



BDO Seidman, LLP  
Accountants and Consultants

# Client Advisory

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## XBRL: What Should Companies Do Now?

XBRL (eXtensible Business Reporting Language) has the power to open new horizons in financial reporting, and the SEC is poised to take it to the next level. Known at the SEC as “Interactive Data,” XBRL will fuel the modernization of the Electronic Data Gathering and Retrieval (EDGAR) system. It will transform EDGAR from a tool for reading corporate reports to a way of interacting with them, thereby opening a gateway to faster and more reliable financial analysis.

Currently, the SEC staff is readying a recommendation to convert all public company disclosures to XBRL. A key consideration is the potential use of a new set of data tags released earlier this month. SEC Chairman Cox has said the Commission could act on the staff’s recommendation as early as Spring 2008.

Already, members of the SEC’s Advisory Committee on Improvements to Financial Reporting (CIFR) are calling for an orderly way forward. A November 2007 CIFR Subcommittee report proposes that the Commission develop a roadmap and timetable for requiring wide-scale adoption of XBRL.

The calls for careful planning should resonate well with companies, who may need time to prepare for this new paradigm in financial reporting. After years of “wait-and-see,” many view the SEC’s plans as a “wake-up call” to start developing their own roadmaps for adopting XBRL.

The basic questions to be addressed:

- How is your company affected by XBRL today?
- When will the SEC’s rule-making initiative affect your company?
- What steps should your company take in the next 3 to 6 months?
- What are the longer-term implications of XBRL?

Many of these questions are best answered in consultation with a company’s board of directors. The purpose of this client advisory is to provide a starting point to help structure these discussions.

## How is your company affected by XBRL today?

The main effects of XBRL today are improvements in financial analysis, both internal and external. Likened to a form of bar-coding, XBRL uses data tags to break down the blocks of text and numbers contained in financial reports and transform them into highly granular data points. When companies and data providers tag each of the data points with these electronic bar codes, the tagged data is dramatically more retrievable, connected, and understandable than the data found in today's annual and quarterly reports.

Even if your company has not tagged its own financial data, its financial statements may already be available in XBRL format in a commercial database.

Here are some ways XBRL affects companies today.

- **Investment analysis.** XBRL allows users of your company's financial statements to quickly retrieve data points, such as your company's net income or earnings-per-share, and compare them with similar data for peer companies or industry averages. When XBRL is used in connection with familiar spreadsheet software, an investor or analyst can easily design a formula for a ratio or performance indicator that is not stated in your company's financial report. If used in conjunction with online databases, the calculated results for selected companies or industries can be available almost instantaneously. Because the data tags are typically defined in terms of a specific currency and set of accounting principles, such as US dollars and US generally accepted accounting principles (GAAP), and derived from information filed electronically with the SEC or other regulators, XBRL allows users to make real-time

"apples-to-apples" comparisons that were not previously possible.

These enhanced capabilities can affect both public and private companies.

- *Public companies.* If your company is a public company, investors and analysts may use the tagged data in online databases to screen your company according to certain financial criteria, or they may use it to make valuation projections and assess whether your company's stock is over- or under-valued.
- *Private companies.* If your company is non-public, potential lenders or other providers of capital who have access to your company's financial statements may input your company's data into a spreadsheet and compare it with published data from public companies of the same size or in the same industry.
- **Corporate governance and quality of reporting.** Directors and governing bodies may find XBRL helpful as a way to assess the granularity of a company's financial reporting compared with competitors or industry averages. For example, an audit committee might find that the company it oversees reports only one line for revenues, while its peer companies report five or six lines. Such insights probe the quality of a company's reporting, and they can help companies assemble necessary data in anticipation of questions from investors and analysts. For example, a company may use XBRL to perform a competitive analysis of both its financial results and the granularity of its reporting practices shortly before the company's earnings call. This helps the company decide in advance what to say about any variances that may be visible to

investors and analysts on the call. In addition, if the company has omitted data reported by other companies, it can be prepared to respond.

- **Management decision-making.** Management may use XBRL for benchmarking the company's performance using analytical procedures similar to those used for investment analysis. They may use XBRL as a form of business intelligence or a way of improving the efficiency of internal reporting.
  - *Business intelligence.* Management can use XBRL to help evaluate potential vendors, customers, and strategic business partners. Some commercial XBRL databases provide supplemental data that can be especially helpful to management in these types of analysis. Examples include market data, earnings estimates, and information about insider and institutional holders of a company's securities, as well as data about initial and secondary public offerings.
  - *Efficiency improvements.* Management can use XBRL to improve the efficiency of internal reporting processes. Software makers are beginning to integrate XBRL into general ledger systems. This provides a platform to overcome the inefficiencies of multiple accounting systems and facilitate the exchange of data across the extended enterprise with suppliers and strategic business partners. This usage complements the use of XBRL for external financial reporting by linking financial reports to the detail behind them and providing the kinds of information required for audit workpapers, budget planning, and internal reporting of non-GAAP management indicators.

- **Regulatory reporting in the U.S.** Although it is not required, companies can use either the new or the existing data tags to submit XBRL reports to the SEC. These reports are submitted under a pilot program put in place by the SEC to evaluate the potential of XBRL for use in its EDGAR system. To gain experience, the SEC permits registrants to submit XBRL statements as a supplemental format and make them publicly available as part of a test program known as the Voluntary Filing Program (VFP). Other US governmental agencies using XBRL include the FDIC, the Federal Reserve Board, and the Comptroller of the Currency, which has created a repository of XBRL formatted data for banking institutions. Approximately 8,300 U.S. financial institutions are using XBRL to submit their quarterly Call Reports to U.S. banking regulators.
- **Regulatory reporting around the world.** XBRL is a global standard used by key market regulators around the world. In addition to the SEC, the following regulators already permit (or are now considering) adoption of XBRL reporting: the Canadian Securities Administrators (CSA), Australian Securities and Investments Commission, Danish Commerce and Companies Agencies, Dutch government's Ministry of Finance and the Ministry of Justice, Japan's Financial Services Agency and the Tokyo Stock Exchange, UK's Companies House and HM Revenue and Customs (HMRC), Singapore's Accounting and Corporate Regulatory Authority, the Shanghai Stock Exchange (SSE) and China's Securities Regulatory Commission, Korea's Financial Supervisory Service, the Securities and Exchange Board of India, and the Spanish Stock Exchange. The International Accounting Standards Board has also taken an active role in facilitating the use

of XBRL with International Financial Reporting Standards (IFRS).

## When will the SEC's rule-making initiative affect your company?

The SEC will mandate the use of XBRL when it is satisfied with the integrity of the data provided and the suitability of the output for investment decisions. Significant progress has been made on both fronts during Christopher Cox's chairmanship. Among the steps taken to date to ensure quality and suitability are the following:

- *Initiation of the VFP and analysis of lessons learned from it.* The VFP has provided useful experience and insights. More than 40 companies submit financial statements in XBRL format to the SEC. In the past, this reporting has been based on a "bare-bones" skeleton of US GAAP definitions. A key lesson learned is that the limitations of the data tags often prompt companies to create their own tags for some data elements, particularly in the notes to the financial statements, thereby hindering comparability across companies.
- *Development of a more robust US GAAP taxonomy.* The need to create customized tags is expected to lessen as a result of the new US GAAP taxonomy (collection of definitions and data tags) released in early December 2007 and available at <http://usgaap.xbrl.us>. BDO and other major accounting firms helped to develop expanded definitions and data tags for this expanded taxonomy. The new taxonomy expands the number of financial reporting elements used for current XBRL reporting from approximately 2,500 to approximately 12,000 different elements.

The taxonomy is available for public review and comment until April 4, 2008. The nature and timing

of the SEC's mandate will be determined by the feedback received during the comment period for the taxonomy and related rule-making. If the rule-making process follows its normal course, Chairman Cox has indicated that XBRL might be mandated for some class of filers in the Fall of 2008. It is not clear yet which companies would be affected or when the mandate would be effective. In making decisions about these matters, the SEC is expected to consider the costs involved in applying the tags to the financial statements and the notes to the statements, as well as the cost of any auditor assurance that may be required. The SEC will address the matter of auditor involvement over the coming weeks and months. In the meantime, companies are permitted to use the new taxonomy in the XBRL statements furnished to the SEC for calendar year 2007 financial statements as part of the VFP.

## What steps should your company take in the next 3 to 6 months?

The uncertainties surrounding the nature and timing of the SEC's mandate will likely leave many public companies "on the fence," trying to decide which way to go in a number of areas, including the following:

- Should we participate in the VFP or wait for the mandate to use XBRL?
- If we start now, should we use the new taxonomy or experiment with the old one?
- Should we license software and do the tagging in-house, or outsource a significant part of the work to other firms that are developing products and services related to interactive data?
- Should we experiment with the US GAAP taxonomy, the IFRS taxonomy, or both?

The last question may seem odd to companies with largely domestic activities. But the SEC issued a Concept Release in September 2007 in which it

proposed to allow US issuers to prepare financial statements in accordance with International Financial Reporting Standards. For companies with significant international operations, the prospect can seem tempting because of the complexity of US accounting standards and the promise of cost savings and efficiencies. The SEC has already accepted at least one company's financial statements in XBRL format using the IFRS taxonomy.

To help with some of the decision points listed above, companies should develop an adoption or implementation plan that would include getting educated about XBRL and monitoring the SEC's rule-making proposal. A sample implementation plan is shown in Exhibit 1. It consists of three phases: Do your homework, weigh the opportunities, and manage the risks.

As shown in column 2 of the illustrative plan, there are a number of steps that companies can take to get off the fence and start moving forward with XBRL. For example, management can assign responsibility and set a timetable to evaluate the US GAAP taxonomy, carefully consider the merits of telling their own story by doing their own tagging rather than relying on a data provider's interpretation of their financial statements, and decide whether to participate in the VFP. If the company decides to participate in the VFP, it can do so on a limited basis by tagging only the financial statements, not the notes.

No matter what level of involvement your company chooses, it is important to have a plan in place to manage the risks, not the least of which is the risk of getting caught by surprise and finding you need to get up to speed and choose your software or service provider under deadline pressure. Just as important, you will want to monitor and have a plan in place to address the longer-term implications of XBRL.

## What are the longer-term implications of XBRL?

Looking beyond the next three to six months, companies will need to navigate a few megatrends that may naturally fall out from XBRL's power to enhance financial analysis and improve financial reporting. Here are six trends to consider:

1. The time and expense needed to prepare XBRL statements will fall as the SEC switches to the more robust accounting definitions that don't require preparers to create as many customized tags.
2. The trade-off of more robust tags is the fallout that may result from the fact that users of the interactive data will have more data to analyze. Some have observed that the increased granularity and speedier availability of comparisons with peer companies and industry averages will prompt analysts to move downstream and start asking questions of companies of all sizes in a real-time mode. As a result, even smaller companies will need to be prepared to answer questions about their tagged data.
3. Accountants will need to become more familiar in general with the techniques used in financial analysis. Companies and accounting firms may find they need to expand their training programs to include the latest developments in financial analysis in addition to those in accounting and financial reporting.
4. The use of non-GAAP data points will increase. It is possible that this may broaden the interest of investors and analysts beyond the "short-term mentality," meaning undue emphasis on quarterly measures, such as net

income and earnings per share. These measures may have taken on undue importance over the years in part because they are defined in US GAAP. As XBRL empowers users of financial statements to calculate and benchmark a wider range of figures and ratios, the financial reporting community may identify a need for “generally accepted analytical principles.”

5. XBRL tags will be used to clarify exactly which data is audited and which is not. This will be a welcome improvement from today’s EDGAR system in which it can be a challenge for individual investors to even find the auditor’s opinion, let alone understand what it covers.
6. Companies will use RSS (really simple syndication) feeds and CEO blogs to deliver more types of information directly to investors. Already, the SEC has approved the use of RSS feeds to directly distribute information in periodic filings with the Commission. Following this trend to its logical conclusions, real-time reporting may eventually surpass periodic reporting as the preferred method of information delivery. If and when that happens, external auditors will be called upon to provide new types of assurances over controls to ensure electronic delivery of information is credible and suitable for investors.

These are just a few visions of the future. Nobody has a crystal ball. The key is to have a plan in place for monitoring and adjusting to current developments. We at BDO Seidman will do our best to bring you insights on the events and trends that are most relevant to you and your company through our client advisories. This is the first in our series of advisories to be available via an RSS feed. Please check our

website for instructions on how to subscribe to the rss feed. Once you subscribe, all future client advisories will be delivered directly to your reader or inbox.

### **For more information**

If you should have any other questions about this advisory, please contact one of the following individuals.

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Exhibit 1

**Illustrative Adoption Plan for XBRL**

Do your Homework	Weigh the Opportunities	Manage the Risks
<p>1. <b>Get an education on the basics of XBRL.</b> Make suitable inquiries so you can understand what data is available today in XBRL format, how it is used, and how it affects your company. Commercial data providers may provide XBRL databases that include your company's financial statements. If this is the case, the first phase of your company's implementation plan should include making an effort to understand how the data tags are being applied and interpreted. Useful reference materials are available in BDO's Guide to XBRL on our website at <a href="http://www.bdo.com/services/assurance/xbrl/index.asp">http://www.bdo.com/services/assurance/xbrl/index.asp</a>.</p> <p>2. <b>Try out the Interactive Viewers linked on the SEC's website.</b> Like any technology, XBRL requires an evaluation from dual perspectives – as both a user and a preparer. The data tags used in XBRL are not easy to understand without a “hands-on” experience because they use a code that is not intelligible without a viewer. The SEC has provided links to free Interactive Financial Report Viewers at <a href="http://www.sec.gov">www.sec.gov</a>. You can use these viewers to evaluate XBRL from a user's perspective. They allow users to quickly call up the financial reports of companies and funds, perform analysis, and/or export the results to a spreadsheet for further analysis.</p> <p>3. <b>Investigate software and service providers, costs, and time commitments.</b> A link to a list of XBRL related software vendors and service providers is available on BDO's XBRL website at <a href="http://www.bdo.com/services/assurance/xbrl/index.asp">http://www.bdo.com/services/assurance/xbrl/index.asp</a>.</p>	<p>4. <b>Consider the benefits of being a user of XBRL.</b> Consider using the available data for business intelligence or to benchmark the granularity of your company's reporting versus its competitors.</p> <p>5. <b>Consider the benefits of being a preparer of XBRL reports.</b> Monitor the SEC's rule-making process, and explore practical ways to get “off the fence” and decide on a way forward.</p> <ul style="list-style-type: none"> <li>✓ <i>Evaluate the new US GAAP taxonomy.</i> You will want to check to see if it is suitable for your company's financial statements. The taxonomy is available for testing until April 4, 2008. The testing phase affords companies the opportunity to develop and implement the processes and controls surrounding XBRL at their own pace without the risk of penalty for errors or omissions.</li> <li>✓ <i>Consider the advantages of “telling your own story.”</i> If you think you can improve upon the tagging done by commercial data providers and you feel comfortable with the new US GAAP taxonomy, consider furnishing your own XBRL statements to the SEC.</li> <li>✓ <i>Consider limited participation in the SEC's VFP.</i> You can participate in the VFP by submitting only the financial statements in XBRL, without tagging the notes. You can also opt out of tagging the management's discussion and analysis in the VFP. If the task of creating and submitting XBRL documents becomes too onerous, there is no requirement to continue reporting in XBRL format.</li> </ul>	<p>6. <b>Seek out the experiences of early adopters.</b> Research into the experiences of other VFP participants can provide valuable insights into lessons learned. The XBRL-US organization often highlights these experiences in its free webinar series at <a href="http://xbrl.us/events">http://xbrl.us/events</a>.</p> <p>7. <b>Find out about assurance available from external auditors.</b> Although it is not required, users of the XBRL data may want some level of assurance. The PCAOB has determined that auditors may perform procedures under AT section 101, which would require, at a minimum, that the auditor agree the XBRL data to official EDGAR filings and determine if the XBRL documents comply with the applicable XBRL specifications and taxonomies.</p> <p>8. <b>Gauge the risk of market forces requiring your company to provide non-GAAP data.</b> When the new US GAAP taxonomy was developed, the SEC requested that tags be created for data that is reported by some registrants, even if it is not required by GAAP. As regulatory agencies, banks, credit rating agencies, business partners, and others begin to use the XBRL reports and assimilate them into their analysis, market forces may demand that companies, both public and private, report in the same level of granularity so the results will be comparable. If this happens, you won't want to be caught by surprise.</p> <p>9. <b>Consider the other longer-term implications of XBRL.</b> XBRL is important because of the way it merges accounting with analytics. See page 5 for a discussion of the potential longer-term implications of this trend.</p>