraging XBRL's use to requiring it. The Federal Deposit Insurance Corp. did just that late last year by forcing banks to use XBRL for quarterly financial-condition reports. Those reports are less complex — and therefore easier to standardize — than corporate filings, but that example suggests that setting a deadline and mandating compliance can get results.

"That's a possible outcome," says the SEC's Naumann. "It's one of the things the commission will have to consider as we move forward." ■



finance staff. "The way we file now, with HTML, is not an efficient system. This will eventually be a more useful system."

Adoption of XBRL has been slow, in part because it isn't mandatory or standardized. Since February 2005, when the SEC urged volunteers to file in XBRL, just 37 companies, including Microsoft Corp. and PepsiCo, have filed 86 coded reports. The way data in these filings are tagged is often inconsistent from company to company, making comparisons difficult, says Eric Linder, CEO of SavaNet, which makes software to read XBRL.

To jump-start the process, the SEC has hired Keane Federal Systems to revamp the Edgar database so that it can accept XBRL filings (coded reports now go to a different section of the agency's Web site). The SEC has also tapped industry group XBRL-US to standardize data tags and categories for comparison purposes, in cooperation with the Financial Accounting Standards Board. The