



# CFO Briefing Transition to XBRL

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## Preface

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By the end of 2011, all SEC filers, including some 451 Canadian companies listed on U.S. exchanges<sup>1</sup>, will have implemented XBRL. The U.S. is certainly not the first to usher in this form of electronic reporting; China, Japan and Israel have already made the transition and the technology will soon become mandatory in other jurisdictions, including the United Kingdom. With many regarding this trend as the proverbial writing on the wall, Canada's readiness to implement XBRL becomes a question of practical, rather than philosophical, interest. While the Canadian Securities Administrators (CSA) and Ontario Securities Commission (OSC) have voiced their support for XBRL, mandatory adoption is unlikely to occur until after Canada transitions to International Financial Reporting Standards (IFRS) in 2011.

The conversion to IFRS and other competing priorities, including weathering today's economic environment, have almost certainly relegated XBRL implementation to the bottom of the corporate agenda. Scepticism concerning the potential costs and benefits of the technology has also done little to bolster support. The purpose of this briefing is to offer clarity on XBRL by introducing basic concepts, exploring the benefits and downfalls of implementation, indicating the status of XBRL reporting in Canada, and offering tips for preparation.

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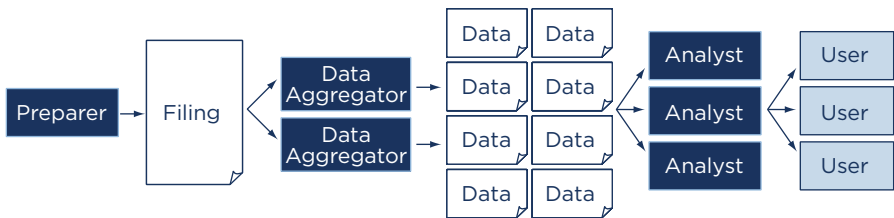
# Introduction to XBRL

eXtensible  
Business  
Reporting  
Language

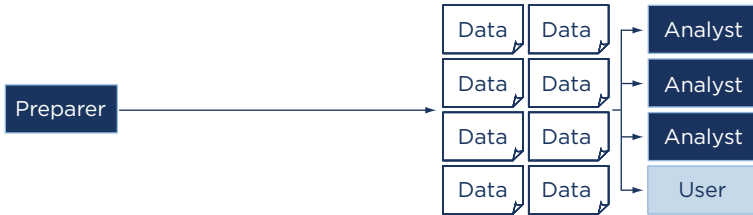
Extensible Business Reporting Language (XBRL) is a subset of Extensible Markup Language (XML), an internationally recognized standard for electronic communication. Like its parent language, XBRL utilizes a *tagging* process, whereby standardized codes are attached to data to convey the characteristics of that data. These standardized codes can be obtained from a *taxonomy*, or inventory of available tags with common definitions. Each reporting jurisdiction will devise its own taxonomy to reflect specific reporting applications and regional accounting standards. Naturally, there is a limit to which standardization can be achieved, so preparers may need to resort to *extensions*, or customized tags, to capture the unique aspects of their business or industry.

As a globally accepted standard, XBRL facilitates the exchange of business data across most hardware and software systems, whether those systems are compatible or not. Because the data can interact across most computer platforms, the term *interactive data* and XBRL are used interchangeably.

To appreciate the function of XBRL, it is helpful to first recognize the current approach to filing. Today, when a publicly traded company files annual or interim financial statements with SEDAR, it does so by submitting a single block of financial data as a PDF file. Private companies known as *data aggregators* are hired by analysts to rekey this data and process the information such that it is compatible with analysts' computer systems. Analysts then use the formatted data to prepare their assessment. As shown below, the rekeying and processing of data by private companies creates a lag between the filing of data and use of that data by analysts and investors. Notably, this step also creates an opportunity for error.



The current filing process will undergo a fundamental change under XBRL. Block submissions will become a thing of the past as preparers furnish tagged financial statements from which individual line items can be extracted automatically. The marking, or tagging, of information at source will render third-party data entry and processing unnecessary. Moreover, the compatibility of information across most platforms will permit analysts and users simultaneous access to a wide range of computer-readable data.



Under the SEC's implementation schedule, filers are required to tag only their primary financial statements during Year 1, with accompanying footnotes and financial statement schedules filed in block format. During Year 2, companies will also be required to tag quantitative data in their footnotes and supporting schedules. For the inaugural filings in Years 1 and 2, companies will be granted a 30-day grace period between the regular filing and its XBRL counterpart. The SEC's current schedule does not require tagging of the Management's Discussion and Analysis (MD&A).

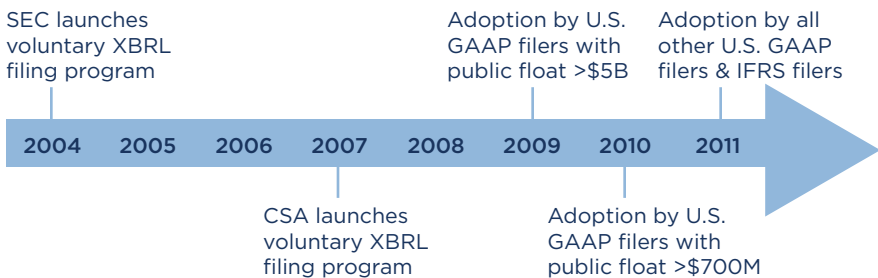
Preparers will, no doubt, differ in the extent to which they merge XBRL reporting into their existing operating systems. Some, particularly in the early stages of implementation, will adopt a *bolt-on approach*, which involves tagging of line items in the final financial reports. Others may opt for a more sophisticated *integrated approach*, whereby information is tagged at a much earlier stage. Each alternative offers its own advantages and disadvantages. The bolt-on approach, for instance, provides a quick and cost effective route to tagging. In choosing this option, however, companies may short-change themselves in the long run by failing to tap into the true potential of XBRL. Under an integrated approach, information can be tagged at the transactional level, for example, which may be particularly valuable to companies running multiple operating systems. Using this approach, data elements from each legacy system can be mapped to their corresponding taxonomy elements.<sup>2</sup> This mapping process not only tags the data for financial reporting purposes, but it also bridges the organization's existing systems by translating information into a common language. In so doing, the company improves its internal reporting capabilities by enhancing the flow of information and reducing the time spent on data compilation.

Preparers face a range of options when it comes to preparing *instance documents*, or tagged financial statements. Choices include the purchase of in-house tagging software or the outsourcing of the process to varying degrees. According to testimonials from early U.S. adopters, the average mid-cap firm invested 40 to 180 hours on the self-tagging approach, with subsequent filings requiring much less time. Despite the steep learning curve, companies may favour the development of in-house expertise in order to minimize long-term outsourcing expenditures.

Under the outsourcing approach, companies can either hire systems consultants to modify existing programs for XBRL or, at the extreme, they can hand the entire tagging and verification process over to full-service providers. The latter option minimizes the hassle of filing by transferring the task to those with expertise in the technology and regulatory requirements. The downside, of course, is that by failing to foster this capability in-house, companies commit to ongoing consulting fees.

## Status of XBRL in Canada

The following diagram highlights significant developments in the implementation of XBRL as it pertains to Canadian preparers. While the timeline maintains a decidedly U.S. perspective, one ought to bear in mind that its three-year phase-in of XBRL will impact ten percent of Canada's public companies. The vast majority of these companies will furnish their first instance document on or after June 15, 2011.



Exactly when the remaining ninety percent of Canadian preparers will adopt XBRL is uncertain at this point, though the CSA and OSC have both expressed their support for the technology. Many speculate that XBRL filing could become mandatory after Canada transitions to IFRS in 2011. In the meantime, the CSA has introduced a voluntary XBRL filing program, which allows preparers to submit their tagged financial statements to SEDAR. At the time of this briefing, only six companies had taken advantage of the program.

XBRL Canada has endeavoured to provide a foundation for early adoption by developing a primary financial statements (PFS) taxonomy according to Canadian GAAP, along with a taxonomy for reporting notes to the financial statements. According to its website, the organization is also working with the International Accounting Standards Board (IASB) Foundation to review their IFRS taxonomy and develop standard extensions, where necessary, to meet the needs of Canadian companies. XBRL Canada is also developing a convergence tool that cross-references existing Canadian GAAP and IFRS.

## Benefits of XBRL

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Proponents of XBRL cite several key benefits over the current filing approach:

**Universal language for business reporting.** As a universal computer language, XBRL serves as a data conduit for information across all languages and accounting standards. Its compatibility with most platforms offers several benefits, not the least of which is extended access to business information. XBRL will facilitate and expedite the comparison of industry-wide data and ratios, such that individual investors will soon experience some of the advantages that, today, only analysts and research specialists enjoy.

The technology's multi-platform functionality also enables automatic processing by computers. That is, computers can recognize and select data in an XBRL document and automatically populate analytic models for further processing. XBRL data can also be converted into various formats, including spreadsheet, database, and HTML files.

**Adaptable to other applications.** The utility of XBRL is not confined to financial statement reporting. Indeed, the technology is highly adaptable to a range of external business reporting applications, including earnings press releases, corporate tax filings, and the disclosure of non-financial data such as oil reserves and energy consumption reports. The technology also offers tremendous potential in terms of internal business reporting, particularly through the use of XBRL GL, which enables the tagging of detailed data at the transaction level. Full integration of reporting systems will enable management to more readily reuse tagged data and, thereby, achieve greater efficiency.

**Multi-stakeholder appeal.** XBRL offers advantages to a broad range of stakeholder groups:

- Data collectors such as analysts, stock exchanges, regulators, economists, and governments benefit from the diversion of resources from the non-value added tasks of key-punching and data conversion to analysis and decision making.
- End-users, including investors, benefit from the removal of intermediaries. Not only is the chance of rekeying error eliminated, but so too is the lag between the reporting and use of data.
- As noted earlier, XBRL offers the potential to streamline preparers' data collection and reporting processes by uniting legacy systems. One early adopter in the U.S. reported a 25% reduction in the time and cost of corporate reporting processes after three years of XBRL filing.

Preparers may also realize certain indirect advantages. The elimination of tedious data entry and conversion steps will allow analysts to compare a broader range of industry participants in less time. Expanded peer analyses could be positive news for small companies, which often go overlooked in such comparisons. This reasoning holds true beyond our national borders; as XBRL continues to gain acceptance in global jurisdictions, Canadian companies, large and small, could achieve greater international exposure.

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## Drawbacks of XBRL

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Despite the preceding advantages, the transition to XBRL is not without its challenges.

**Implementation hurdles.** While XBRL enables a more efficient reporting process, some defer to the adage, “there is no free lunch”. Preparers will bear the cost of implementation, both in terms of financial and human capital. Most Canadian companies that file in the U.S. will face the dual task of adopting XBRL and IFRS in 2011.

**Potential for error.** While advocates cite the elimination of rekeying errors as a benefit, XBRL reporting is hardly a foolproof solution. The tagging process involves inherent judgement to the extent that preparers must decide which taxonomy elements should be mapped to particular financial statement items. Though time and experience will help in this area, misrepresentation, a lack of comparability, and outright error pose potential risks.

A recently published study examined 304 XBRL filings from the SEC’s voluntary pilot program and found that approximately two-thirds failed an instance document validation test.<sup>3</sup> Infractions included inconsistencies and calculation errors arising from a failure to conform to suggested and mandatory practices under XBRL specifications. While not a flaw of the technology itself, these results point to a need for robust quality assurance and validation requirements.

**Customized tags.** As indicated earlier, preparers may rely on self-defined extensions to capture the unique aspects of their business. Not only does this create a more complex reporting process for filers, but some argue it also undermines the very benefits of XBRL, namely reliability and comparability. Indeed, many believe that extensions are acceptable only when they are applied consistently across industries.

**Misrepresentation.** Sceptics purport that customization could open the door to misrepresentation by allowing companies to paint performance in a more positive light. The SEC’s decision to waive attestation requirements for XBRL filings has done little to abate this fear.

Analysts, too, have the ability to influence how a company is perceived. Some already extract single lines from the financial statements, such that financial information is taken out of context. XBRL would only serve to simplify this practice.

**Real-time disclosure.** XBRL is viewed as the first step toward real-time reporting, which some believe will enhance transparency and improve the ease with which data is collected. There are two sides to this story, however, and opponents argue that real-time disclosure will emphasize short-term performance at the expense of long-term planning. Preparers fear that one unfavourable month might spark a knee-jerk reaction by investors.

## Preparing for XBRL

Whether preparers support or oppose XBRL, increasing global implementation will likely influence financial reporting as we know it today. This section provides practical tips for planning and implementing an XBRL strategy.

### Planning Stage

- **Adopt a proactive approach to ensure readiness.** Evaluate the range of available options within the context of the company and its operations.
- **Factor potential pitfalls into XBRL strategy.** Consider how the potential pitfalls examined in this briefing can be minimized or avoided.
- **Integrate XBRL into IFRS conversion strategy.** This is particularly relevant to U.S. listed companies, though others are also well advised to factor XBRL reporting into their IFRS conversion plans.
- **Involve accounting, finance, and IT departments.** Recognize that reporting in XBRL is primarily an accounting process. Experience shows that XBRL implementation projects need to be driven by the finance department, with strong accounting input, as well as IT support as needed.
- **Weigh long-term costs and benefits of self-tagging versus outsourcing.** Self-tagging can be time intensive in the first year, but more cost effective in the long run, since it avoids the ongoing expense of outsourcing.
- **Encourage consistent use of extensions among industry participants.** Support industry associations in the development of standardized tagging methodologies, which can then be incorporated into the IFRS taxonomy through the joint project of XBRL Canada and the IASB Foundation.

### Implementation Stage

- **Consider voluntary filing in XBRL.** Take advantage of voluntary filing programs, which provide a relatively safe environment for testing.
- **Simplify first-time tagging with a quarterly filing.** Annual filings are more complex than interim filings, so begin with an interim report. For U.S. filers with a calendar year-end, the SEC's June 15 phase-in simplifies matters; the Q2 report will represent the first XBRL filing for these filers.
- **Address outstanding questions with software vendor or outsourcing partner, as applicable.** Take full advantage of experts prior to filing to reduce reputational risk.
- **Review instance document prior to filing.** To avoid discrepancies, which could fuel investor doubt, thoroughly review the tagged document.
- **Be prepared to provide contextual information earlier.** XBRL will allow investors to drill down on results and compare companies more quickly. Be prepared to receive questions and provide explanations much sooner.

## Terminology

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**Bolt-on approach:** Data tagging at the financial statement level

**Data aggregator:** Organization hired by analysts to compile financial information

**Extension:** Customized tag for an industry-specific concept

**Instance document:** Tagged document filed by preparers

**Interactive data:** Information that is readily accessible across all computer platforms

**SEC:** Securities and Exchange Commission

**Tagging:** The act of electronically attaching a standardized definition to a line item in the financial statements

**Taxonomy:** Inventory of available tags with common definitions

## References

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1. *Foreign Companies Registered and Reporting with the U.S. Securities and Exchange Commission* as at December 31, 2007, <http://www.sec.gov/divisions/corpfin/international/foreignsummary2007.pdf>.
2. For a more comprehensive discussion, see the CICA Research Study *Interactive Data: Building XBRL into Accounting Information Systems (2007)*, which is available at <http://www.cica.ca/itac>.
3. J. Efrim Boritz, J. E., and W. G. No. 2008. *The SEC's XBRL Voluntary Filing Program on EDGAR: A Case for Quality Assurance*. Current Issues in Auditing, American Accounting Association. Volume 2, Issue 2: A36–A50.





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